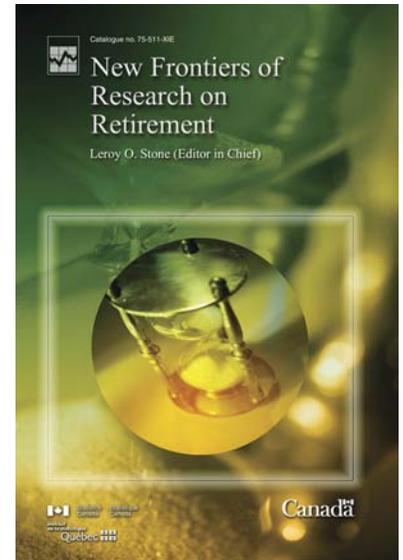




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# New Frontiers of Research on Retirement

Leroy O. Stone (Editor in Chief)



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## Preface

The baby boom generation has caused fundamental changes in every social institution that has been touched by its maturation. The social institution of retirement will be no exception. Those looking at the evolution of our society expect that the wave of retirements that the baby boom generation is about to unleash will trigger some key institutional and cultural changes.

What adjustments will be needed in consequence of this wave of retirements? Corporate and community leaders and researchers will be giving increasing attention to this question in the years ahead. This book has been designed to contribute to the basic information that Canadian leaders and researchers will need when they begin to devote much more time and resources to these adjustments.

The book aims to stimulate thinking about aspects of retirement that have tended to be outside the main focus of the research literature, but which will likely receive much greater attention in the future. Among these aspects are the following:

- social aspects of the emergence of a large number of people who form a substantial proportion of the adult population and whose length of time in retirement will be as long as that of a generation, roughly 25 years
- women's retirement from the paid work force
- family dynamics and retirement
- retirement processes among people with no career job as conventionally defined
- bringing unpaid productive work into scope as a dimension of retirement-related behavior
- the increasing complexity in the pathways people take as they transit to the stage where they cease doing productive work
- the emergence of new vulnerable groups, and shifts in the relative sizes of component sub-groups of the vulnerable population, as a result of major changes in the economic and policy environments.

Since the intent is to focus on some of these particular issues, it is necessary to exclude some of the major foci of existing research literature on retirement. These include impacts of wealth and wealth accrual, effects on the timing of retirement of government social security programs and related rules about access to certain kinds of income, impacts of pension eligibility and the evolution of pension coverage and pension systems, and how certain institutional rules about access to disability income and unemployment insurance payments affect retirement.

This book showcases Statistics Canada's contributions to the provision of information pertinent to the development of useful knowledge concerning retirement and other later-life transitions. For decades its pensions section has produced widely used information in this field, and it is now joined by the several surveys that have stimulated relevant analyses, especially the General Social Survey and the Survey of Labour and Income Dynamics, and most recently by the commencement of work on pension satellite accounts related to the system of national accounts.

A large part of the book is devoted to scientific papers based on Statistics Canada's data and which require substantial conceptual and statistical innovations that illustrate the usefulness of our data. In developing this focus, we have received important collaboration from *L'institut de la statistique du Québec* dating back to its major role in our 2003 Symposium on New Issues in Retirement.

I hope that the book will provide good value to present and future cohorts of students, teachers, researchers and policy analysts in the private and public sectors. I hope that it will find repeated use in classroom lectures, among reading assignments, as a source of support for MA and PhD thesis development, and in the analysis and design of policies in the private and public sectors in Canada. While this book provides a Canadian perspective, I hope it is relevant in some other countries where leaders and scholars are becoming increasingly aware of the issues related to the social institution of retirement.

*Leroy O. Stone, December 16, 2005*

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To anyone whom I have missed, this error is an accident.  
Please accept my apologies.

*Leroy O. Stone*

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## Highlights

### **Theme One: Systemic forces pushing toward a new agenda for reforms in institutional policies and practices**

- Baby boomers are likely to reach retirement with lower and less stable pensions than in the past. The need to supplement these pensions will certainly be another reason for some people to continue working after retirement.

- In Canada there is a factor that may partially mitigate the severity of the problem that funding our social protection programs represents for the government. For many years, the government was deprived of revenue because of tax reductions given to employers and workers who were saving for retirement. With droves of new retirees who have taxable pensions, this tax expenditure will turn into greater tax revenue.

- Our retirement system rests largely on a tacit contract between generations. This contract is based upon the principle of a division of the life cycle into three phases — first the phase when youths are educated, another when young adults and adults work, and finally when the elderly have the right to retirement. However, we have entered into a knowledge-based society in which the traditional patterns of the social organization of age and time are challenged in our new society of mobility and longevity.

- A 50-year-old Japanese or Swedish worker remains in the labor market until an advanced age, yet this is not the case in continental European countries. This means that at the same chronological age, salaried workers are treated differently and valued differently in different countries. Thus we should not regard the depreciation of the aged wage earner as natural. Instead it should be interpreted as a product of culture.

- The processes by which each political configuration builds a specific culture of age, which tends to shape professional pathways associated with advancing age, may be grouped into four types:

Type 1, marginalization/relegation, is clearly illustrated in the countries of continental Europe and especially in France. It combines a generous indemnification of the risk of non-work for the older employee with a relative absence of instruments of integration or reintegration into employment of wage earners, and focuses on a principle of financial compensation for the loss of employment among salaried workers who are advanced in age.

Type 2, integration/reintegration into the labor market, evokes the Scandinavian regime of social protection. In this type, the generous indemnification of the risk of non-work in the second part of the career is closely linked to the mobilization of an active employment policy. Its aim is to target the aged wage earner through interventions toward rehabilitation and reinstatement into employment, in order to respect their right to work.

Type 3, maintenance in the labor market, is illustrated in the case of Japan. It varies from Type 2 because it offers aging wage earners few possibilities of indemnification of an early exit from the labor market. There is, for Japanese employees, no alternative to active aging, which is considered as desirable for the individual as for society.

Type 4, rejection/maintenance, combines limited benefits concerning the risks of non-work with a few instruments of integration into the labor market. In this configuration, the largest part of regulation is left to the market. Depending on developments in the labor market, one will observe pathways of rejection of older workers in the labor market or, on the contrary, in case of shortages in the labor force, the pathways of maintenance in the labor market. These pathways will directly result from the forces of supply and demand on workers in the market. British or American cases are fairly illustrative of this configuration.

- Social security systems in mature industrial economies are typically committed to at least three basic values: the economic well-being of retirees, the productivity of firms and individual self-reliance. Conflicts among these values tend to be addressed through the art of separation — each of the values is associated with different institutional “pillars”. However, interaction among the institutions leads to linkages. “Linkage” refers to the manner in which decisions taken in an institution influence those made in others. (In the context of social security, such decisions determine who is eligible for benefits and what amount they can receive from different institutions.) Because linkage is in some sense the precise opposite of separation, in its strongest forms it eventually undermines the division of labor among the institutional sectors. We describe this collapse of the art of separation as “blurring” of the separated spheres. A separated system has blurred when the commitment of each institution to a particular, limited set of principles or values falters.

- In the Canadian pension system, there is blurring among the public and the private pension pillars. This blurring can be observed in at least two respects: funding, and state-imposed standards on coverage, investment and management of pension plans. Between the public pension pillar and the private pension pillar, blurring occurs in terms of the increasing role of private pensions in the Canadian retirement system and the shift towards individual accounts. Blurring also occurs in the investment of Canada Pension Plan (CPP) funds in a broader range of securities, including equities. These investments are managed by an independent board — the CPP Investment Board.

- An unanswered question is whether the aging of Canada’s population over the next quarter century will create the necessary conditions to drive the retirement age back towards age 65 or even higher. Public policy is one means to achieve this result. Governments have two strategies to pursue. The first involves raising the age at which employees can first access their C/QPP benefits, currently set at age 60. The second would involve new policies to regulate the age at which workers can access their occupational plans (RPPs) and personal retirement accounts (RRSPs). However, there is little historical precedent for regulating

these quasi-private financial vehicles (RPPs and RRSPs) to achieve a collective good. Also, placing retirement policy at the centre of a “new social agenda” would take place in the domain of federal–provincial relations. Barring a truly large exogenous shock such as long-term economic decline, it is difficult to imagine from where a new political consensus sufficient to drive a new federal–provincial social agenda will come. A more likely prospect is that pressures for change will come from the market, as employers respond to a reduced supply of younger workers with wage incentives and steps to improve working conditions for older workers.

- For economists and many decision-makers strictly concerned with the financial integrity of pension funds, the focus of individual efforts and collective measures is upon finding ways to get people to work longer. However, this view is far from unanimously shared among our peers. Paid work is only one of many possible components of life, at any stage of the life cycle. Family life, cultural and leisure pursuits, civic functions, and volunteer work are also important to the balance of people’s lives. Producing a change in the length of time that people work can only be done after an analysis of what really happens in people’s later lives, especially in the personal and family sphere.

### **Theme Two: Family and gender, two dimensions for major changes of theory and analytical perspectives concerning retirement-related behavior**

- Women’s lives already are, and will continue to be, typified by multiple transitions in and out of the labor force, with employment in more than one job that is often a contingent, nonstandard job. Their work will probably continue to be segregated in the feminized sector of the economy where they are likely to receive lower wages. These irregular work patterns certainly do not match the structure of the current pension system which was developed to meet the needs of the nineteenth century male worker who was a lone breadwinner supporting a large family. The pension system today emphasizes job tenure in a life-long career job.

- The basic argument is that the “new” retirement *is women’s retirement*. Women’s retirement has always been different from men’s and will continue to be different for the foreseeable future, despite arguments to the contrary. This observation applies to the baby boomers and the generation of younger women following in their wake. Women’s transition to retirement and their material conditions in retirement are a direct result of gender relations as they play out in work and the family over the life course. These relations are, in turn, tempered by the intersection of race, class and sexual orientation within a particular historical era.

- Retirement transition processes are contingent on contexts (work, marital, familial) that define individuals’ experiences in specific roles. These contexts are connected (interdependence of work and family spheres). Family contexts consist of marital and family characteristics that precede the retirement transition and can impinge on retirement decision and adaptation processes. They include family-related statuses, spouse characteristics and activities, the quality of relationships, and norms/attitudes. The influence of these contexts on retirement transitions may be either direct (e.g., wives tend to retire earlier if their husbands’ retirement precedes their own) or it may be indirect.

- Past research offers some insights into family contexts that influence retirement decisions but provides little information on the interplay between family contexts and policies in retirement transition processes. How and under which family circumstances individuals retire will affect post-retirement family activities and relationships as well as retirement outcomes, again contingent on policies.

- Many of the characteristics that one might associate with greater economic independence among women are negatively correlated with expectations of joint retirement. Women in managerial and professional occupations, those with pension coverage, and those who contribute most of the household income are more likely than others to view the timing of their retirement in an autonomous manner vis-à-vis their spouses. Furthermore, many of the characteristics associated with expectations of joint retirement among women are not significantly correlated with such expectations among men. This is consistent with the view that women and men approach retirement in different ways.

- A cohort of well-educated, dual-earner couples at the top of the earnings distribution in Canada is now poised to make the transition into retirement. Increasingly, Canadian couples must make two retirement decisions rather than just one.
- As to the types of trajectory followed, about the same proportion of men and women followed an involuntary trajectory (22% and 20%, respectively), but a larger proportion of men than women did not complete the trajectory before the end of the observation period. This seemingly tends to confirm the hypothesis that men are more likely to remain in the labor market, even after experiencing events that may have disrupted their activities in the labor market.
- The results of the regression analysis show that retirement really is different for women than for men. We note this in the comparison of the structure of estimated parameters of the models for both sexes, where we encounter major variations. To better understand the dynamics of retirement for women, researchers should avoid including both sexes in a single statistical model.

### **Theme Three: Increasing diversity of transitions typical of later life**

- While the general tendency of the self-employed to retire later is well known, we have added, for Canada, a measure of the degree of difference between the self-employed and the salaried in connection with the probability of closing trajectories soon after beginning the transition to retirement, and another concerning the probability of having unclosed trajectories four years after the transition began. (A trajectory is said to be “closed” when for six consecutive months at the end of the six years of observation, the person was outside the labor market and was receiving some kind of retirement-related income.) In the bivariate analysis, we estimated a minimum 20-percentage-point gap between the two groups in terms of concentration at either end of the spectrum for speed of closure, if one limits observations to persons aged 55 to 69 in 1996. In the whole sample aged 45 to 69, when several related covariates are held constant statistically, the gap falls to nearly 10 percentage points at the extreme of fast closure and to five percentage points at the opposite extreme of non-closure.

- While close to 75% of the self-employed had trajectories with Low levels on the index of flexibility in the transition to retirement, the figure for employees is in the neighborhood of 85%. The pattern of differences between the two classes of workers recurs in the multivariate analysis.

- The index of vulnerability focuses on job loss or involuntary job change. Wage and salary earners are more likely than the self-employed to have trajectories with Medium or High levels on the index of exposure to events that increase risk of reduction in standard of living in retirement (the “index of vulnerability”). The margin of the difference is substantial but not great. However, key sub-groups of sex, age and education repeat the pattern of difference just cited, and the pattern is seen again in the context of multivariate analysis.

- Since uncertainties in the flow of income in retirement may be unusually high among the self-employed, compared to the salaried, it is expected that they will be more likely to return to the labor market after leaving it. This is precisely what our data show. However, the sub-sample of those that left the labor market at some time during 1996 and 1997 is too small to provide a reliable measure of the magnitude of the difference between the two classes of worker.

- As regards patterns in speed of closure, among those that started their work-to-retirement transitions between 1996 and 1997, there is a divide between those younger than 60 in 1996, and those aged 60 or more. Among the former, public sector employees were more likely, than their private sector counterparts, to have closed their trajectories before the end of 2001. However, this pattern is reversed among those aged 60 or more in 1996. In this group, speed of closure was slower for the public sector employees — they tended to stay longer in the labor market.

- Public sector employees are more likely, than their private sector counterparts, to have either Medium or High levels of the index of flexibility in the transition process. However, the advantage for public sector employees is concentrated at Medium values of the index; because at the High values both sectors’ trajectories tend to have similar percentages.

- The index of exposure to events that increase risk of reduction in standard of living shows the two sectors with very similar levels of concentration at the Low level; both being in the vicinity of 85%. The public sector employees in transition to retirement have a slightly higher concentration at the Medium or High levels. However, this slight divergence disappears when we resort to the much larger sample of all persons aged 50 or more in 1996.

- A substantial proportion of the determinants of speed of closure are unaffected by the working environment or by corporate policies. This means that corporate policies and work environments should be expected to have quite limited influence on speed of closure of the trajectory of transition to retirement. In the light of this limited influence, the following questions arise in the context of related policy deliberations: How far can policies succeed within the margin of possible influence that is available? Is this limited success worth the cost of achieving it?

- Over the study period, there was a trend of rising career instability, evidenced by increased frequency of persons with at least one jobless spell.

- Both the survival and the Generalized Estimating Equation (GEE) models showed that career instability was significantly associated with a long-term health condition, even after controlling for age, sex, marital status, income and education. These findings are consistent with the results of three studies based on different data files.

#### **Theme Four: New vulnerable groups concerning living standards in the retirement years.**

- Women are more likely than men to be employed in non-standard work arrangements. This will have an important bearing on their plans for retirement, their ability to save, the likelihood of their belonging to a workplace pension plan, and their financial security as they grow old. In 2003, for example, when women accounted for 47% of total employment of people aged

15 and older in Canada, they were 54% of total non-standard employment. Forty per cent of women's jobs compared with about 29% of men's jobs in 2003 were considered "non-standard."

- Given the lack of coverage of workplace pension plans and the difficulty of accumulating private savings for retirement among those who tend to have non-standard employment, public pension programs are particularly important for those who spend periods of their paid employment in non-standard work arrangements. The monthly benefit they eventually receive from the Canada Pension Plan (or Quebec Pension Plan in Quebec) may reflect periods of low earnings experienced during their years of paid employment.

- While much of the commentary on the improved income situation of Canadians aged 65 and over attributes the improvement to the strength of the Canadian retirement income system, what is often overlooked is the way in which the third pillar has interacted with a very specific set of economic circumstances to produce both the positive absolute and relative situation of the elderly. High rates of return on financial assets during the 1980s and 1990s benefited all parts of the third pillar. Investment returns of defined benefit plans easily exceeded the rate assumed by plan actuaries when calculating plan liabilities. But rates of return on financial assets declined precipitously from mid-year 2000 to the early part of 2003. Workplace pension plans now face financing difficulties. Furthermore, the change in financial markets that produced the defined benefit crisis was affecting defined contribution plans as well. The difference, however, is that individual plan members rather than employers have borne the brunt of the impact on defined contribution (DC) plans. A larger share of the future elderly will have their workplace pension incomes more directly exposed to investment risks at or around the date of retirement.

- Along with these developments, there has also been a decline in the percentage of employed people who belong to any type of workplace pension plan. Given the role that workplace pensions play in the retirement income system, their overall contraction is likely to manifest itself in more older Canadians with low incomes, and in fewer people stating that their standard of living is as good as it was during their employment. It will also be reflected in fewer people being able to retire comfortably before age 65.

- Past studies of diversification of retirement income have often been limited to theoretical or qualitative research. A chapter in this book develops a new index of diversification of retirement income in Canada to serve as the basis for a quantitative analysis of the years between 1980 and 2002. Over the years, the family, the state and the market have all played a role in retirement security. But the relative importance of the contribution of these various elements has changed. Older women living alone, for example, used to depend mainly on government transfers and investment income, now they depend more on pension income. This group within the population benefited from the maturation of both the public and private pension systems during the period under review. But while diversification of income sources of older women living alone has improved, it is still much lower than that of the general population of elderly Canadians.

- Among older immigrants the diversification of income sources is close to that of the general population of older people. Income from employment was the major source of income for older immigrants throughout the period from 1980 to 2002. This group has not benefited as much from the maturation of public and private pension systems.

# Chapter 1. Introduction<sup>1</sup>

by  
Leroy O. Stone

## Dimensions of the evolution of retirement as a social institution

Experts on retirement seem to acknowledge with increasing frequency that the social institution we know as “retirement” is changing in important ways. Some say these changes are like a quiet revolution, a sort of profound transformation. They seem to have gathered steam in the era of Reagan and Thatcher, but they have been gaining momentum since then. We need to re-examine the traditional ideas if we are to realistically confront what retirement is becoming in the twenty-first century.

To set the stage for the discussion that unfolds under the four themes in this book, this chapter will briefly describe some of the ways in which the social institution of retirement has been changing since the Reagan–Thatcher era, and will comment on how these changes have created, since the 1990s, some new horizons for research on retirement.

Three major dimensions in the relatively recent evolution of the social institution of retirement can be described as systemic (our social system maintained by various collective actions), organizational (specific institutions such as major corporations), and behavioral (families and individuals).

### Evolution at the systemic level

Across OECD countries, an ageing population<sup>2</sup> and labor force has combined with a certain policy environment to create major financing pressures in connection with public

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1. Thanks are due to the peer reviewers for their contributions to improving earlier drafts of this chapter. The comments of Murray Gendell and all the co-editors of the book were especially helpful. All opinions and errors herein are mine.
  2. Here “ageing population” means increases in the percentage of older persons in the total population.

retirement-income support and health-care systems. This policy environment was established for a different historical era — one in which it was good practice to assist in the massive and orderly exit of older workers from the labor force at a designated age to help with corporate renewal and to alleviate unemployment among youth. This policy environment helped to sustain a multi-decade decline in labor force participation among older persons. This decline, in combination with an ageing population, was first marked by fertility-rate reductions. However, in more recent decades with increased longevity in the senior years, it has prompted a systemic-level change in the form of concerted senior government policy initiatives.

Both OECD (2001) and the Canadian Policy Research Initiative (2004) have done a good job of summarizing the pressure toward such large-scale social engineering. OECD (2001:77) states:

“Perhaps the key challenge posed by an ageing society is achieving a proper balance between the amount of time spent in [doing paid] work and in retirement. ... A common policy goal is to support a flexible, later transition to retirement particularly for [those] who now tend to retire well before 65.”

In Canada, a project named “Population Aging and Life-Course Flexibility” was undertaken by the Policy Research Initiative (PRI) with support from the Social Science and Humanities Research Council of Canada. Its goal was:

“...to explore the hypothesis that major economic and social gains could flow from policy-induced changes in the allocation of time throughout life. The project’s premise is that, as a consequence of the coming retirement of the baby-boom generation, now would be a good time to consider policy changes that have the effect of giving people the choice to work later in life and have more flexibility in how work, leisure, learning, and caregiving can be allocated throughout the life-course.” (PRI 2004)

A similar perspective is also found in the ILO's 1999 World Employment Report, and in declarations arising from the 2002 World Assembly on Aging, and the 2002 Inter-Ministerial Meeting on Aging held in Berlin.

Government initiatives in this area have focused on benefit streams controlled or regulated by government. OECD (2001) cites a number of these initiatives. Among them are partial pension schemes in Sweden, Finland, Germany and Japan. These allow for a reduction of working hours with a given employer, while simultaneously receiving partial payments from a pension scheme.

A network of broad-scale policy-environment changes is particularly evident in the case of the United States. These changes were summarized by Quinn in his presentation to the Symposium on New Issues in Retirement in 2003. In the United States, mandatory retirement has been abolished, and the age at which Social Security benefits can be received has been raised. Also, the government has removed disincentives to work that existed in the Social Security program, replacing them with a delayed retirement credit.

“If one declines benefits by continuing to work, those benefits result in higher cheques when one does retire. In addition, the earnings tax has been eased so that one can now keep more benefits while earning money. For people above the normal retirement age of 65, there is no earnings tax. People can earn as much as they want and still claim social security benefits.” (Quinn 2003).

(See the chapter by Rein and Thacher for related commentary).

In Europe, some countries have taken steps to close or greatly restrict access to certain alternate “pathways” to retirement based upon disability and unemployment benefits. OECD (2001) has an extensive review of the recent history of initiatives designed to reduce access to such pathways, and to simultaneously promote older workers' opportunities to be active in the labor market; albeit at reduced commitment of time to paid work on a weekly basis.

## Evolution at the organizational level

At the organizational level, the evolution of the institution of retirement has many markers. They include:

- Downgrading the value of seniority while finding new ways of retaining good employees without offering a retirement package in which the company undertakes a long-term liability for future payments to employees when they become retirees
- Moving away from defined-benefit pension plans while aiding in the stimulation of institutions for individual private savings for retirement
- Actively facilitating the spread of various kinds of non-standard work to give corporate leadership more flexibility in managing human resource inputs to corporate production
- Related dampened growth in the proportion of jobs available to those who wish to pursue conventional careers based in one organization.

Quinn has highlighted the importance of the shift away from defined benefit in pension plans as follows: “There has been a dramatic shift from defined benefit to defined contribution plans. ... The defined contribution plans have eliminated many age-specific early-retirement incentives.” (Quinn 2003) Increased use of defined contribution plans is also happening in Canada, but at a much slower pace (see Morissette and Zhang 2004, and Baldwin’s chapter).

One effect of these changes is a major shift in the burden of effective planning for adequate retirement income from various public and private collective arrangements onto the shoulders of families and individuals. The chapters in this book by Baldwin, Castonguay, Li, Mo *et al.*, Rein and Thacher, and Townson provide several perspectives.

Underlying these corporate-level changes is the notion that, increasingly, companies, even those said to be of “investment-grade”, can no longer afford to make promises to employees that will be subject for delivery beyond the next

five to ten years. Their own longevity cannot be assured for a longer period in the new climate of international competitiveness. Consequently, they are under pressure to redefine the unwritten social contract between an employer and new employees holding down indeterminate positions.

Taken to the level of the family and the individual, these ideas have enormous implications. For one thing, even the youngest of today's employees should no longer relax about long-term financial planning on the grounds that they will in due course find a good employer with a "nice" pension plan. Such employers are certainly among us, as are employees enjoying a "nice" employer-sponsored pension plan; but the probability of finding them in any random sample is steadily in decline, although at different speeds in different countries.

### **Evolution at the behavioral level**

The foregoing review of developments at the systemic and organizational levels should lead you to expect a major evolution in the social institution of retirement at the level of the behavior of individuals and families. Perhaps the situation is best highlighted by the claim, made by a long-time preretirement services professional at the 2005 conference of the Canadian Association of Pre-Retirement Planners (CAPP), that more and more of his clients are rejecting the idea that retirement is a useful concept in their lives. They prefer to imagine a continuous process of transition in their life-course.

The objective macro-level reality associated with that thought is viewed in two ways. One is the systematic rise of older-population labor force participation rates across several OECD countries (highlighted in Guillemard's chapter). The second is reflected in the increasing proportion of workers whose transition to retirement involves multiple movements among different positions and roles in both the labor market and the nonprofit sector as formal volunteers.

Another key change at the behavioral level is a marked rise in the proportion of families where two spouses/partners have independent rights to a substantial pension income. As a result,

retirement decision-making is increasingly a matter of trading off the separate economic interests of two or more people whose lives are intertwined (see Szinovacz's chapter). The 2002 Canadian General Social Survey found a high percentage of couples that reported that their retirement planning includes taking into account influences from their spouse's economic activity and related pension entitlements (see Schellenberg's chapter). All of this implies that the social science model is less relevant, which assumes a lone, most often male, retirement decision-maker acting to maximize a lifetime consumption utility under budget constraints. The growing relevance of family-level variables also has implications for corporate and public policy-making.

A related implication of women's major presence among the ranks of pension beneficiaries is the pressure on social scientists to take into account the special features of women's working-life courses when thinking about retirement. The very conception of what "retirement" means should now make room for productive unpaid work (see Stone 2003 for related discussion) because women's notions of retirement often include it, as McDonald's chapter elaborates. Moreover, the focus of retirement research on those who have had a conventional career job in one organization needs to be reconsidered, so as to give more attention to research on people with no such careers, but who nevertheless engage in some kind of retirement process.

### **The underlying revolution in longevity**

Related to the kinds of change summarized above is a profound demographic revolution that has several sources. This includes the steady increase in the average years remaining for those that reach age 65. A significant percentage of these people must now contemplate the prospect of being alive for at least another generation, unless we are all overwhelmed by natural or man-made catastrophes in the near future. This development poses a threat to those who are not able to obtain reasonable inflation protection for their incomes "going into retirement" (whatever that means to each person).

Even so, until one goes beyond age 85, these retirement years can often be years of quite good health. This poses a challenge, but also an opportunity in certain sense, for our collective deliberations and arrangements — how to make the best use of the enormous resource of human capital that these people in Peter Laslett's Third age represent (see Laslett 1989). Failure to respond well to this challenge poses a threat to the international competitiveness of those OECD countries that allow this resource to lie idle and largely unused.

### **Changed perspective about retirement in our society**

The foregoing sketch of broad-scale changes affecting the social institution of retirement points to the need to rethink traditional ideas about retirement in our society. New perspectives are needed. Some of these new perspectives are reflected in the chapters that follow. The chapters have been grouped into four broad themes: (1) systemic forces pushing toward a changed agenda for reforms of the institutional policies and practices pertaining to retirement, (2) family and gender as aspects of changes in theory and analytical perspectives concerning retirement-related behavior, (3) increasing diversity of transitions into retirement, (4) new vulnerable groups and living standards in the retirement years.

The co-editors have written a synopsis prefacing the discussion under each theme. They present key ideas that arise and also point out how the chapters elaborate aspects of these themes. The synopses include a detailed sketch of the organization of this book, and the reader is invited to consult them first (see the chapters by Paquet, McDonald, Gauthier and Asselin, and Townson), in order to gain insight into the overall structure of the book.

The original design of the book has been changed. There are now two volumes, in order to reduce the size of the product. The second volume contains all appendices and some bibliographies at expanded length. It is documentation of several innovations of concepts, data and methods, which serve as part of the foundation for the findings reported in this volume.

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# *Theme One*

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## **Chapter 2. Work and retirement: A governance challenge**

by  
Gilles Paquet

A number of developments over the past few decades have transformed the perspectives in good currency about work and retirement. This has led several OECD countries to review their policies about retirement age and related entitlements and obligations.

Half a century ago, working conditions were generally harsh, life expectation was hovering around 65, and retirement was generally experienced as complete withdrawal from productive activity for a short period of rest and leisure at the end of one's life. The passage to a knowledge-based economy in which work does not necessarily entail harsh physical activity, the improvement in health conditions and the increase of life expectation by more than a decade, and the sharp drop in fertility and the consequent decline in the size of the replacement cohort, have modified the rules of the game.

Persons reaching the traditional retirement age have now a long life ahead of them, and will consume a great quantity and a wide variety of supporting services. Yet they are not only consumers: they remain a productive asset, and are now physically and mentally able to remain involved in productive activities, and they are often willing to do so. This is not unimportant to note since the cohort of young persons meant to replace them in the labor market has been shrinking dramatically.

This raises a number of important questions about the governance of work and retirement. Governance may be defined as effective coordination when power, resources and information are widely distributed. The world of work and retirement is one where nobody is in charge. A large number of decisions by persons, firms and governments are shaping this world. Good governance depends on the alignment or the goodness-of-fit of all these decisions.

In the face of imminent labor shortage, of difficulties to ensure appropriate income support for the retired, of important productivity slowdowns, and of frustrated older persons prevented from continuing to be as active as they would like, one must reconsider a number of aspects of the world of work and retirement.

What period of one's life should be dedicated to work and to retirement? What is the role of social policy in ensuring the appropriate blending of work and retirement according to circumstances? What should govern decisions about the age of retirement? What is likely to drive retirement politics in different countries? How can one improve the coordination of decision-making so as to ensure a satisfactory well-being for the retirees, the productivity of firms, and as much individual self-reliance as possible? To what extent do we have to reconsider the division of labor among the private, public and social sectors in ensuring that these objectives are realized? To what extent do we have to reconsider our present social policies to meet these objectives?

While all these questions will raise a number of financial and economic issues, one should also factor in the important contribution of the “cohort of retirees” to family and inter-generational solidarities.

These are the basic questions addressed in the first section of this book.

Claude Castonguay underlines the main demographic and economic factors explaining the new perspectives on retirement, and the moral responsibility of the baby-boomers not to burden smaller future cohorts with an enormous public debt ascribable to their massive needs in retirement. This will require a cultural change, and cannot be done without all the stakeholders recognizing that they will have to work together and take into account in their decisions the interests of the next generations. Such debates should entail a modification of the funding structure of retirement income, and a new covenant among the partners in the world of work.

Anne-Marie Guillemard tackles the management of the age-work interface, and analyzes how different countries have elected diverse strategies of governance on this front. She identifies

different “*cultures des âges*” and “*polices des âges*” and various mixes of policy instruments and public policies that tend either to marginalize older workers, or to maintain, integrate, or re-integrate them into the workforce. The governance challenge here has to do with the stakeholders’ capacity to invent ways collectively to ensure that ours are “societies for all ages”.

Agnès Pitrou reminds us that culture is not only about work and money, and that other dimensions need to be taken into account. Citizens do not choose their age of retirement. This is a decision significantly shaped by the nature and richness of the pension schemes, but also by the nature of family responsibilities. Retirement provides an opportunity for retirees to contribute in a fundamental way to the social production of solidarities within the family and between generations. This contribution is often occluded, and the social costs of extending the work life are often not properly computed. One should factor in the central role of the older generation in the social production of solidarities that are yielding important social and economic benefits.

John Myles examines the shift in the political terrain that has accompanied the broadening of perspective on work and retirement. He explains why the pressures for reform in pension schemes were relatively less important in Canada than elsewhere: there was less fiscal pressure or prospect of having to raise payroll taxes inordinately, little evidence of gross inter-group and intergenerational inequity, and the federal system has always found it difficult to generate a consensus on cutbacks. But the terrain of dispute is shifting in Canada as elsewhere. As the ratio of consumers to producers, associated with population aging and low fertility, increases, the new focus of discussion is not on pensions, but on the cost of supporting the retired population. This in turn broadens the debate, as this burden is shown to depend as much on the employment level and productivity as on the number of retirees and their consumption level. Concentrating too exclusively on the last of these four factors is unduly reductive.

The complex of demographic and economic forces at play, the cultural and social constraints in place, and the political difficulties in reaching any consensus on work/retirement issues have created many a stalemate in different countries. Simplistic mechanical top-down policies proved all but impossible to legislate.

Consequently, the different stakeholders will be forced into all sorts of bricolage (tinkering) in response to particular circumstances and special configurations of pressures. This bricolage may emerge from difficulties more sharply felt in one of the private, public or social sectors, and therefore be the result of initiatives taken more or less independently by decision-makers in the private, public or social sectors. Of necessity, this erodes the pure role of institutions that may have been originally designed to achieve one or another of the three basic objectives – poverty reduction of retirees, productivity of firms and promotion of self-reliance. Institutional *métissage* ensues as values and objectives get blurred in the activities of different institutions.

The last two papers (Rein and Thacher, Li) focus on the broad trade-offs that confront policy-makers, as well as private and social actors, in designing retirement income schemes that try to achieve the three objectives. In most countries, each of these objectives or guiding values was originally embedded in different pillar institutions. In Canada one might identify OAS/CPP, private pension plans and RRSP with these different pillars: the first are aimed at poverty-reduction, the second are part of the compensation packages of firms dedicated to generating as much productivity as can be achieved, and the third are geared to stimulating personal saving during the working life.

Rein and Thacher recognize the centrality of the art of separation among institutions in pursuit of different values, but also acknowledge that the separation cannot be as tight in practice as one might like it to be in theory. There are linkages of complementarity and substitution among these pillars, and much blurring in the distinction among them as a result of pressures from the evolving context, the change in the values priorities, and the bricolage of the different actors. These concepts are used by Rein and Thacher to x-ray the retirement income schemes of Australia, the Netherlands and the United States, and to identify the ways in which they have evolved by separation, linkages and blurring. Li applies the same analytical scheme to Canada, and finds that change through blurring is indeed the only plausible option.

The world of work and retirement is a complex adaptive system. Its shape, foci and governance echo the culture and the values of each particular socio-economy, and evolve with

them. The demographic and economic forces at play in the early twenty-first century are forcing the system to adjust everywhere, but the configuration of pressures and the texture of values, culture and sensitivities differ from country to country. So each country adapts differently. But it is fair to say that, generally, the social agenda of all countries has drifted, as John Myles suggests, from pure “pensions politics” to more encompassing “retirement politics”, and has given a new centrality to the governance of the work-retirement interface.

The governance of the work-retirement interface entails some re-tooling, some re-structuring and some re-framing, and this cannot successfully emerge without all the stakeholders finding ways to discuss and debate these issues in a common public space. Claude Castonguay has called for such a debate. Yet it would be naïve to expect that such a process will emerge organically or will neatly generate a simple “technical” solution. Solutionists are utopians. The governance of the work-retirement interface poses profound “political” challenges: puzzles have solutions, governance challenges only elicit responses. These responses will come from all the stakeholders and may not necessarily fall into “regular” patterns. This is why one can only expect baroque governance in this world of work and retirement.

Baroque or irregular governance does not however mean bad governance. The requirement to take into account a vast array of particular circumstances, different values systems, different cultures, and a great variety of political regimes will only ensure that a vast array of patterns and modes of governance of the work-retirement interface will ensue.

It is worth noting that some modest general propositions about the drift in the governance of the work-retirement interface have emerged from the papers in this section:

- (a) The new battlefield is likely to generate a new division of labor among the government, the employers and the individual citizens in shaping both the worlds of work and retirement income. While one may not see a major retrenchment of governments on the retirement income front, it is likely that employers will be the main drivers in redefining the world of work away from the marginalization of older workers.

- (b) A most thorny issue to be debated is the regulatory framework of the labor market, and the need to involve labor unions and other such organizations in the transformation of the labor market framework to make it less rigid and inflexible.
- (c) One can envisage that in the post-welfare-state world, a less state-centric governance is likely to increase the importance of the individual's self-reliance in ensuring adequate income in retirement.
- (d) It is unlikely that any reform in the governance of the work-retirement interface will be accomplished without more blurring of the roles of the different institutions, and without more explicit debates about the linkages among them; so institutional *métissage* is bound to grow.
- (e) Concerns about adequacy and fairness of retirement income will likely lead to an examination of the linkages among the different pillars of the retirement income system and their particular instruments. This examination could involve some sort of forum on work and retirement in which all the stakeholders will participate.

The concerns just cited have already stimulated a focus on retirement-related policies in several OECD countries. In Canada, the concerns are likely to trigger debates and policy deliberations across three fronts as a result of the broad forces sketched in the different chapters of this part of the book: (1) lengthening of working life and raising employability for older workers, (2) diversifying the sources of retirement income, and (3) productivity growth in the health and long term care services provided to the aged and the containment of drug costs

Lengthening of working life and raising employability for older workers entail the elimination of incentives to early retirement and the development of ways to enhance job opportunities for older workers. In Canada, over 50% of the older workers (55 to 64) are employed; in some European countries it is 25% or below. Issues in this area include rigidities in the regulation of labour markets, integration of older workers in the workplace through more flexible

arrangements, the lengthening of the contribution period for full pension benefits, increasing the age of entitlement to full pension and the lower age limit for early retirement, and relaxation of rules about mixing pension earnings with income from paid work.

Diversifying the sources of retirement income entails making fuller use of the so-called “three-pillar” approach where retirees have three sources of pension income: public pay-as-you-go pensions, employment-related funded pension plans, and voluntary retirement savings. Concern in this area will trigger examination of the balance among the flows of income from the three pillars.

Many countries have begun to shift their public pension scheme to a fully funded capitalization system and pressed for the development of compulsory employment-related fully funded pension schemes while encouraging, through tax incentives, the voluntary retirement savings of private citizens. Such diversification and increase in funded pension schemes require modifications in financial structures and taxation systems, and entail important transition costs especially in terms of intergenerational equity since, as one shifts to funded schemes, current workers will be hit twice – having to pay for the pensions of those currently retired and again for their own. This means that one must expect this transition to be slow.

As regards productivity growth in the health and long term care services provided to the aged and the containment of drug costs, it is well known that health care costs rise steeply when advanced age is reached. For persons over 85 years of age, the per capita health care resources is almost 10 times more than for young persons; for prescription drugs, the consumption by the aged is three times more than their share of the population.

With the continuing rapid growth of the more senior sub-set of the older population, we can expect profound review of the ways in which such health and long-term care services are delivered.

This is not a new problem and aging is not its sole cause: aging only exacerbates what is a critical challenge for all modern socio-economies.

Our hope is that this section of the book will provide the reader with a good appreciation of the major dimensions of the work-retirement problem, of the ways in which the debates about it point to a change in the nature of the governance, and some *outillage mental* to help make sense of the process that is at work in bringing forth this new pattern of governance.

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# **Chapter 3. Retirement: New perspectives on the horizon<sup>1</sup>**

by  
The Honourable Claude Castonguay

## **Introduction**

Retirement, as it is generally perceived, is a legacy of the outcome of World War II. At that time, life expectancy was only 63 years for men and 66 years for women. For most workers who reached the age of 60, the prospect of life after 65 was only a few years. Tired and often worn out from hard, physical labor, their only aspiration was to finish their job, which was often monotonous and failed to motivate them. For workers, retirement represented a few years of rest and relaxation.

For employers, retirement was viewed as a mechanism that allowed them to systematically renew their workforce. They faced new conditions created by the continual development of the methods used to produce goods and services, so that they were able to seamlessly replace older workers with younger, more qualified ones who were more capable of adapting to these new methods.

Retirement was generally considered to be a withdrawal from all productive activity. In a certain sense, workers ceased being active in society. From that moment, they were considered a burden on society, especially by the government. This perception of retired people is still common today.

The world we live in today is completely different from the world of that not-so-long-ago era. Profound changes have occurred in every aspect of life. Things that seemed inconceivable at the time have become a reality. For example, over a relatively short period of time, life expectancy has increased to 76 years for men and 82 years for women. Due to progress made in information, medicine and working conditions, workers are generally in good health.

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1. This text is a translation of the original French version.

While life expectancy was rising in the population as a whole, the birth rate dropped dramatically. In 2001, the fertility rate reached 1.4, a rate well below the level required to ensure a stable rate of reproduction. This change is a fundamental one, although its scope was unexpected. The combined effect of a low birth rate with increased longevity has brought about a reversal in the age pyramid. For the first time, the elderly population is outgrowing the population of young people who will make up the future work force.

Although it is always risky to make predictions, it is expected that these trends of rising life expectancy and a stable birth rate will continue in the years to come. The consequences of this transformation of the population structure are substantial and highly diversified, but not all have been identified.

### **What are the new perspectives that emerge from these trends?**

To begin, large numbers of workers are reaching 65, until now considered to be the normal age of retirement, which will inevitably lead to a significant decline in traditional labor. In other words, the abundance of labor of recent decades is gradually becoming a shortage.

Therefore, the number of people reaching the age of retirement will lead to increased demand for a wide range of services to satisfy their needs, such as health services, home care, housing services, physical and psychological support services, and recreation services. In short, we are entering an era of sustained growth in the demand for services to satisfy the needs of people 60 years of age and over.

We must ask ourselves how our public health and social services system will manage to avoid being overburdened, when it already cannot satisfactorily meet current demand. The commissions of inquiry and study committees that have examined this issue have concluded that health expenditures are increasing and will continue to increase faster than government revenues. In reality, health expenditures are four to five times higher for persons 65 years of age and over than for the population average. To

narrow this growing gap, these diverse reports concluded that a real partnership between the public health system, the non-profit sector and the private sector is necessary. The objective is to develop new, more effective approaches in order to produce and deliver these services. On a political level, everything indicates that the population is increasingly in agreement with this direction.

People today are reaching the age of 60 in much better health than in the past, and this is all the more true for future generations. They are physically and mentally able and often want to remain relatively active. They are aware of the many years ahead of them, and many feel the need to be useful and give meaning to their life. Furthermore, they have learned that a too abrupt transition after a fully active life can be detrimental to their health and mental balance.

Opportunities will not be lacking. With a bit of imagination and good will, many people can contribute to satisfying a wide range of needs, as far as their health and abilities permit. For them, these may be opportunities to forge new friendships and to feel useful or even necessary.

Beyond this personal dimension, baby boomers cannot ignore the fact that they have a debt to society. As a whole, they benefited from a better quality of life and living conditions than the previous generations. So, instead of incurring a fair share of the cost of services they benefited from, they are leaving a legacy of high public debt created by the overly generous public policies and programs of the past few decades. Consequently, for years to come, our children and grandchildren will be paying taxes that are much higher than the value of the public services they will receive.

### **The question of pension funding**

The future of public pension plans that were based on distribution, or partially funded, raise a number of questions. How will the labor force, which is already heavily taxed from the public debt burden, be able to fund the pensions of the increasing number of retiring baby boomers?

Our pension system is made up of three components. After the war, all Canadians were guaranteed a basic pension of an equal amount starting at age 65. When the plan was created, the Canadian government made a formal commitment to it — the old age pension plan. The pay-as-you-go financing of this plan was ensured through a specific tax deducted from workers' income. Despite the government's commitment, and the fact that workers were making a specific contribution to this plan, people whose income is higher than a certain amount, which is relatively low, have in recent years seen their basic pension reduced or completely eliminated. Canadians must be more tolerant than our French cousins because there was no major reaction to this significant change.

The Quebec Pension Plan and its equivalent in the other provinces, the Canada Pension Plan, are the second components, or levels, in our protection system. These two plans are partially funded. The level of contribution of workers and employers is being raised significantly, well beyond the previous level, to help the plans respect their commitments. This gradual approach was taken rather than one that involved reducing benefits or delaying the start of pension plan payments. Like the basic plan, the gradual increase of contributions did not encounter any strong resistance.

The third component of our system consists of company and personal pension plans. The creation of these two plan categories was encouraged by the government, which offers appealing tax reductions.

The proportion of workers covered by defined benefit plans has continued to drop for several years in favour of money purchase plans. Overregulation is in part responsible for this trend. It is also possible that the considerable increase in capital — due to increased longevity — required to fund a given pension amount may also be a factor. Most workers are covered by the less generous, less secure money purchase plans.

In both these plans as well as personal pension plans, it is the workers who assume the risks associated with the investments. However, with the stock markets tumbling in recent years, the assets of company and personal pension plans have plummeted, which has brought about a number of consequences.

Baby boomers are therefore likely to reach retirement with lower and less stable pensions than in the past. The need to supplement these pensions will certainly be another reason for some people to continue working after retirement.

It seems worthwhile to mention the existence in Canada of a factor that to some extent may mitigate the severity of the problem that funding our social protection programs represents for the government. For many years, the government was deprived of income following tax reductions given to employers and workers who were saving for retirement. With droves of new retirees who have taxable pensions, this tax expenditure will turn into greater income.

### **The new context**

Reaching the age of 60 no longer automatically means imminent retirement from working life and the beginning of a life on the sidelines of society. Because of all the factors mentioned, many people will want, and even have to plan this stage in their lives in their own way. This can be a positive phase in the lives of workers, depending on their health status, their financial situation, their desire to remain active, etc.

The concepts of mandatory retirement and normal age of retirement, which are still found in legislation and company pension plans, must be modified and be made more flexible. The conditions for involuntary retirement should no longer be determined in advance only by the government or by company pension plans.

This new perception of retirement will also necessitate changes in the monitoring and regulation of the labor market. This is likely where the strongest resistance will be felt from workers' unions and other organizations whose interests lie in a rigid, structured labor market.

This is no more and no less than a genuine change in culture. Over the years, early retirement from the labor market was favoured. For most people, early retirement has practically become an acquired right.

The challenge is two-fold. First, we must highlight the knowledge and experience of people who wish to remain active, to participate in community life and society as far as they are able, and to supplement their retirement incomes. Second, to counter the labor shortage we are heading toward, the labor market should allow these people to remain active according to different conditions than in the past.

This is a fundamental issue. It must be ensured that the people reaching retirement age are no longer considered to be a burden on society, but rather as full-fledged citizens. The need to participate, to make oneself useful, to maintain the esteem that one's family, friends and the community have, do not vanish at the age of 65.

# **Chapter 4. What age for employment? The need for a new social organization of the working age<sup>1</sup>**

by  
Anne-Marie Guillemard

Traditional conceptions of work and retirement are today profoundly changed. They have been changed in two ways: on the one hand due to demographic factors (aging and increased life expectancy) and, on the other, because of globalization, the advent of a post-industrial society or of a knowledge-based society, according to the different definitions of analysts.

What should be reconsidered are the ways in which we distribute, during the life cycle, work and compensated leisure, that is, retirement. Indeed, retirement represents a contract between generations on how to distribute work time and compensate non-work time during the life course.

Our current retirement system rests largely on a tacit contract between generations that has been in place since the Second World War. This contract is based upon the principle of a division of the life cycle into three phases. Firstly, the phase when youths are educated; another when adults and young adults work, and finally when the elderly have the right to retirement. In this framework, the essence of the phase of 'compensated inactivity' has been granted to the elderly in the form of retirement. The main issue in post-war industrial society was to build a universal right to retirement for the elderly. They constituted the poorest fraction of developed countries. In return for this right to leisure in old age, youths and adults take on stable and durable jobs, after a short period of training for youth.

However, this division of the life cycle into three phases is no longer operational. We have entered into a knowledge-based society in the post-industrial era and we are witnessing a real revolution in the social organization of time. Traditional patterns of the social organization of ages and time are challenged in our

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1. This text is a translation of the original French version.

new society of mobility and longevity. Consequently, the question of retirement cannot be posed independently of the question of work and organization of stages of life. For this reason I have adopted in this chapter a theoretical perspective that addresses the interdependent evolution of three central dimensions — the labour market, the welfare system, and finally the social organization of the life course.

This line of thinking has stimulated my last work, *L'âge de l'emploi. Les sociétés à l'épreuve du vieillissement* (Guillemard 2003), which attempts to discern, in terms of international comparisons, how developed countries address aging, notably that of the economically active population.

### **Two preliminary remarks on the theoretical framework for the analysis**

Before entering the core of the subject, that is to say the economic activity in the second part of the career and age management at work, two preliminary remarks should be offered.

In the first place, as sociologist, I would want to recall the relativity of the definition of age. Age takes its social meaning only in a precise historical and societal context. The definitions of an older worker, as well as the level of his inclusion or relegation in employment, are social constructs. Thus, the same demographic reality, aging of the population and of the labor force, takes on different meanings from one country to another. Indeed, although population aging represents a set of relatively homogeneous constraints, the public responses to it are quite diverse. Policies pursued in each country are contingent on the manner in which each society constructs relationships across generations and ages, in this new society of long life and low fertility.

The second element to which I wish to attract attention is the influence of public policies in the process of the social construction of aging at work. Take note, for example, of the impact of welfare and labour market policies on the definition of the older worker.

I will devote a part of this chapter to analyzing the process of construction, by public policies, of the social definition of older worker. We will see that, by the norms and chronological thresholds of age that they produce, they frame the life paths of individuals and fix the temporal and symbolic horizons according to which the different actors behave in the labour market. And on that basis, they contribute to the creation of what I have designated as distinct “age cultures”. These last represent a network of values and shared norms concerning the manner in which the advance in age becomes an issue, as well as the rights and obligations attached to age. Thus, we lead to observe that public policies are not only models and instruments of public action. They represent also normative structures that format representation of the world, as well as representations of what is possible and desirable in each society.

### **Age and the labour market: some considerations**

Today, how are employment and inactivity in the second part of workers’ careers distributed? One possible indicator is the employment activity rate and its evolution over thirty years in a number of developed countries in Europe and North America and in Japan.

Data in Table 4.1 and Chart 4.1 show that globally there has been a decline in activity for those 55 to 64 years of age, but this is not reflected to the same extent everywhere.

There seem to be some countries where the 50-year-olds have preserved a future in the workplace. In contrast, for continental European countries (France, Germany, Netherlands, Finland) the economically active have become a minority after 55, and the decline in the rate of male employment<sup>2</sup> over thirty years is around 40% (Table 4.1). We observe therefore in these countries a large trend to an early exit from the labour market.

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2. The rate of male employment is used here as a reference since, for women during the same period the evolution of the employment rate lacks clarity. In effect, this cohort of women reflects two contradictory tendencies that intervene simultaneously: a large entry of women in the labour market, and their early exit from employment.

**Table 4.1: Evolution of males' employment rate, for age group 55 to 64, OECD countries, 1971 to 2003**

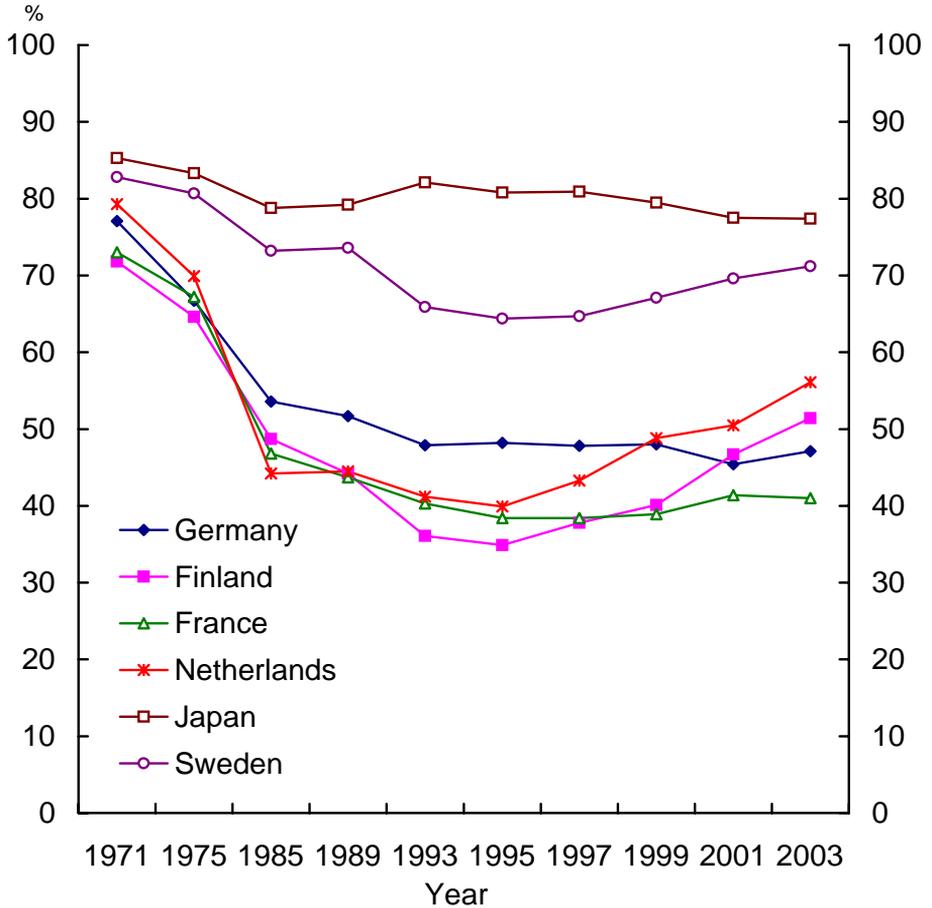
Countries	1971	1975	1985	1989	1993	
Germany*	77.1	66.7	53.6	51.7	47.9	
Belgium			43.1	36.3	32.9	
Denmark			61.9	65.0	60.6	
Spain	82.7 <sup>1</sup>	76.7	59.1	56.7	51.6	
Finland	71.8	64.6	48.7	44.2	36.1	
France	73.0	67.2	46.8	43.7	40.3	
Italy				49.6	47.0	
Netherlands	79.3	69.9	44.2	44.5	41.2	
Portugal	82.1	77.3	64.7	63.6	59.8	
UK	82.9		62.3	61.8	55.9	
Sweden	82.8	80.7	73.2	73.6	65.9	
EU-15						
Japan	85.3	83.3	78.8	79.2	82.1	
USA	79.4	72.4	65.0	64.9	63.1	
Canada	78.7	76.2	64.3	61.2	54.3	
	1995	1997	1999	2001	2003	Var in %
Germany	48.2	47.8	48.0	45.4	47.1	-38.9
Belgium	34.5	32.2	35.1	35.1	38.7	-10.2
Denmark	63.2	61.0	59.9	63.1	68.0	9.9
Spain	48.0	50.5	52.4	57.9	59.3	-28.3
Finland	34.9	37.8	40.1	46.7	51.4	-28.4
France	38.4	38.4	38.9	41.4	41.0	-43.8
Italy	42.3	41.5	40.8	38.5	42.6	13.6
Netherlands	39.9	43.3	48.8	50.5	56.1	-29.3
Portugal	57.7	58.1	62.1	61.6	61.6	-25.0
UK	56.1	58.6	59.4	61.6	65.0	-21.6
Sweden	64.4	64.7	67.1	69.6	71.2	-14.0
EU-15	46.8	47.0	47.3	47.8	51.5	10.0
Japan	80.8	80.9	79.5	77.5	77.4	-9.3
USA	63.6	65.5	66.1	65.8	65.6	-17.4
Canada	53.7	55.1	56.8	57.6		-26.8

\* FRG, after 1989 Reunited Germany.

1. 1972.

Source: OECD data , except : Italy and EU-15 (Eurostat).

**Chart 4.1: Evolution of males' employment rate, for age group 55 to 64, for six countries, over 30 years, 1971 to 2003**



In some countries, such as France, employment has had a tendency to concentrate in the middle years (25 to 49), while the young and old are on the margins of the labour market. A single generation at middle age is solidly anchored in employment. For the youngest, entry into stable employment has been increasingly late, thus lengthening the period of education. For aging workers, the transition between employment and retirement has become equally blurred and uncertain, and early inactivity has become the rule.

On the other hand, this early exit from the labour market of 50 and 60 year olds has not affected a second group of countries to the same degree — Canada, the United Kingdom, Portugal and

Spain. There the decline in activity has been more moderated, around 25% (Table 4.1).

Finally, there is a third group consisting of the U.S.A., Japan, Sweden, Denmark (and other Scandinavian countries not included in this table). The decline in activity is limited in this case. The rate of employment of 55-to-64 year olds has fallen slightly in thirty years (between 10% and 15%). Japan has had the lowest decline (less than 10%). It is the leader in all categories for maintaining activity of those beyond age fifty.

Notice that Finland and the Netherlands, which were until 1995 among the countries in the first group (i.e. with a large decline in activity at the older ages), have since shown a very notable rise in activity for the group aged 55 to 64 years (Chart 4.1).

These cross national comparisons of activity illustrate the contrasting paths of the second career phase among countries. The 50-year-old Japanese or Swede remains in the labour market until an advanced age, yet this is not the case in continental European countries. This makes employment a more fragile experience in the mid-forties and incites early exit<sup>3</sup> from the labour market among 50-year-olds.

This means that at the same chronological age, workers are appreciated differently according to country. This data indicates that we should not regard the depreciation of the aged wage earner as natural. Instead, it should be interpreted as a reality of culture, whose influence we will attempt to clarify.

### **Configurations of policies of welfare and labour market policies, and cultures of age**

How can we understand the contrasting paths during the second part of careers that we have noted?

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3. We speak of early exit rather than rejection in the case of continental Europe. By early exit we determine that there is retirement from the labour market accompanied by the transfer of resources replacing wages.

The underlying hypothesis of our comparative analysis is that participation in the labour market in the second part of the career should be regarded as a social construction. It is a result of the network of interdependences among normative structures, welfare policies, labour market policies, and professional relationship systems; all elements that give a special social context to participation in the labour market.

Our starting point has been to identify the stylized policy configurations relevant to our topic. Each configuration creates a welfare regime, which is expressed by the level of compensation offered to those by inactive in second part of their careers, along with labour market policies characterized by their capacity to insure employability and job mobility during this portion of the career.

On one level, institutional configurations of policy directly affect the careers of employees in each country. Indeed, by the rights and benefits that they grant, and the statuses that they offer in employment or in the welfare system, they determine the range of alternatives open to wage earners in the second part of their careers — opportunities for employment, or for combining wages and pension and paths to early retirement with compensation. Consequently, they structure the possible pathways and form the expectations of all actors in the labour market concerning their future in paid employment as they advance in age.

On another level, the political configurations produce a collection of significant normative orientations. This is their cognitive dimension (Muller 2000). The social state, by intervening and arbitrating in the domains of employment, training and social protection, produces the norms of age. Its activity gives birth to a real government, which we designate as “*une police des âges*”, by resuming the ancient meaning of government that this term conveyed under the Ancient Regime.

In a given national context, a particular dynamic is created by the interactions between the different “*polices des âges*” contained in the provisions for social protection and employment and, on the other hand, the manner in which the different actors in the labour market seize and make use of them. This dynamic stabilizes gradually into what we designate as a specific “age culture”.

Each typical institutional configuration of policies can thus be examined in terms of the particular age culture that it tends to promote. In a simplified schema, four stylized institutional configurations of policies can be identified by crossing two polar axes: that of the labour market policies and that of the welfare policies. The presence of several instruments in order to maintain work capacity and employability of workers in the second part of career tends to multiply opportunities for integration into the labour market. In contrast, generous compensation of the risk of non-work at the end of the career provides many alternatives for early exit from the labour market for the aging worker.

The four institutional policy configurations, and the typical professional pathways that they tend to encourage, can be synthesized in the following typology (Figure 4.1). Countries most closely approximating the stylized configurations are identified for the purposes of this illustration. This typology should not be the object of a mechanistic or deterministic interpretation, rather they should be interpreted dynamically.

### **Four configurations of public policies that shape economic activity in the second part of the career**

The limits of this text do not allow one to go into great detail of what has been demonstrated. We have shown, through a thorough study of four national cases (France, Sweden, Japan, United Kingdom), and an analysis of the public policies pursued for two decades, a close correspondence between, on the one hand, the dynamics of the configurations of policies, their normative structures and the age cultures that they construct and, on the other hand, the tendencies they create towards certain pathways in the labour market. Here it is sufficient to briefly evoke the processes by which each political configuration builds a specific age culture, which tends to shape professional itineraries with the advance of age.

Type 1: marginalization/relegation. This type is clearly illustrated in the countries of continental Europe and especially by France. It combines a generous compensation for the risk of not-work for the older employee with a quasi-absence of instruments of integration or reintegration into the labour market. At the level of principles adopted to legitimate the distribution

**Figure 4.1. Typical labour market trajectories in the second part of the career in terms of the dialectic of welfare and labour market policies**

Level of coverage <sup>1</sup> of the risk of non-work by the social protection regime		
Labour market policies	-	+
Few instruments of integration into the labour market -	4 Rejection/retaining according to the labour market situation  <i>United States - United Kingdom</i>	1 Marginalization/relegation  <i>Germany - France - Netherlands - Finland</i>
Many instruments of integration or reintegration into the labour market +	3 Retaining in the labour market  <i>Japan</i>	2 Integration/reintegration  Welfare is linked to efforts to return to the labour market  <i>Sweden - Denmark</i>

<sup>1</sup> By level of coverage we refer to the level and duration of indemnification and range of opportunities for early exit from the labour market. The assumed dimensions for this typology were not found in the approach adopted by Gallie and Paugam (2000 : 5) in *Welfare Regimes and the Experience of Unemployment*, that defines "unemployment welfare regimes" articulated in three dimensions: the degree of unemployment benefits coverage, the level and duration of indemnification, and the importance of active policies. This last dimension is specified in our typology as integration policies of work by older salaried workers.

of employment and of transfer payments among the ages, this configuration clearly places the emphasis on the security of income. It focuses on a principle of financial compensation for the loss of employment among older workers.

The priority granted to this principle gradually builds an "early exit culture" where soon the norm for the older worker no longer will be employment but access to social transfers. The French example allows one to understand how the intertwining of devices and the production of the norms and rules that they contain, builds an early exit culture.

The jurist Marie Mercat-Bruns (2001) has shown how French laws on economic dismissal, enacted around the end of the 1970s, moved from a principle of protection against loss of employment to the notion of the aged worker as vulnerable in employment and whose age will soon become a legal basis for being exempted from work. The “*mesures d’âge*”, designed to protect these workers by means of early retirement, reinforce this new principle. They

“widen the gap between the wage earners who are beneficiaries of the reclassification plan and the others, especially the older ones who are deemed to not be subject to reclassification” (Mercat-Bruns 2001:129).

Gradually a definition develops of the aged wage earner as vulnerable in employment and not capable of being reclassified. From then onwards, it is just and equitable for this group to strengthen its access to social transfers. Thus is legitimated the early exit from the labour market for this age range. It will become soon a right to retire early.

Therefore, the creation of an early exit culture relies on a reductionist view of aging at work where the question is solely formulated in terms of access to resources for transfer payments. Once they are produced and integrated into different devices, judicial rules serve as framework of action for all actors in the labour market. They constitute systems of justification and reference to all that are implicated in the action.

From then on, a process develops of the depreciation of the aging worker, which, little by little, spreads to younger generations. If employees older than 55 are reputed as not being re-deployable, then their immediate successors, the 50-year-olds, are suddenly labeled “half-old” and are at risk in the labour market. One forgets too often that by lowering the effective retirement age from the labour market, one raises simultaneously the social age of the younger generation. Little by little, this process of depreciation affects equally the 40-year-olds. Some companies hesitate to promote them or train them, because they are nearing the end of their career.

One can thus observe that the development of the culture of early exit promotes a process in which there is a “spiral of fragility” for everyone in the second part of the career. Notice that the principles that have legitimated the access to transfer payments for older workers have ended by working against employing those advancing in age who are economically active.

Type 2: integration/reintegration into the labour market.

The second configuration tends to build a culture of age and a definition of the older worker diametrically opposite to Type 1. This configuration evokes the Scandinavian regime of social protection.

Here, the generous compensation for the risk of non-work in the second part of the career is closely linked to the mobilization of an active labour market policy. Thus, maintenance in employment with the advance of age is encouraged, thanks to an extended range of instruments of integration or reinsertion into employment and the extension of social services linked to employment targeted to the active aged. From then on, another system of rules prevails. It aims to make the aged wage earner the target of interventions toward rehabilitation and reinstatement into employment, in order to respect their right to work. In the name of equal opportunity, one is no longer happy to replace the income from work by transfer income.

Programs of reinsertion into the labour market, rehabilitation and maintenance of employability should provide all citizens with the means to remain at work. Presumed fragile in employment, but re-deployable, the older worker, along with other vulnerable groups, should benefit from targeted and strengthened services related to employment. Representations of the age of work, as principles that guide action, are in this case turned toward active aging. This model tends to build a culture of the “right to work” at all ages, and the reversal of the culture of early exit.

Type 3: maintenance in the labour market. This type evokes the case of Japan. It varies from Type 2 because it offers older workers few possibilities of indemnification of an early exit from the labour market. The right to activity of the older worker is not counterbalanced by a right to indemnification. There is, for Japanese employees, no alternative to active aging, which is considered as desirable for the individual as for society.

However this duty of activity demanded by society is balanced by the obligation of society to offer older workers the opportunity to remain in the labour market. Thus, there are different public measures offered in Japan, in a continuous manner, in the direction of aging workers. There is a variety of motives and justifications to remain economically active until an advanced age. In the case of Japan, the older worker has been defined, in the first place, as one that passes from the stage of employment to live, to that of flexible employment.

Labour market policies have accompanied and regulated this passage to flexible employment, either by directly lowering the cost of work for this age range, or in regulating the behaviors of companies or again by opening up the possibility of public employment as a last resort.

Type 4: rejection/retaining. This configuration combines limited benefits concerning the risks of non-work with a few instruments of integration into the labour market. In this configuration, the largest part of regulation is left to the market. There is therefore no alternative, for the active ageing person, to remain, at all costs, in the labour market, due to the minimal protection offered by social assistance.

If we refer to the typology of welfare states proposed by Esping-Andersen (1990), this configuration embodies the liberal or residual welfare state. This type offers the weakest level of de-marketing and grants the largest place to the whims of the market. Depending on developments in the labour market, one will observe pathways of rejection of the labour market for active ageing or, on the contrary, in case of shortages in the labour force, the pathways of maintenance [in the labour market]. These pathways will directly result from the game of supply and demand of work in the market. British or American cases are fairly illustrative of this public policy configuration.

One can observe, on the one hand, a weakly developed social protection that is largely subject to the availability of resources and, on the other hand, limited employment policy measures that are reduced to “welfare to work” (Scharpf and Schmidt 2000:332); that is to say, an assistance toward a rapid reinsertion into the labour market, such as it is (Barbier 2002).

The age culture associated with this configuration can be illustrated in terms of the American example of the law on non-discrimination by reason of age in employment the Age Discrimination in Employment Act (ADEA). This illustrates the minimalist character of public intervention in the area of the contract of work, within liberal regimes of social protection.

*De facto*, the framework of action created by the ADEA law<sup>4</sup> offers neither the system of motives sufficient to protect a culture of the right to work to all ages, as in the Scandinavian model, nor that which could support a culture of the right to early retirement, as in the continental model, nor even the principles of a culture of activity associated with a right to remain employed, as in the Japanese case. The code of good practice toward the diversity of ages at work, put in place for the use of employers by the Labor Party government of Blair in 1999, could be evaluated in the same manner. The distribution of normative frameworks for good practice in non-discrimination has had little impact on effective behaviors of companies (Walker 2002).

At the level of a comparative theory, we have been able to demonstrate the system of interdependences according to which specific institutional configurations engender the differentiated age cultures and produce contrasting pathways, according to country, in the second part of the career.

A first observation flows from these results. Countries that have opted, during the last two decades, to face the aging of their population by developing a large range of integration instruments concerning employment of seniors, have been better able to preserve the mobilization of work for this group (types 2 and 3). Consequently, Scandinavian countries and Japan do not today face the same dilemma as continental Europe.

The acceleration of demographic aging, as that of the labour force, requires only adjustments at the margins: reform of pensions, revision of professional pathways, as well as the strengthening of activation efforts which have been already undertaken. The goal is to increase the propensity to work among senior employees.

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4. This is true of other anti-discrimination legislation since October 2000 when European guidelines dealt with equal treatment in employment and included age.

Altogether different is the situation of continental Europe, immersed in a culture of early exit. It will need a real “cultural revolution” in order to thoroughly change the behaviors of actors in the labour market. To cope with the acceleration of aging, the continental model requires an unprecedented remobilization in employment of 50-year-olds. An effort to mobilize to this extent does not arise naturally. It develops over the medium to long-term.

To keep the 50-year-olds in the labour market presupposes that they have maintained their employability and their competences. There is also a need to know how to develop the conditions of work and develop an organization adapted to the aging of the labour force

Finally, there is a need be able to conceive of motivating professional pathways, that insure the preservation and transmission of experience within a framework of a rapid renewal of the generations in the workplace.

### **From public management based on age to management of the diversity of the ages**

Government by segmentation according to age, up until now preponderant, particularly in continental Europe countries, seems today to have reached its limit.

The arrangement of the life cycle into three stages of age is falling apart. Blurring of the [social] ages, the erasure of thresholds, uncertain and complex biographies lead henceforth to a new temporal organization of the cycles of life. We are witnessing a new individualization and temporal *flexibilisation* of the life cycle.

These evolutions imply transformations of work and the advent of a knowledge-based society. They engender a radical change in the risk profiles that individuals undergo over the course of their lives. Consequently, we are witnessing a growing disjunction between, on the one hand, our rigid instruments of social protection, which lean largely upon chronological age thresholds and, on the other hand, new needs for security associated with the more diversified pathways.

To remedy these issues it would be preferable to develop new forms of social protection that are more fluid, and new public policies bringing security to pathways that are no longer compound but rather are diverse.

These new imperatives point to a de-specialization in the management of the ages and to a society where all ages would be integrated. This society would represent, according to the word of the European order of 1999, “a society for all ages”, in which one manages the totality of the ages and their diversified pathways, where one struggles against barriers of age and discrimination according to age.

This management of the ages is waiting to be invented collectively. It implies a redefinition of security and welfare. Welfare can no longer today be contented to compensate for risks. Henceforth, the major issue is to promote and sustain the development of human capital and of professional *mobilities*.

It is certainly not by accident that the reflections of different authors who are concerned with ways of reforming social protections tend toward proposals<sup>5</sup> that focus on the central character in the maintenance of professional capacity by people and the development of social policies of the life cycle, which should be neutral with regards to age.

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## Chapter 5. From pension policy to retirement policy: Towards a new social agenda?

by  
John Myles

### Introduction

*Pension* policy has to do with the ways we design and finance the accumulation of our pension benefits, the wealth that will get us through our retirement years. *Retirement* policy has to do with the age of eligibility and other requirements that regulate when and how we can access this wealth. Pension policy has been on the Canadian political agenda several times since the 1980s. In contrast, we have had relatively little discussion of retirement policy. The exception was the 1987 reform when we liberalized retirement rules and lowered the age for early access to the Canada and Quebec Pension Plans (C/QPP) to age 60.

The question I ask here is whether all this is about to change? Will retirement policy become the target of reform over the next decade in the same way that pension policy was in the last? There are some indications that this may be about to happen. Though the public debate on retirement age is yet to appear in Canada, Peter Hicks, recently back in Canada from the Organization for Economic Cooperation and Development (OECD) and now an Assistant Deputy Minister with Social Development Canada, has argued forcefully in *Preparing for Tomorrow's Social Agenda* (2002) that the politics of work and retirement will emerge as the major policy driver of Canadian social policy in the next five to eight years. But where will the political pressure and the political coalitions necessary to push forward reform to our retirement rules come from? Since I can't answer this question directly – I can't predict the future – I approach it indirectly; by revisiting the politics of the recent past which have mainly concerned pension policy not retirement policy.

## Recent pension politics<sup>1</sup>

Pension politics have been big business and a political hot spot in most rich democracies for the past two decades. Margaret Thatcher was among the first out of the gate with her reform of State Earnings Related Pension Scheme (SERPS), the British analogue of the C/QPP, in 1986. Because of her high profile, pension reform is often associated with a right wing assault on the welfare state. The truly big reforms of the 1990s, however, came not from the right but from the left – in Sweden under the Social Democrats in 1998 and in Italy by means of a pact ratified by organized labor in 1995.

In Canada, by contrast, the past two decades of pension politics can be summed up in two, or maybe three words: (almost) nothing happened.

- The notorious “clawback” on Old Age Security (OAS) benefits introduced by the Mulroney government has never touched more than five percent of Canada’s elderly population. And it was effectively de-fanged with the return to full indexing of the cut-off point under the Liberals in 2000.
- The proposal to fold OAS and Guaranteed Income Supplement (GIS) into a single income-tested Seniors Benefit unveiled in the 1996 budget soon faded into history, shot down by critics from both the left and the right.
- Amidst the usual rhetoric of “unsustainability”, the Canada Pension Plan was put on the reform agenda in the mid-1990s. The results were equally modest and served mainly to maintain the status quo. Contribution rates were raised but, by and large, the traditional benefit package remained intact.

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1. More technical presentations of the arguments concerning the politics of *pension* reform made here can be found in Myles and Pierson (2000) and Bélard and Myles (2005).

From the vantage point of retirees, the system in place today scarcely differs from the design that was in place in 1980. Canadian pension politics have been decidedly tranquil compared to France, Germany, Italy or Sweden.

Given our recent history with the reform of pension benefits – nothing much happened – we might reasonably ask why we should expect the future of retirement policy to be any different? To answer the question, I will begin by reviewing some of the reasons for the relative tranquility in Canadian pension politics over the past few decades compared to other countries.

### **Why Canada is different**

There are a number of reasons why pension reform has been a much less pressing issue in Canada than elsewhere and we begin with the most obvious.

#### **a) Less fiscal pressure**

The main driver of reform in the 1990s was pressure on public finances. While Canada's actual and projected spending on pensions in the mid-1990s was somewhat higher than in some other English-speaking countries, it was considerably lower than in most European countries (Table 5.1).<sup>2</sup>

#### **b) Early retirement less popular**

In a number of countries, and especially in Continental Europe, labor market conditions in the 1970s led to the view that early labor market exit by older workers was a socially and economically acceptable alternative to high unemployment among younger workers. Pension systems were often used as

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2. Throughout the paper, I rely on data for the mid-1990s since they capture the historical context during which most pension debates and actual reforms occurred both in Canada and Europe.

**Table 5.1: Public pension expenditures in 16 OECD countries, 1995 and 2040**

	Pension expenditures as percent of GDP	
	1995 (Actual)	2040 (Projected)
Nordic countries		
Sweden	11.8	14.9
Norway	5.2	11.8
Denmark	6.8	11.6
Finland	10.1	18.0
Mean	8.5	14.1
Continental Europe		
Germany	11.1	18.4
Austria	8.8	14.9
Belgium	10.4	15.0
Netherlands	6.0	12.1
France	10.6	14.3
Italy	13.3	21.4
Mean	10.0	16.0
Anglo-Saxon		
Canada	5.2	9.1
Ireland	4.1	2.9
United Kingdom	4.5	5.0
USA	4.1	7.1
Australia	2.6	4.3
New Zealand	5.9	9.4
Mean	4.4	6.3

Source: Organization for Economic Cooperation and Development. 1997. Ageing in OECD countries. Paris: OECD.

pseudo-unemployment schemes and unemployment and disability programs came to serve as pseudo-pension plans. The result is what Guillemard (2001) has called a downward spiral in the expectations and practices of both firms and workers. To use the Canadian expression, "Freedom 55" became the new benchmark of a successful life course, and both employers and workers began to define age 55 as the "normal" age for definitive withdrawal from

**Table 5.2: Employment-to-population ratios by age group, in selected OECD countries, 1999**

	55 to 59 years	60 to 64 years
	%	%
Anglo-Saxon		
Australia	55	31
Canada	58	34
United Kingdom	62	36
USA	68	45
Nordic countries		
Denmark	71	34
Finland	55	22
Norway	77	55
Sweden	77	46
Continental Europe		
Belgium	37	13
France	53	15
Germany	55	19
Italy	37	18
Netherlands	48	16
Portugal	59	43
Spain	45	25
Average	57	30

Source: OECD, Older workers: A statistical description. OECD: Paris, 2001.

the labor market. Canada, however, did not pursue such a strategy and, as a result, the downward spiral in the Canadian retirement age stopped well short of the levels reached in Continental Europe (Table 5.2).

### c) Financing mechanisms

Less obvious, perhaps, is the role of the financing mechanism – the composition of the tax budget used to finance pensions. The major pressure for pension reform in countries like Italy, Sweden, France and Germany was not rising taxes per se but the prospect of high and rising *payroll* taxes to meet future pension

**Table 5.3: Payroll taxes for pensions, selected countries, about 1995**

Canada	5.4%
U.S.	12.4%
Sweden	17.0%
Germany	22.0%

Source: Special calculations of the author based on data from various countries.

expenditures. Germans, for example, were paying 22% of covered wages and this figure was projected to rise to 38% under the status quo.

In Canada, in contrast, the payroll contribution rate for CPP was projected to peak at 14.2%, prior to the 1997 reform, a figure that would have had most European treasury officials breaking out the champagne. The current projected rate (post-reform) of 9.8% would leave them delirious. A major reason for this difference between Canada and most other countries is the fact that we finance a much larger share of our pension budget – about half – from general revenue, a feature that makes Canada an outlier among OECD countries, even in comparison to the U.S.

What's the big problem with payroll taxes? The payroll tax is a flat tax, usually with a wage ceiling that makes it regressive. Unlike income taxes, there are no exemptions and no allowances for family size. Low-wage workers and especially younger families with children typically bear a disproportionate share of the cost as a result. These distributive effects on working-age families are compounded to the extent that high payroll taxes discourage employment at the lower end of the labor market.

In effect, charging all of the costs of population aging – a term I will define shortly – to the working-age population via a payroll tax creates a huge problem not only of inter-generational

equity but also of intra-generational justice within the working-age population since the distribution of the additional costs in no way reflects ability to pay.

Although earmarked payroll taxes have historically been more popular than income or consumption taxes, by the 1990s they were becoming a real target of concern. Union leaders in countries like Sweden, Italy and Germany, really did face an intergenerational trade-off between their retired members and their working members. Ever-rising payroll taxes created the likely scenario that take-home pay among working-age families would fall relative to pensioner incomes. The upshot was the emergence of unexpected political coalitions among labour leaders, government and business to stabilize payroll taxes at current levels. This was done with a variety of changes not only to the benefit structure but also by shifting some of the financing burden away from payroll taxes to general revenue financing. In a sense they were moving closer to the Canadian model.

#### d) Federalism and the politics of blame avoidance

The standard conclusion on pension reform is that governments rarely impose pension cutbacks unilaterally, that is, without first generating a broad political consensus. When governments expand benefits, they like to claim credit for their actions. But when cutbacks are involved, they like to spread the blame around; a pattern Kent Weaver (1986) has called the “politics of blame avoidance”.

The usual way of solving the “blame avoidance” problem is to get other key political actors to sign on to the reform so that responsibility is shared among them. The mix of political actors who sign on to the new social contract depends on national institutions of political representation. In some countries, it means negotiating all-party agreements as occurred in the U.S. in 1983 or in Sweden in 1994. Elsewhere it involves obtaining the consent of organized labor and employer associations or even holding a national referendum.

Here in Canada, federal-provincial agreements play a similar role. Federal-provincial consensus is a formal requirement in the case of the CPP and undoubtedly acts as a background constraint in the case of programs like OAS. In the case of the CPP reform, the Province of Quebec made it clear in its white paper that it would oppose any significant benefit cuts. And they would be backed by Saskatchewan and British Columbia, then ruled by the New Democrats. Quebec's stance effectively removed the option of drastic erosion of CPP from the menu of possible options during the 1990s.

#### e) The moral economy of pension reform

In the mid-1990s, there were calls from both the Fraser Institute and the C.D. Howe Institute to privatize the C/QPP. But most people weren't listening, not even on Bay Street, the financial hub of Canada. As one senior federal official who was part of the process suggested to me:

I suppose that one would only consider a controversial change like privatization (a) if the existing system were broken (or perceived to be broken) in a way that could be readily fixed (or perceived to be fixed) by privatization and (b) if there would be political support for the change. Neither condition held.

I don't think any serious analyst thought that the retirement income system, taken as a whole, was broken. Indeed, it was working quite well compared with other countries, and at relatively low public cost. Nor did anyone see the CPP as a particularly weak link within the retirement income system.

One of the reasons for this frame of mind has to do with the moral economy of pension reform.

During the 1980s and 1990s, the intergenerational equity debate provided U.S. critics of Social Security with a potent source of moral critique of the existing system. Child poverty was still

**Table 5.4: The distribution of the population aged 65 and above by income quintile, Canada, 1980 to 1995**

Quintile	1980	1990	1995	Change, 1980 to 1995
Bottom	39.7	25.2	17.5	-22.2
Second	22.1	29.7	32.5	10.5
Third	12.2	16.2	20.0	7.8
Fourth	13.3	14.9	16.0	2.7
Top	12.8	13.9	14.0	1.2
Total	100	100	100	

Source: Myles (2000) calculated from Statistics Canada, Survey of Consumer Finances.

on the rise while, it was claimed, an increasingly affluent elderly population was frolicking on the beaches of Florida financed by their Social Security cheques. These kinds of arguments were occasionally heard in Canada but gained little political leverage. This difference has more to do with material than with any cultural differences between the two countries.

As in the U.S., average incomes among Canadian seniors did rise sharply from the 1970s to the 1990s and low-income rates among Canadian seniors are now among the lowest in the OECD, even when compared to egalitarian Sweden (Hauser 1997, Smeeding and Sullivan 1998).<sup>3</sup> But, in Canada, it would be difficult to make the claim that this was because the elderly were becoming “too rich.”

In 1980, about 40% of all elderly persons were in the bottom income quintile, twice the rate for the population as a whole (Table 5.4). By 1995, about 17% of the elderly were in the bottom

3. By the usual international standard, low-income rates among Canadian seniors had fallen to about 5% in 1994 compared to a U.S. rate in excess of 20%. And among the population 70 and above, Canada’s low-income rate was below that of Sweden, the usual “winner” in the international league tables on poverty reduction (Smeeding and Sullivan 1998).

quintile, somewhat below the level of 20% for the entire population. But 80% of the shift out of the bottom quintile reflected movement into the second and third quintiles. There was little increase in the proportion of seniors in the top two quintiles. While Canadian retirees were less poor, they weren't getting rich.

The reason for this outcome is built into the design of the Canadian pension system. In practice, the end result of adding GIS and C/QPP in the 1960s to the original flat benefit OAS established in the 1950s was simply to produce, on average, an enriched flat benefit system that is highly redistributive (Table 5.5).

On a pre-tax basis, average transfers (Table 5.5, column 5) to the elderly were between eleven and twelve thousand dollars (\$11,000-12,000) in 1995 and more or less identical across income quintiles. Post-tax (Table 5.5, column 6), the overall impact was redistributive. These are dollars adjusted with an equivalence scale to take account of differences in family size. To put these amounts in perspective, in 1995, average equivalent adjusted income among the elderly was about \$23,000.

Quite simply then, the pressures that put big pension reform at the top of the political agenda elsewhere were weak or absent in Canada. And not much happened.

**Table 5.5: Distribution of adjusted transfers and taxes by income quintile and source, population aged 65 and above, Canada, 1995**

	(1)	(2)	(3)	(4)	(5)	(6)
			Other		Total	Net
Quintile	C/QPP	OAS/GIS	transfers	Taxes	transfers	transfers
	\$	\$	\$		(pre-tax)	(post-tax)
Bottom	2,482	7,886	928	-181	11,296	11,115
Second	4,610	7,158	800	-406	12,568	12,162
Third	4,990	5,875	1,154	-1,546	12,019	10,473
Fourth	5,187	5,494	1,268	-3,701	11,949	8,248
Top	5,358	5,248	1,350	-12,249	11,956	-293

Source: Myles (2000) calculated from Statistics Canada, Survey of Consumer Finances.

## **New drivers: toward retirement politics?**

Hicks (2002) identifies two major new drivers of policy reform that are likely to kick in over the next decade or so: (1) the declining ratio of producers to consumers associated with low fertility and population aging; and (2) the changing retirement incentives and the lifetime reallocation of work and leisure associated with increases in longevity.

The implication of the first point is that attention will shift from solving the public finance problems that are relatively modest given the design of Canada's public pension system to the more serious macroeconomic consequences of population aging that Canada shares with other affluent democracies.

The second point is social and normative. In essence, Hicks argues that while people do enjoy their retirement years, it goes on too long. With continued improvements in health and longevity, pressures for a more rational reallocation of work and leisure will grow. Much of the time spent in retirement, he argues, is passive, unhealthy and unwanted.

Both pressures, he concludes, will put pension reform on the agenda again but with a difference. The public discussion he calls for will focus less on benefit design and financing mechanisms and more on the retirement age. Rather than the "politics of pensions," the next round of reform will focus squarely on the "politics of retirement". Let's begin with the first claim: that the macroeconomic consequences of population aging rather than pressures on the public budget will make retirement a major policy driver.

The conclusion that the changing ratio of producers to consumers is the big issue and the impact on the public budget is only a derivative problem is undoubtedly correct. To illustrate, consider the following identity that I have adapted from Thompson (1998). The cost of supporting the retired population for the economy as a whole is simply the fraction of each year's economic activity given over to supplying the goods and services the retired consume or:

$$\text{Cost of Supporting the Retired} = \frac{\text{Consumption of the Retired}}{\text{Total National Production}}$$

which in turn, following Hicks, can be written as: <sup>4</sup>

$$\text{Cost of Supporting the Retired} =$$

$$\frac{\text{Number of retirees}}{\text{Number of employees}} \times \frac{\text{Average consumption of retirees}}{\text{Average production per employee}}$$

Assuming all else remains fixed, population aging raises total retirement costs and it matters little whether these costs appear on the public or private side of the national ledger.<sup>5</sup>

The accounting equation is useful since it points to the range of strategies available for limiting the additional growth in retirement costs.

- a. Maximize employment levels among the “working-age” population.
- b. Reduce the number of retirees (by raising the average retirement age).
- c. Reduce the consumption of retirees.
- d. Increase productivity.

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4. Peter Hicks, personal communication, December 2001.

5. Public and private pensions are simply alternative ways for working-age individuals to register a claim on future production (Barr 2001). The share of total consumption of the retired rises irrespective of whether it is financed with state pensions or with investment returns from bonds and equities. Indeed, as Thompson (1998:44) observes, proposals to shift towards group or personal advanced funded accounts are often made on the grounds that retirees will receive higher returns from their contributions. If this turns out to be true, the effect of change will be to raise future retirement costs.

Strategies b and c provide levers that are most immediately available to policy-makers and the emergent consensus tends to favor keeping people at work longer rather than cutting benefits. The reason is transparent from the accounting equation: An increase in the retirement age changes both the numerator and the denominator of the retiree/employee ratio while a reduction in benefits affects only the numerator of the consumption ratio. Simulations for a 'stylized' OECD country indicate a 5% reduction in the number of beneficiaries — equivalent to an effective rise in the retirement age of 10 months — is equivalent to a 10% cut in average retirement benefits.

The unanswered question, however, is whether the appeal of the strategy is sufficient to make it into a major "policy driver." The question is not whether this should happen but whether it will happen, a question for political not normative analysis. Where will the political pressures and the political coalitions required to sustain policy reforms that might lead to later retirement come from?

### **Effective levers**

One might begin by raising the age of CPP eligibility from 60 to 62 or even back to 65. Such a reform would undoubtedly help with the public finance problem but its impact on the underlying macroeconomic problem is less clear. The main effects of CPP changes would be experienced by lower-wage and presumably, lower – productivity workers for whom the C/QPP constitutes a large share of retirement income. The incentives to remain in the labor force for higher wage, higher productivity, workers whose retirement wealth is mainly from private plans and accumulated assets would be much less. From a purely distributive point of view, getting low-income workers, who also have shorter life expectancies, to work longer hardly satisfies anyone's criterion of distributive justice.<sup>6</sup>

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6. In nations like Germany, Italy or Sweden where most pension 'wealth' is stored up inside public sector schemes and the role of occupational and personal retirement accounts is modest, the distributive issue is less severe.

Moreover, if the real aim is to solve the macroeconomic problem, it is the better-educated, healthier, higher wage and more productive employees we would like to work longer. To achieve this objective the most important and potent levers of reform are the rules governing the age and conditions under which they gain access to the most significant part of their retirement wealth, namely occupational pensions (RPPs) and personal retirement accounts (RRSPs). There is no normative reason not to do so. The large tax subsidies available to these programs clearly warrant that they too be charged with social goals. But where will the political demand and the political coalitions required to sustain such reforms come from? There is strong historical precedent for managing public sector plans such as the C/QPP to achieve collective goals. But there is no comparable political legacy or practical experience with targeting these quasi-private pension institutions for similar purposes.

Perhaps the political problem will be self-correcting in the sense that political pressure will come from “below.” Hicks (2002) suggests that much of the time spent in retirement is passive, unhealthy and unwanted. With continued improvements in health and longevity, pressures for a more rational reallocation of work and leisure will grow. This would be a remarkable turnaround from past experience. As Burtless and Quinn (2001:385) conclude, the “simplest and probably most powerful explanation for earlier retirement is rising wealth”. National GDP in the affluent democracies has grown dramatically in the last half century and some of this increase has been used to purchase more years of retirement. And, as Schellenberg’s (2004) recent study highlights, this has not changed: retirement planning is mainly driven by money. Older workers make it clear that decisions to continue working are mainly the result of limited financial resources.

The dilemma for the future is that the better educated among us, those with the greatest life expectancy, and presumably the most able to contribute to wealth production, are also the most likely to continue to be well positioned to retire early. While working years and working hours have declined for individual workers, they have risen for families, a result of higher women’s participation. The increase in “family” years and hours worked helps pay for more

years of retirement. The question of who is likely to retire early or late is also changing as a result of increased marital homogamy — the tendency of like to marry like. Rising education levels among the young and higher female employment have had unintended consequences for the structure of family inequality. Well-educated men and women tend to marry one another, forming families where both partners have a high probability of being employed full time and at good salaries. Less well-educated couples face a greater risk of non-employment and lower salaries when they do work. This is part of the explanation for the growing polarization in the distribution of working time, earnings and wealth accumulation among families.

Recall that the main objective is not simply to reallocate work and leisure over the life course but to change the balance of work and leisure in favor of more work. I am not opposed to more work. Since I am not an economist, I am under no obligation to define human beings as consumers of utilities and work as a disutility. Like Aristotle, Aquinas and Marx, I think work is good. As the Benedictines say, *laborare est orare* – to work is to pray. Nor is there anything new about social policy strategies that give top priority to high employment. We tend to forget that the first objective of Keynes, Beveridge, the Swedish social democrats and other reformers in the 1940s was full employment. Full employment was the precondition for a luxurious welfare state. The issue is about politics not about who is correct on normative grounds. So is there a way out?

The OECD (2001) and Hicks (2002) cite a fascinating result that suggests one potent strategy. Though most people are opposed to legislating later retirement, the majority of actual retirees indicate that their preferred status would be to have part- or even full-time employment. The authors (OECD 2001:82) conclude that the explanation for this apparent contradiction is that retirees “were likely thinking of hypothetical, highly desirable jobs that were particularly suitable for them — ones that are in limited supply for most people.” In effect, if we want more work then we have to go to the heart of the matter and start thinking seriously about improving the quality of work and employment. We have worried a lot about making employees more attractive to employers in recent years by emphasizing social investment in education and training. If

population aging and a falling labor supply leads employers to think more seriously about making jobs more attractive not only for older workers, but also for younger workers, for women and immigrants, the result will be positive for everyone, a truly positive-sum solution to the challenges of adapting to an aging society.

## Conclusion

By the mid-1990s, the average retirement age of Canadian workers had fallen to about 60. The unanswered question is whether the aging of Canada's population over the next quarter century will create the necessary conditions to drive the retirement age back towards age 65 or even higher. Politics and public policy are one avenue towards this result. Governments have two strategies to pursue. The first involves raising the age at which employees can first access their C/QPP benefits, currently set at age 60. The second requires new policies to regulate the age at which workers can access their occupational plans (RPPs) and personal retirement accounts (RRSPs). Reforming the C/QPP is certainly within the range of political possibility but, since the impact would be felt mainly by workers in the bottom half of the earnings distribution, the macroeconomic payoff is likely to be modest and the distributive impact judged to be less than fair. Higher wage earners depend more on RPPs and RRSPs to provide their retirement incomes. Since these savings receive substantial public subsidies via the tax system, there is no reason that such programs should not be required to help achieve desirable social goals. However, there is little historical precedent for regulating these quasi-private financial vehicles to achieve collective goods.

All this is not to say that new legislative initiatives on either front are politically impossible. But it does imply that placing retirement policy at the centre of a "new social agenda" will prove to be politically difficult. Social policy reform is a *locus classicus* for the study of what political scientists call "path dependent" change, processes in which choices made in the past systematically constrain the choices open in the future (Myles and Pierson 2000). A distinguishing feature of pension reform, for example, is that only rarely does reform come about through a process of unilateral legislation by the government of the day. All-party agreements,

referenda requiring the consent of the “people”, or corporatist “social pacts” involving organized labor and employers’ associations are the rule rather than the exception so that “negotiated settlements” are the usual political mechanism for redesigning pension policies. In Canada, such settlements are typically reached in the domain of federal-provincial relations. Retirement policy is unlikely to be the exception. Barring a truly large exogenous shock such as long-term economic decline, it is difficult to imagine where a new political consensus sufficient to drive a new federal-provincial social agenda will come from.

The more likely prospect is that pressures for change will come from the market, as employers respond to a falling supply of younger works with wage incentives and steps to improve working conditions for older workers.

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## **Chapter 6. Management of value conflict in the design of retirement policy**

by

Martin Rein and David Thacher

### **Conceptual framework**

The design of retirement policy requires a strategy for addressing some unavoidable value conflicts. This chapter exposits key aspects of the conflicts and describes some major similarities and differences among selected countries in the strategies adopted to manage the conflicts.

Social security systems in mature industrial economies are typically committed to at least three basic values: the economic well-being of retirees, the productivity of firms and individual self-reliance. Each of these values can be described in terms of a principle by which income should be distributed to retirees: distribution according to need (well-being), distribution according to the interests of the firm (productivity) and distribution according to the level of personal savings during the working life (self-reliance). We will discuss at length below how other values often influence social security systems.

Ideally, we want to create a national policy as a set of complementary instruments designed to uphold all three of these norms within an integrated system. However, at a practical level these desirable values come into conflict with each other.

For example, when societies have created redistributive systems to ensure economic well-being for those who are economically impoverished, then the more adequate the resources that are distributed, the more intense has been the conflict between the goals of poverty-reducing redistributive initiatives and the goal of promoting individual self-reliance. Such conflicts among the core goals of retirement policy have given rise to some of the most persistent disputes in social security policy. A key question in the design of social security systems is how best to cope with these pervasive conflicts to ensure that retirement policy adequately attends to each of the social values we have described.

One conventional answer to the problem of value conflict amounts to an application of Walzer's art of separation to social security systems, so that each of the values we just described is associated with different institutional "pillars". The simplest version of this approach holds that each of the three values just mentioned should hold sway in each of the major institutional domains of society: the value of firm productivity should govern employer-provided occupational pension systems (the firm pillar), the value of self-reliance should govern individual personal savings accounts (the personal savings pillar) and concern for retiree's minimum well-being should shape state-run social security systems (the public pillar). This institutional separation of functions is widely referred to as a "three pillars" or three-tier model.

The three pillars model rests on the idea that institutions are limited in their ability to attend to multiple and conflicting values, so each institution should not attempt to balance all the competing goals of retirement policy. Instead each institutional sphere of society should contribute to retirement benefits in a distinctive way, governed by a distinctive and limited set of values appropriate to that sphere of life. This division of labor allows each pillar to focus on a clear goal — an arrangement that increases accountability and transparency and avoids the potential for paralysis and confusion that complex mandates bring (Thacher and Rein 2004).

Nevertheless, separation can lose some of its essential features in different ways. For example, one way arises from interactions among the institutions that constitute the division of labor. The different institutions have been committed towards different principles and they attempt to influence one another. Contextual changes can also have such effects. To understand the pattern of interactions, one needs to take account of the explicit and implicit rules that govern how these institutions are interconnected.

We will call the explicit cross-institutional rules "linkages". This term refers to the manner in which distributive decisions taken in an institution influence those made in the others. (In the context of social security, such decisions determine who is eligible for benefits and what amount she can receive from the two institutions.) Linkage can take several forms, but we will cite particularly two types. The first form of linkage applies the principle of complementarities, according to which each institution is built

upon others (for example the public system offers the same level of retirement pensions to an individual irrespective of what the other pillars offer.) In complementary systems, the admissibility to benefits is entirely independent for the two sectors. This is the model of the U.S.A.

Another type of linkage is harmonization, a principle according to which contributions undertaken by the different pillars add to an amount that is fixed, for example 75% of the final net salary. This replacement rate is interpreted as a target to be achieved by the combined efforts of all the separated institutions.<sup>1</sup> In harmonized systems, the level of support provided by one pillar obviously influences the level of support provided by others. The Dutch model illustrates this kind of harmonized system.

Because linkage is in some sense the precise opposite of separation, in its strongest forms it eventually undermines the division of labor completely. We describe that collapse of the art of separation as “blurring” of the separated spheres. A separated system has blurred when the commitment of each institution in a system to a particular, limited set of principles or values falters. We believe that two major forces lead to blurring: (1) interference into the retirement system by institutional actors that stand outside the main domain of retirement, and (2) changes in the context within which the retirement system operates, such as demographic, labor force, and economic fluctuations, and the natural maturing of the retirement system over time. When either or both of these kinds of changes occur, each pillar of the system (e.g. the public pension system) faces a need to adapt.

In the remainder of this paper we will explore the role the art of separation plays in the design and operation of retirement systems, and try to develop a more nuanced understanding of what it involves, by examining three case studies: the United States, Australia and the Netherlands. We have selected these three countries because of the different principles of separation in the public and private spheres they have created.

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1. A similar logic of linkage also enters if the objective is to reach a minimum income level based on a means test rather than a replacement rate.

## **The art of separation in Australia, the Netherlands and the United States**

### **Australia**

Australia constitutes a clear example of a social security system that leans on the art of separation. Before 1990, the private contractual labor agreement provided pensions to approximately one-third of the active population, most of the time to better-off persons. By contrast, the State offered a social protection to the aged population based on need. The definition of the needs was large enough to cover 83% the elderly eligible for an Age Pension or a Veterans Pension. Thus, the State's program covered all the workers except those with highest incomes.

In this case we have two separated spheres, and even the populations they served had little overlap. Each institution focused on its own distinctive concerns: The contractual agreements were broadly interpreted as delayed wages and thus served the purposes of attracting, retaining, and motivating a loyal and committed labor force. At the same time, the Age Pension reinforced social solidarity, in the sense that it provided near universal pensions for all but the richest 20% of well-off workers, and it was redistributive since the system was financed from general taxation. Nevertheless, in the last twenty years, the division of the labor has begun to be blurred.

### **The Netherlands**

The Dutch system also demonstrates the art of separation, though not to the same extent as Australia. The public system in Holland reflects the principle of solidarity: the entire aged population receives a public pension with the same level of benefits — even retirement-aged persons who had little or no income earlier in life are entitled to full flat-rate benefits<sup>2</sup> — and the entire working

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2. The only exception concerns couples, who typically do not receive the full benefits to which they would be entitled as two single persons, since the benefits formula assumes that larger family units enjoy economies of scale.

population contributes the same flat-rate contributions to fund the system. All contributions to the system are the responsibility of the individual.

By contrast, the private sphere in the Netherlands generally distributes pensions according to the principle of equivalence, i.e. benefits related to earnings. (Most private pensions are defined benefit systems, and most commonly they cover about 70% of final wages.) The private pension system covers virtually the entire working population.

## **The United States**

In the U.S.A., the retirement income system is comprised of obligatory public pensions and a private and voluntary pension system. These two systems rest partly on the principle of equivalence, while in the other countries this principle is of the exclusive domain of the private sphere. The obligatory public system of social security is a universal pay-as-you-go program providing earnings-related benefits that cover over 95% of the working age population.<sup>3</sup> The system is financed by the contributions of the employed and of employers, using a flat rate.

The private pension system in the U.S.A. is a voluntary system that covers less than half of the working age population, and firms have generally had considerable freedom to fix retirement benefits in whatever way would serve the interests of productivity. Over time, however, changing economic conditions led firms to place less value on longevity, as younger workers with up-to-date technological skills became more important to the success of many firms. In this new context, it is not surprising to witness a trend toward individual accounts, 401 (K) plans, stock purchase plans, cash purchase plans and many other hybrid forms of firm

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3. Historically, the United States has had a minimum pension for selected groups of low wage employees. However this provision was dropped at the same time that a national means tested program, known as Supplementary Security Income (SSI), was introduced as a separate administrative organization independent from the social security program. This new program provided financial aid to aged pensioners based on need. But it is also a public program to supplement the income needs for those in the bottom end of the earning distribution.

pensions.<sup>4</sup> In this respect, U.S.A. private pensions have undergone major structural changes in the last two decades, from a defined benefit system to one based on individual accounts.

## Linkage

The conceptual distinctions that we have offered above create a framework for discussion concerning the practice of linkage in two of the three countries being considered here. We will begin with Holland, which has the most elaborate system of linkage. We will turn then to the U.S.A.

### The Netherlands

How has the Netherlands connected the pillars of the private and public sectors? They have done so by means of three central concepts, which are rather unique to the Dutch system. These three concepts are: the Convention, the Franchise and the Covenant. These concepts arose because it was necessary to cope with an extremely polarized and fragmented system involving a division of the society along religious and secular lines. The *Convention* defines non-legal<sup>5</sup> but binding norms which led to a wide but tacitly understood agreement that a worker should be able to get, at the time of this retirement, 70% of his final net wages. The *Franchise* refers to the value of each individual's public pension, which sets the starting point from which firms calculate the level of pension support that they must provide to ensure that an employee's total

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4. This shift does not, of course, reflect a re-weighing of the values of self-reliance and industrial productivity; it reflects the continued dominance of firm productivity as the overriding value in the firm pillar, now applied in a more volatile economic environment where longevity is less important. Indeed, the very existence of occupational pensions may be threatened by changing economic conditions.

5. Though the main force of the convention is non-legal, some legislative provisions reinforce it. For example, personal accounts which provide an annuity insurance are tax exempt if their benefits do not exceed 70% of final earnings, thus there is little scope for the growth of these personal accounts (Van Riel et al. 2003:3).

pension will reach 70% of final earnings.<sup>6</sup> The *Covenant* is a set of implicit norms and rules that have evolved over a long period of time. In particular, the Dutch system rests on the assumption that adequate pensions can be realized only through the combination of resources from both the public and private domains.

The Dutch case exemplifies a harmonized system, since the benefit provided by one system determines the benefit level needed for the other system, given a broad convention that establishes the amount of income individuals need in retirement. To repeat, in the Netherlands a private pension fund first computes the value of the public benefit, which is the so-called franchise level, that each individual receives in exchange for their lifetime contributions to the public pension. It is then the balance that falls short of 70% of final wages that is the responsibility of the private occupational pension system to cover.

## The United States

The system of the U.S.A. is generally based on the principle of supplementation, since income arising from each subsystem increases the available total income at the time of retirement. The public pension system is supplemented by occupational pensions, and personal savings are further added to the occupational pensions. Each pillar of benefits adds to the total amount, which is then subject to income taxes (however, the rate of taxation is below that for earned income.)<sup>7</sup> The important point is that in the U.S.A. there is no national administratively agreed-upon adjustment

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6. More precisely, the franchise level is close to, but not identical with the actual benefit levels that individuals and couples receive as the basic flat rate public pension. We do not review the technical issues in this computation here.

7. Earnings from work can also supplement public social security payments. This was not true historically, when the main purpose of public pensions was to get older workers out of the labor market and to make room for the young. But in the last several years Congress changed the law and removed this restriction on earned income. Such income is, of course, subject to income tax, which does not affect the size of the public pension, but does effect net disposable income, i.e. what the individual actually receives.

techniques to tie the systems together, as exists in Holland where the franchise specifies how the two systems should be uniformly linked.

Even in the U.S.A., however, there are exceptions, which are worth reviewing briefly to illustrate how linkage in this system differs from that of a system that has tight linkage between the public and private pillars (as in Holland). These exceptions involve firms that have developed contractual agreements with some or all of their employees that promise to protect the individual in the event that the public pension decreased in value. Recently, an independent analysis reported by the Center for Retirement Research at Boston College estimates that one quarter of private plans are integrated in this manner and, surprisingly, that this proportion actually increased between 1993 and 1997 (Perun 2002:2). Regardless of their scope, what is important to emphasize about these arrangements is that they are voluntary.

## **Blurring**

As mentioned earlier, blurring refers to the collapse of the art of separation. A system becomes blurred when there is a decline of each institution's commitment to a series of particular principles or values. When such changes happen, each pillar of the system (for example the public pension system) must adapt. The necessary adaptation does not always entail blurring. For example, in some cases, the system could revise its linkage rules so as to preserve the underlying normative principles upon which the institutional rules of distribution rely (for example the distribution according to needs). On the other hand, a more radical response may be necessary and each institution must then revise these normative principles in their totality. Illustrations of these issues will now be provided in the cases of the Netherlands and the U.S.A.

### **The Netherlands**

In Holland, the blurring seems to be an outcome of the issue of redistribution of costs among the sectors. How can each sector modify its share to the totality of the income as well as its share

of the burden relative to the gross domestic product? The State is pressing the private sector to expand its coverage to 100% of the population and to use a franchise principle that imposes on firms a higher percentage of pension costs. While the State wants to alter the roughly 50:30 share of public and private occupational pensions, some firms are responding by moving in the opposite direction, not by changing the rules of the covenant but by changing the norms governing the non-legally binding covenant and lowering the 70% replacement rule of final earnings. The underlying basic issue is as follows: Will the public share of total pension costs decline as the private contribution increases, or will there be a shift toward more self-reliance as personal accounts and personal assets are encouraged to expand?

The Dutch story also illustrates how developments outside of the pension system, in this case a court decision about the equal treatment of women, can influence change in the retirement system. The following example illustrates how linkage can lead to blurring when rule changes introduced outside of the pension system weaken the incentive of firms to comply with rules that they did not directly participate in creating.

The key event in this story was a ruling of the European court, which had an important but unintended impact on the contribution of firm pensions to the replacement of final earnings. Under the Dutch system, a non-working wife did not get a public pension in her own right. The European Court ruled that this was illegal, so the rule was changed so that the wife got half of the husband's pension. This ruling had the effect of reducing the value of husband's basic pension by half, and therefore the lower franchise technically meant that firms needed to increase his private pension dramatically in order to reach the 70% replacement goal. In order to avoid this higher cost to the occupational pension, many firms ignored the ruling and continued the earlier practice of defining the franchise as being based on the older public benefits given to the husband. This practice has deep cultural roots known as the male breadwinner model, and it was based on an implicit pooling assumption that family income was equally shared and the wife got half of the public benefits received by the husband. But this is now history.

In sum, the introduction of new EU rules created a blurring of the rules of linking the public and the private contributions. The blurring persisted because as the State got its way in computing the franchise, the firms began to redefine the social conventions by lowering the replacement rate of 70%.

## **The United States**

There exists a distinct form of blurring in the system of pensions of the U.S.A. It seems that occupational pensions based on the principle of defined benefits are being replaced by a system based on personal accounts that derive from defined contributions. New personal accounts like investments in stock options are now serving the function of promoting the loyalty and productivity incentives that the older occupational pensions once served. It seems, therefore, that the relative sizes of the different spheres of responsibility involving occupational pensions and personal accounts are shifting without there being any major legislative pension reform inspiring the change in practice.

In this narrative, we read the basic dynamic of the story as one where the state gradually makes greater and greater demands on the private sphere. If the public system can't provide the replacement rate for wages that policymakers want to provide, do they try to pressure the private system to do the state's bidding by the use of tax incentives, regulation and mandating, according to the state's interpretation of broadly accepted public values? That would undermine the private system and contribute to changes within the private system, as it tries to pass on the costs to other institutional systems. In the process there is change in the relative balance of values that was created in the initial system of firewalls. The result is a continuous dynamic process of change in the public-private mix.

## Concluding comment

What is the role of blurring in institutional change? Our general argument is that we have not seen a direct effort to change the value system that a country has historically adapted. What we find in our three cases is that the values underlying the system do change, but the change seems to occur first by the emergence of blurring when the principles governing the systems of linkage introduce inconsistencies or other visible non-intended effects. In other words, it is changes in governing the linkage systems that activates a process that eventually introduces change in the separated institutions.

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# **Chapter 7. Separation, linkage and blurring in the public and private pillars of Canada's retirement income system<sup>1</sup>**

by  
Jinyan Li

## **Introduction**

This paper extends the analytical framework advanced by Rein and Thacher (Chapter 6) to the case of Canada. In their paper, Rein and Thacher argue that the social security retirement system in mature industrial economies is typically committed to at least three basic values: the economic well-being of retirees (or redistribution), the productivity of firms, and individual self-reliance. These values come into conflict with each other.

According to Rein and Thacher, these value conflicts are managed through the art of separation: the public pillar of retirement income system is redistributive and designed to meet the needs of retirees; the firm pillar designs occupational pensions in such a way that best advances the productivity of business enterprises; and the personal savings pillar serves the needs of risk adverse individuals, who want to supplement their public and private occupational pensions, and hence promotes self-reliance. Rein and Thacher explain that these separate institutional pillars are linked to each other on the principle of either substitution or supplementation. The linkage mechanism creates blurring and becomes the force for clarification of the interaction between the pillars. The stronger the linkages are among the pillars, the

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greater the blurring becomes and the risk of loss of the identity of each pillar increases. Blurring plays a significant role in producing value change. The concepts of separation, linkage and blurring thus provide a framework to examine the institutional, political and normative engine of change that helps us ground our understanding of institutional change in the pension system.

By focusing on the institutional dynamics of change, Rein and Thacher arrive at new questions that deserve attention: what degree of separation (or conversely, of blurring) best promotes the core values of retirement policy? What kind of linkage reduces separation and promotes more coherence and unity in the overall pension system? If we can differentiate the degree of separation, blurring, and the kind of linkage, can we gain a better understanding of the nature or kind of pension system that exists in a particular country at a point in time and how it changes over time?

This paper analyzes the Canadian retirement system in the framework outlined by Rein and Thacher. It first reviews the fundamental values and goals of the Canadian system. It then examines the three pillars in terms of their separation, linkage and blurring and draws comparisons with the United States. The paper focuses on the blurring between the public and private pillars and explores the implications of such blurring in terms of fairness and adequacy. In particular, the paper discusses the increasing public mandate of private pensions and the challenges in delivering a growing portion of retirement income security through the market mechanism. The paper concludes with a note about what the future evolution of the system might entail and how we should re-think the fundamental issues of fairness and adequacy in the Canadian pension system.

## **Objectives and value conflict**

### **Objectives**

The Canadian pension system is a massive social security program, affecting every retired and working-aged Canadian. It was designed to achieve two objectives:

The first objective is to alleviate poverty among the elderly. ... The second objective is to help and/or require people to allocate appropriately their lifetime income — and hence consumption — between their preretirement and post-retirement years (Task Force on Retirement Income Policy, 1979).

In other words, the first objective protects the elderly from destitution and the second objective prevents a brutal drop in the standard of living at the time of retirement. These objectives are met jointly by the following three pillars, each of which is described in more detail in the next section:

- (1) The income tested minimal income security system consisting of the Old Age Security, Guaranteed Income Supplement and the Allowance and Allowance for Survivor programs (hereinafter referred to as “OAS/GIS system”);
- (2) Mandatory public pension plans, namely, the Canada Pension Plan (CPP) and the Quebec Pension Plan (QPP); and
- (3) Tax-assisted private pensions, including employer-sponsored Registered Pension Plans (RPPs) and individually-based Registered Retirement Savings Plans (RRSPs).<sup>2</sup>

The first two are publicly administered programs and thus are the so-called “public pillars”. The third is privately administered and is thus the private pillar. While all three pillars contribute to the two main policy objectives, the first and second pillars are designed primarily to meet the objective of old-age income support, and the

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2. This paper discusses the pension system at the federal level. Canadian provinces also play an important role in the retirement income system by providing “top-ups” in the case of public pension programs and by subsidizing private pensions through tax incentives. Because the contributions to private pensions are deductible in computing income and provinces generally use the same tax base for computing their individual tax rates, the tax deductions at the federal level also reduces the tax base at provincial level. As such, provincial income tax is reduced accordingly.

second and third pillars are designed primarily to replace earnings. The three pillars also reflect the three values described in the chapter by Rein and Thacher.

## Values

The value of promoting the economic well-being of all Canadian seniors finds its expression mostly in the public pillars. The OAS/GIS pillar is clearly redistributive. It provides an income-tested, basic pension to everyone over 65. Because it is financed by general tax revenues, not earnings-based contributions, there is no link between contributions and benefit payments (Battle 1997, Schembari 2003b). Benefits are determined by age, residence test, and financial need. There is, thus, a redistribution of income from other taxpayers to the OAS/GIS recipients. Its progressivity is determined by the progressivity of the tax system.

The CPP/QPP pillar involves an intergenerational redistribution because of the nature of the pay-as-you-go system (that is, current pension benefits to retirees are financed by current contributions by employers, employees and the self-employed). Intra-generational redistribution is not significant because the rates of contribution and benefit are proportional and the maximum annual pensionable earnings are tied to the average Canadian wage. However, there is a small element of progressivity because of the exempt earnings in computing contributions. As such, even though the contribution rates are flat, the effective rate might be slightly progressive, depending on an individual's total earnings.

The value of self-reliance underlies the design of all three pillars and is the driving force behind the third pillar. The first pillar suggests the value of self-reliance by imposing an income test and by providing a minimum amount of guaranteed income. The message is that people should save for themselves if they want more than the bare minimum when they retire.

The second pillar clearly reinforces this value by (a) compelling individuals to save for their retirement under the CPP/QPP, and (b) providing only a very limited replacement of

pre-retirement earnings. People who want to achieve a higher level of replacement are required to do so through the private pillar. The public pillars are designed to replace 40% of the average pre-retirement earnings. Individuals must save through private arrangements if they wish to maintain their pre-retirement standard of living. However, the government encourages such savings through hefty tax incentives.<sup>3</sup>

The value of firm productivity underlies the design of the private pension system, which has the key features of being voluntary, flexible, and funded. Savings through private pension plans are voluntary, deferring the judgment to firms and individuals. Employers are not required by law to sponsor any registered pension plan for the benefit of their employees. Firms set up pension plans in order to obtain an optimal workforce, which included removing elderly and infirm workers from the workforce, attracting and retaining skilled workers, and discouraging unionization (Deaton 1989, Hacker 2002). Trade unions have played a crucial role in the growth of employer-sponsored benefit plans when they treated pension benefits as a key element of employment compensation package (Georgetti n.d.). Good labour relations contribute to the productivity of the firm.

Private pension schemes also allow a great degree of flexibility in terms of their design and investment choices. RPPs can be defined benefit plans, defined contribution plans, or a combination of both as a hybrid plan. RRSPs can be established by a taxpayer for himself/herself as well as for his/her spouse. They can be self-directed or administered by a financial service provider.

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3. Encouraging Canadians to save for their retirement promote a sense of economic freedom and dignity after retirement. This point is made abundantly clear in the 1957 budget speech on the proposed RRSP program:

“It is difficult to estimate what effect this proposal will have on the future yield of our income tax. ... Whatever the subsequent loss in revenue may be it can, however, be regarded as an indication of the volume of provision being made by Canadians towards freedom from financial worry at a time when their earning power has lessened. To me, this policy makes good sense.”

RRSPs can also be withdrawn without tax penalty to purchase a home or finance post-secondary education. Such flexibility presumably encourages firms and individuals to participate in RPPs and RRSPs.

Rein and Thacher correctly point out that the values of redistribution, self-reliance and firm productivity are in conflict. This point has been evidenced by the history of the Canadian retirement income system (Bryden 1974, Burbidge 1987, Guest 2003). Both the OAS/GIS regime and the CPP/QPP regime were created as a result of balancing these values and reaching a political compromise between the “left” and the right”.<sup>4</sup> In the mid-1960s, when the framework of the current system was put in place, the government made it clear that it wanted to leave considerable room for private pensions. In the 1990s the CPP was criticized and there were calls for its replacement by individual accounts (Lam and Walker 1997, Pesando 1997, Robinson 1996). The CPP was preserved with some changes. In the meantime, the government has encouraged private pensions by increasing the amount of tax assistance and the level of flexibility and accessibility of private pension plans.

## Separation

The value conflicts in the Canadian retirement income system are managed through the art of separation. Each pillar was designed to embody a distinct value, and all three pillars constitute a coherent whole that delivers retirement income security to Canadians. The nature of separation in Canada has already been indicated in large part in the preceding discussion on values. Accordingly, in this section the text is focused on points about separation that add to the information already presented above.

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4. For a vivid description of the history of creating the CPP, see J. LaMarsh (1969). The “left” is represented by trade unions and other similar organizations that wish to see more social redistribution of income. The “right” is represented by businesses and institutions that wish to see the market play a bigger role in allocating resources and distributing income.

## Public pillars

As stated above, the two public pillars are the OAS/GIS and the CPP/QPP. Although both are administered by the government, these two programs differ in terms of coverage and the financing mechanism. The OAS/GIS system is financed by general revenue, and the CPP/QPP is financed mostly by contributions.

The OAS program was introduced in 1951 to replace a means-tested Old Age Pensions Act, which was enacted in 1927 (Bryden 1974). The OAS system is now supplemented by the GIS and Allowance for the Survivor programs. The OAS program itself currently provides a uniform flat rate benefit to all eligible Canadians aged 65 or older who meet the residency requirements. The GIS provides an income-tested benefit on a tax-free basis. The GIS and OAS jointly provide a minimum income security for older Canadians. The Allowance and Allowance for the Survivor program pays benefits to persons aged 60 to 64 on an income-tested basis. It is designed to help surviving persons and couples living on one pension.

The CPP/QPP pillar is compulsory, earnings related, and pays benefit to those who have made contributions during their working years.<sup>5</sup> Both CPP and QPP operate on a pay-as-you-go basis: benefits are financed primarily by contributions from employers and employees, and the self-employed. The CPP contribution rate is linked to the average Canadian wage. Earnings below a prescribed threshold are exempted from contribution. There is the maximum amount of benefit. The CPP is designed to replace only 25% of the average Canadian wage. At earnings above the average wage, the CPP replaces declining portions of earnings.

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5. In addition to retirement benefits, the CPP and QPP also provide survivor and disability benefits, a death benefit, and benefits to the children of disabled and deceased contributors. The retirement benefit is the core benefit, accounting for more than two-thirds of CPP expenditures.

## Private pillar

When the CPP was established in 1966, it was designed to leave considerable room for privately administered retirement savings schemes (Government of Canada 1982). Employment-based pension plans (e.g., RPPs) and individual savings plans (e.g., RRSPs) are two main types of private pension and retirement savings plans. RPPs are pension plans sponsored primarily by employers in the private or public sector that have been accepted and registered by the Minister of National Revenue for purposes of the Income Tax Act (s.147.1). They are the most important type of private pension plans in terms of assets accumulation and coverage. As of January 1, 2003, there were more than 5.5 million workers covered by 14,376 RPPs (Statistics Canada 2004). Nearly 40% of all paid workers were members of RPPs.<sup>6</sup>

In Canada, defined benefit plans have the largest number of members. Eighty-two percent of all persons covered by RPPs are covered by defined benefit plans. The majority of defined benefit plans members are employed in the public sector. In contrast, most of the members in defined contribution plans work in the private sector (Department of Finance 2005a).

An RRSP is a retirement savings plan set up by individuals that qualify for the deductions under section 146 of the Income Tax Act. By nature, all RRSPs are in individual accounts, managed directly by the taxpayer or a financial service provider. In recent years, less than 30% of tax filers contributed to their RRSPs. There are also some employer-sponsored “group RRSPs” which are funded by monthly payroll deductions and qualify as deductible RRSP contributions to the employees.

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6. Because RPP participation is restricted to paid workers having an employer–employee relationship, so the self-employed with unincorporated businesses, unpaid family workers and the unemployed are not eligible. If estimates of these groups were included in the labour force, the coverage rate is about one third of the labour force.

RPPs and RRSPs are tax-assisted plans. The tax assistance is provided in the form of a current deduction for contributions, and a tax exemption of investment income earned by the pension plan. Funds in an RPP or RRSP are not taxed to the beneficiary until they are withdrawn from the plan. At present, there is a universal limit for the maximum amount of tax-deductible contributions to all types of tax-assisted pension plans.

### **Logic of separation**

The three pillars of the Canadian retirement income are separated institutionally. Human Resources and Skills Development Canada (HRSDC) administers the payments of benefits under the public pillars. The Canada Revenue Agency (CRA) administers the collection of CPP contributions and federal taxes. Private pensions are administered privately, but the CRA is involved in the registration of plans and monitoring the eligibility for preferential tax treatment. Also, as noted earlier, the source of funding is different for each pillar.

In terms of coverage, the OAS/GIS covers 98% of older Canadians, the CPP/QPP covers over 80% of the labour force, and the private pension pillar covers about one third of the labour force (Maser 2003: Table 1-1). In general, individuals with stable employment (especially in government, education and health sectors) and in middle- or high-income groups tend to participate in private pensions, while every worker and the self-employed must participate in the public pensions (Statistics Canada 2001).

As a source of retirement income, private pensions constituted about half of the income of those with incomes of \$40,000 to \$79,999. Those with incomes under \$20,000 were less likely to have been members of RPPs, or to have saved through RRSPs — less than 10% of their income came from private pensions. The public pension system is the main source (77%) of income to persons 65 and older who had an income of less than \$20,000. Reliance on the public system diminishes as income increases (Maser 2003).

## Linkage

Rein and Thacher define “linkage” as the “ways in which distributive decisions made in one institution influence distributive decisions made in another institution” (2006). One way is substitutive and the other is supplementary. The system is substitutive if when one pillar contributes more, then the other pillars need to contribute less. In contrast, the supplementary system adds the public pension to the private pensions with no limit on the total amount, as occurs in the U.S. system. Rein and Thacher also note that in the U.S.A. there is no national administratively agreed upon adjustment technique to tie the pillars together, as exists in Holland where the “franchise” specifies how the public and private spheres should be uniformly linked.

The pillars in the Canadian retirement income system are perhaps more closely linked than those of the American system. As explained earlier, the design of the public pillars leaves room for private pensions. The public pillars were intended to replace about 40% of the average wage.

One aspect of linkage in Canada involves the limitation on tax deductible contributions to the aggregate of pensions and RRSPs. This limit is 18% of earned income up to a specified dollar amount, \$16,500 for 2005. This is based on the assumption that income in retirement would, on average, replace 60 to 70% of preretirement income.

Overall, linkage in the Canadian system involves deliberate limitation of earnings replacement by the public pillars, in order to leave room for private pensions, with the policy goal that the income received in retirement would replace a high percentage of preretirement earnings. Despite references to 60% or 70% in the literature, there is no legislation or administrative arrangement to force the third pillar to contribute any specific amount of pre-retirement earnings. Instead, tax incentives are used to stimulate private arrangements to top up what the public pillars provide.

### Is linkage in Canada substitutive or supplementary?

Above certain income levels OAS and GIS are not available, and contributions to RPPs and RRSPs are tied to each other. This is substitution. However, there seems to be no legislated limit to the total pension income, since the contribution of the third pillar is totally voluntary. Linkage in Canada seems to be a blend of being substitutive and supplementary.

## Blurring

Rein and Thacher use the concept of blurring to explain the interplay between the principles of separation and linkage, as well as changes arising from demographic and economic fluctuations, and the maturing of the retirement system over time. For example, in discussing blurring in the United States pension system, they make reference to the fact that personal accounts are replacing defined benefit plans and that this shifting seems to occur in the absence of any major legislative pension reform.

### Private pensions with public mandate

In the Canadian pension system, there is blurring between the public pension pillar and the private pillar. This blurring can be observed in at least two respects: funding, and state-imposed standards on coverage, investment, and management of pension plans.

With respect to funding, private pensions are not completely “private” because of the tax subsidies. For example, in 2000, the net tax expenditure on RPPs was \$8,655,000,000,<sup>7</sup> and net tax expenditure on RRSPs was \$9,120,000,000.<sup>8</sup>

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7. This is computed by subtracting the taxes on RPP pensions (\$6,695,000,000) from the \$4,895,000,000 tax foregone on deductions for RPP contributions and the \$10,455,000,000 non-taxation of investment income earned by pension funds. The net tax expenditure on RRSPs is \$9,120,000,000 (Department of Finance 2004).

8. This is computed by subtracting the tax on RRSP withdrawals (\$3,515,000,000) from the tax foregone for RRSP contributions (\$7,155,000,000) and the non-taxation of investment income by RRSP plans (\$5,480,000,000) (Department of Finance 2004).

The important social role of private pensions requires that governments pay special attention to the private pension system and ensure that private firms — to which certain duties can be said to have been delegated — are properly fulfilling their obligations (OECD 1998). The government imposes standards and obligations on private pension plans through pension regulations and income tax law.

To begin with, an RPP plan must be established for the primary purpose of providing periodic payments to individuals after retirement. This requirement is found in the prescribed conditions for registration. Once a plan is established, the employer is subject to regulatory control. With respect to coverage, for example, the federal *Pension Benefits Standards Act, 1985* (PBSA) and provincial legislation generally require that every full-time employee who belongs to the class of employees for whom the plan was established must be allowed to join the plan after two years of employment. Part-time employees who are in the same class as eligible full-time employees and who have earned the specified amount of earnings must be allowed to join the pension plan.

Additionally, in order to minimize the financial risk, the government regulates private pensions in order help safeguard the rights of members and the financial security of plans. For example, the pension standards legislation and the Income Tax Act set forth standards for contributions. The federal PBSA requires that defined benefit pension plans be funded based on both “solvency valuations” and “going-concern valuations” of plan assets and liabilities. Solvency valuations use assumptions consistent with the plan being terminated, while going-concern valuations are based on the plan continuing. Solvency funding requirements are intended to reduce the risk of a loss of benefits in the event that a plan is terminated, including as a result of the failure of the plan sponsor.

### **Shift towards private pensions and individual accounts**

Between the public pension pillar and the private pension pillar, blurring occurs in terms of the increasing role of private pensions in the Canadian retirement system and the shift towards individual accounts.

Private pensions (RPPs) and retirement savings plans (RRSPs) are becoming more important as a mechanism for capital accumulation and a source of retirement income to retirees. If we compare the value of assets held in the public pensions and private pensions in 1990 and 2000, we can detect the increasing importance of the private pillar to Canadians. In 1990, the accumulated assets in public pension plans accounted for over 11% of the total assets in the pension system (i.e., CPP/QPP, RPPs and RRSPs). As of 2000, they accounted for less than 5% of total assets in these programs. Private pension income grew from 18% in 1990 to 29% in 1999 as a source of retirement income (Maser 2003:18).

Within the private pension sector, there has been a shift towards individual accounts in the form of defined contribution plans and RRSPs. From 1993 to 2003, members of defined contribution plans increased by 1.8 times in spite of the decline in the number of such plans (from 8,713 to 7,347) (Maser 2003:12). The number of contributors to RRSPs increased from 31.5% of the labour force in 1990 to 39.7% of the labour force in 1999 (Maser 2003:14). By 1995 RRSPs had replaced RPPs as the program through which Canadians were saving the most. The growth of group RRSPs<sup>9</sup> (Frenken 2003) also explains the shift. Under a group RRSP, a single trust or contract is established for participating employees. Although an individual contract is registered for each participant, the contributions are pooled and invested accordingly. Group RRSPs are apparently the fastest-growing type of plan now offered by employers.

When compared with the shift in the United States, two differences are notable. First, the shift towards defined contribution plans has been less significant in Canada. As of January 1, 2003, four out of five RPP members still belong to a defined benefit plan, whereas in the United States defined contribution plans have recently become the main form type of occupational pension plans. Second, in the United States the pillars “seem to be shifting

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9. No data exists on the number of group RRSPs. There is some evidence that a growing number of employers are setting up group RRSPs for their workers in lieu of sponsoring an RPP.

without there being any major legislative pension reform inspiring the change in practice.” (Rein and Thacher) In contrast, the shift in Canada was likely promoted by the tax reforms in the 1990s that increased the accessibility of RRSPs to taxpayers as well as the amount of tax subsidy to RRSPs (Fougere 2002).

In addition to the increased tax subsidy to RRSPs, other factors may also create the impulse for the increase in defined contribution plans. One factor is demographic. The shock of the baby boom generation in Canada was found to be largely responsible for the rapid growth in RRSP savings: the greater the proportion of middle-aged and older workers, the greater the savings will be in the form of RRSPs (Fougere 2002, Statistics Canada 2001). Another factor is the changing structure of the Canadian economy and the labour structure. The decline of traditional industries and downsizing of government that feature strong unions led to decline in RPP membership. Eighty percent of union members belong to RPPs compared to less than 30% of non-union members (Georgetti n.d.). The increasing participation of women in the work force also contributed to the change, as it is “more difficult for women to maintain pension coverage through time than it is for men” (Georgetti n.d.:4). Non-RPP members generally rely on RRSPs for retirement savings.

### **“Privatized” management of CPP funds**

Blurring also occurs in respect to the investment of CPP funds. Historically, CPP funds have been loaned to federal and provincial governments as non-marketable 20-year bonds at preferred interest rates.<sup>10</sup> During the 1996 reform, the CPP became partially funded, and the reform introduced some significant changes to the CPP investment practices. For the first time in its history, surpluses generated by higher contributions would be

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10. Until 1997, the provinces borrowed money at a preferred interest rate. Since 1997, each province has had the option to roll over matured bonds for a further 20-year term at their current market rate. The proceeds from bonds not rolled over are transferred to the CPP Investment Board for reinvestment unless needed by the Canada Pension Plan to pay current pensions. By 2033, all bonds in the CPP portfolio will have matured.

invested in a broader range of securities, including equities, with these investments managed by an independent board — the CPP Investment Board. Earnings on the investment fund will not be needed to supplement contribution revenue and pay benefits until 2021.

### **Concluding comment**

The shift towards private pensions and retirement savings plans has occurred within the three-pillar system. In its 2005 budget, the Government of Canada reinforced its commitment to the three pillars by (a) strengthening income assistance through an increase in the GIS benefits, (b) providing additional investment flexibility to the CPP Investment Board, and (c) enhancing private savings by increasing the RRSP and RPP contribution limits (Department of Finance 2005a). Therefore, in order to manage the various risks associated with pensions (such as demographic risks, financial risks, political risks, etc.), changes through blurring might be the only plausible option.

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## **Chapter 8. The irreplaceable third age: Between family, work and mutual support<sup>1</sup>**

by  
Agnès Pitrou

We all hope to live longer than our parents and grandparents, and that our children will have an even better chance of reaching old age. If we do, what will we do with this extra time, which, given its very nature, will increase opportunities to invest skills and desires in different areas of human activity? This is a new area of debate, which only applies to developed societies where, thanks to medical advances, easier lifestyles and regulated working conditions, the last few decades have seen a gradual emergence of “free” time after age 50 or 60, between the time when the official work years end and real old age sets in. The latter is marked by illnesses and more or less an imposed withdrawal from society. This new period of life is usually referred to as the “third age”.

To which group or professional activities will this new and meaningful time be dedicated after the fiftieth and sixtieth years?

For economists and decision-makers who only look at the dreaded imbalance between retirement funds and the growing number of pensioners, the answer is simple and unequivocal: retirees will have to spend at least part of this extra amount of useful life doing productive work, in paid employment. Ageing workers will continue to contribute to growth, postponing the point at which they will start collecting their retirement benefits. Thus, the focus of individual efforts and collective measures must turn to finding ways to get people to work longer.

The bitterness and profusion of debates and disputes surrounding this issue in our countries over the past few years have shown us that this proposed solution, which may seem entirely rational or logical in certain circles of thought, is far from being shared unanimously by all of our peers, whether in the arena of public opinion or that of research and university experts. Allocating this or that type of content to the stages of the life cycle affects a

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1. This text is a translation of the original French version.

number of more or less stable balances in our societies. Indeed, such activities are multidimensional in that they touch on family life, friendships and social activities, civic functions, culture and leisure, etc., productive work being only one of many possible components. Every stage of life has its own hue, endured, acquired or won over time, and its place in an individual's development and that of his social environment.

Changing how the second-to-last stage of life — which is the one that interests us here — is spent can only be done after an analysis of what really happens during that time, especially in the personal and family sphere, and in social interactions. Extending the period of work-related activity could compromise other interests or values that may not necessarily have a monetary value but that do determine social balances which, if they are weakened, will exact a price — sometimes an economic one.

### **A brief look at the life cycle**

We have become cautious in defining the stages between birth and death, and aware that the age thresholds separating them are neither fixed nor intangible. They are not only directly related to physiological conditions — physical appearance, strength and skills, the age of puberty — which are also slowly but visibly changing over time influenced by living conditions and medical advances, which are now more widely available. But also the passage from one stage of life to another, above all, depends on the social context in which behaviors and commitments play out.

Thus, childhood has come to be seen, as historians (Aries 1973) have shown, as a privileged time of life, normally the focus of attention of all developed societies. However, in some societies the expectations placed on children are increasing, in terms of performance and achievements. Fortunately children are well equipped to protect themselves against these expectations and take the time to mature.

Then comes a long period of study, orientation, and efforts to integrate, with all types of attempts and mistakes, as uncertainty about the future increases with demands and aspirations.

“Interminable adolescence”, the now commonly used term coined by Chamboredon (1985), refers to those who, unable to achieve financial autonomy, are still supported by their parents. This is contrary to the experience of working-class families in the early twentieth century, when young people worked to contribute to the family finances.

The time of first committed relationships and the birth of children is around 30 and, for women, the use of contraceptives helps focus the childbearing years into a relatively short period of time. This is then followed by a period marked by a whole range of investments, especially in terms of family and work activities, but there is a certain withdrawal from social, volunteer and humanitarian activities, civic and religious commitments. The major issue during this period is how to best reconcile work obligations (especially difficult for young adults, particularly the ones who want to build a career) and family obligations, which involve educating, housing and maintaining. This could be an indication of what lies ahead in the third age if the constraints of working life are prolonged.

The next stage, the third age, may in fact be the one that has generated the most significant shift in the evolution of the life cycle. It has, in a way, replaced part of the previous stage, often as a result of early retirement from work, and replaced part of the last period of life. We are in permanent transition in the division of activities throughout the life cycle. We have not always taken into account the fact that we now have more time ahead of us, as indicated by the recognition of the precocity of skills and talents expected from the youngest ones. And, at the same time, we “lose time” during many of the intermediary stages as we wait and question in anticipation of an uncertain future.

Thus, it is true that the “productive” stage in the professional realm tends to get shorter, clearly the burden being borne by those between the ages of 30 and 50. As the proportion of inactive people increases, it becomes tempting to extend later in life what was lost at the beginning of life, by pushing these youthful older people back to work, as their skills diminish relatively later in life. Thus, the “free time” that follows age 60, the famous third age, may have been but a short-lived gain of the second half of the twentieth century. Yet, the time that was won is a very busy time, not only because

nature abhors a vacuum, but because it can be spent doing things, making social contacts, getting involved in community work that is more than a mere hobby. Retiring later will mean depriving not only individuals, but also society as a whole, from this potential wealth. It is important to remember what it represents, even if it does not directly translate into monetary costs.

### **Family economics in the latter part of active life**

In order to understand the circumstances under which retirement occurs for men and women – whether all at once or gradually — it is important to note the specific characteristics that mark the period of life in which it occurs.

First, it is important to remember that from that point on, life as a couple or family, although it is the majority, is still far from being exclusive. There are many people who live alone (mainly women) in this age group. In France, for instance, 12.1% of men and 17.6% of women live alone at age 60. According to Desplanques, old age increasingly consists of a succession of stages and a multiplication of periods made up of different lifestyles because of divorce, death of a spouse or temporary cohabitation (Desplanques 1996). Naturally, the risk of isolation increases over time, either due to the death of a spouse or to children moving away from home.

This phenomenon, observed in all western countries, inevitably raises questions about the importance of ensuring that the person who lives alone has enough resources to survive: this is especially true for women. At the risk of solely focusing on the “double retirement” of couples, the “secondary retirement” of women, or spousal benefits, it is important to remember that it is essential that they set aside enough resources during their working lives for their retirement.

Second, the past few decades have seen a shift in the parental part of the life cycle. Certainly, the number of children has fallen, but they come later in life, sometimes with long gaps stemming from reconstituted families. In France, 25% of couples over the age of 60 still have a dependent child and 5% of women

have no spouse. The lengthening of the period of education, linked to the strong desire on the part of parents to ensure their children's future success, and the difficulty of getting into the workforce because of difficult economic conditions, tend to amplify this trend of remaining in the family home and being a user of the family resources. This is a reversal of the past when, especially in large and rural families, children had to start contributing to the family's maintenance from an early age.

Third, the increase in life expectancy has an impact on the family structure: at age 60, and even later, there might still be an elderly parent (usually female) who requires care and services, and sometimes even financial support, a requirement that is often entrenched in law in many of our reference countries as the "maintenance obligation" between generations.

Given the need to contribute for a longer period of time in order to be entitled to a full pension (in the case of pay-as-you-go pension plans), or the need to save throughout one's working life, and when work ends abruptly or involuntarily prematurely — for instance as a result of dismissal or downgrading — couples, families and, of course, single people, often find themselves in situations where needs and resources are out of balance. The family environment, far from providing a safety net, often aggravates the situation because of the financial expenses it represents.

Naturally, this last stage of the active life cycle and the conditions under which men and women approach retirement are directly dependent on the circumstances leading up to retirement: the age at which they started work, the couple's level of education, the children's schedules (along with the potential impact on career interruptions or slowdowns), and, above all, the nature of the positions held and earnings received throughout their lives.

This brings us to the later stage of life with a family on which we depend or that depends on us, with debts and capital, the prospect of insufficient resources, and the necessity of settling for the social minimum. The curves and averages that describe the withdrawal from active life sometimes make us forget these realities: social inequalities persist and sometimes increase around retirement.

## **Do we choose the age at which we retire?**

Like all decisions pertaining to working life, the termination of professional activity involves a trade-off between time and money: getting free time versus increasing or maintaining earnings. The theory of preferences for time or money has been widely debated by economists, particularly with regard to women's work and reduced hours of work (Simiand 1932, Becker 1980). While it is interesting to discuss these trade-offs in terms of how they correspond to an individual's social status, age or living conditions, it is also important to understand the limits within which this apparent freedom to choose may be exercised.

For ideological and political reasons, economic decision-makers may prefer to present these decisions as being entirely at the discretion of those who make them, alone or in consultation with their closest relatives. For those who might be concerned with their image, it might be tempting to believe that they are entirely free to "choose" so they can prove to themselves and to those around them that they have some control over their future and that they are in charge of it.

But it is only too obvious that the game of constraints and pressures clouds and jeopardizes this apparent notion of free choice: for example the termination of professional activity is particularly significant in this regard. As indicated by Szinovacz (2003), the behavior of workers, both men and women, alone or as couples, clearly shows that the aspiration to recover free time by fully or partly abandoning work — or alternatively, the desire to continue to have an income through work — in fact depends on complex factors that are connected to external circumstances, the ability to do without employment income, and the uses envisaged for the new leisure time.

These constraints are largely exogenous to the family itself and rather come down to pension entitlement (for instance the minimum period of pensionable employment, the age of benefit eligibility, the amount of benefits paid). As well, the desire to continue working beyond a certain age may be more or less realistic depending on labor market conditions or the way in which businesses are run, on whether one wants to stay with the

same company (assuming no termination, downgrading or early retirement) or whether one chooses to try to find a sufficiently lucrative job later in life, especially for women. Finally, the worker's level of fatigue or resiliency may make it impossible or risky to entertain a vague desire to maintain a sustained level of activity. An abstract description of work termination could hide the fact that the decision taken by the parties themselves essentially depends very little on setting their own age of retirement since they "have no other choice" than that which is imposed on them.

The circumstances that are endogenous to family life may also be a constraint in determining the conditions for terminating work. We previously referred to ongoing financial needs: children to support, a home to finance, a move in the event of retirement etc. If the pension benefits that are expected are low, it is important to try to "hold onto a job" longer. Work plans are seldom made in the context of future retirement, whether with regard to career or childbirth; the needs and attraction of consumption override the desire to save — assuming the option ever existed. Should our children have to pay for this lack of foresight or should we congratulate ourselves that our children were able to live out their youth without sacrificing it for a hypothetical future? Likewise, and regardless of the economic requirements, a sick spouse or a dependent requiring care, the increasing difficulty in reconciling work obligations and those in other spheres, or the couple's stability will result in a departure from the work force even at the cost of financial loss.

It appears that the decision to end one's working life is still influenced by stereotypes and practices that guide the behaviors of both sexes. While women are at a disadvantage with regard to pensions — since women's work is undervalued and careers are interrupted — they are often encouraged, if not forced, to leave their jobs before or at the same time as men. Moreover, we know that for historical reasons a number of retirement pension plans, for instance in Switzerland and Germany, continue to set earlier limits for women than for men. The imbalance between the image of men as providers and women in charge of domestic tasks continues to prevail even at the end of a career. While men hold fulfilling jobs reflecting a strong social identity, in a universe of "manly" camaraderie, they are more reluctant to give up that activity i.e. "my work is my life". In a way, they are "one-dimensional", and thus out

of sync with their spouses, who adapt more easily to retirement and find other interests to pursue. In any case, they risk being pushed out of the labor market earlier (and being unable to reintegrate). Men, and sometimes even women, marked by customs that still prevail in the generation that is now moving into the third age, will have difficulty accepting that she continues to work while he, as the retiree, should at least behave as “the man at home”, in charge of looking after the home.

### **Retirement in a family setting**

For young adults with children, reconciling a professional and home life presents a difficult personal problem because of the sheer physical, mental and psychological (if not ethical) weight of this double responsibility. As a society, we find it discussed more and more in most countries, even in the European Union.

Is it true that ageing workers are not burdened by this need to reconcile because they no longer have any direct parental responsibility and that the “family” aspect is replaced by a career investment? Certainly one of the benefits enjoyed by workers (especially female workers) after age 50 is their availability and stability, which young parents do not have. Employers would be well advised to take this into consideration and make the most of this potential productivity, not only in keeping these experienced and punctual employees in their service, but also in better recognizing their skills as an element that should be taken into account when determining fair remuneration.

However, a family’s commitments (regardless of its composition and stage of evolution) do not end at age 50 or even 60. The period of life between 60 and 75 has its own place in the family cycle, even though it is not as evident, especially when compared to the parental responsibilities of young adults. It might be a simple matter of prolongation when children are slow to reach autonomy and it is clear that children on the threshold of adulthood demand attention, discussion, support and daily upkeep. But more often, with advancing age, this stage takes on another aspect, an irreplaceable component in the life cycle.

On the one hand, the partners in a couple come face to face with one another once they have taken care of the educational concerns. The partners find themselves having to set up a different marital relationship, one that is more direct, given that the children are no longer there to serve as intermediaries, one that is less rushed. It becomes necessary to reinvent a new life together: with maturity. Some couples do not manage to succeed and separate (it is known that the divorce curve peaks around ages 55 to 60) or they settle into mere co-habitation, juxtaposing their individualities and interests. But most manage to invent a new style of life, develop shared activities and recreate a form of intimacy.

On the other hand, we know how important it is to be a grandparent at this stage of life. This occurs not only because it means responding to the demands of the next generation by helping them to look after grandchildren, but also because this responsibility carries a particularly strong emotional charge: good times can be enjoyed without having to shoulder the day-to-day parental responsibilities. Sometimes, this can be an opportunity to make up for the frustrations felt, particularly by fathers, who were too busy with their work responsibilities to see their own children “grow up”.

Finally, this is the time to re-balance family links that were often neglected by the obligations of everyday life; giving “mature” adults free rein to establish their roles as network coordinators: intermediaries between generations, transmitters of history.

This stage of the family, which is so important to the social balance, can only be harmoniously achieved if there is a great deal of availability of time and ability. How would it work if these men and women had to continue managing the constraints of work responsibilities, often shared unequally by the couple, let alone the need to balance young children, school schedules and holidays? Will the torment of needing to reconcile incompatible universes continue beyond age 60?

## The time for mutual support

Our generation's expressed desire to preserve solid bonds between generations and with parents is not in doubt; it tends to grow amidst the tensions of a world in turmoil. This is evident from the importance assigned to holidays and gatherings and the intensity of interactions, enhanced by modern and improved communications, and the mutual services they provide (Pitrou 1992). While these bonds may be selective, they often resist marital strains by maintaining relationships with ex-spouses' families (Martin 1997) and, to a certain degree, geographic mobility. The apparent individualism for which today's society is often berated, is in fact less a matter of the desire to break family bonds than to increase autonomy, especially among women, who are no longer legally and economically dependent.

We know that the generation of those between 50 and 65 years of age plays a key role in this network, and in the delivery of mutual services, which are often essential to everyday life (Strobel and Debordeaux 2003). Caught between their children's and grandchildren's demands — and because of longer life expectancy, the needs and demands of the older generation — mature couples often play a key role in keeping families together, especially by providing mutual support through money and services (Attias-Donfut 1995). The key condition for this "generation-linkage" to play a role is that these men and women remain in good physical condition and retain their availability in terms of time and open-mindedness: these are precisely the two conditions that might be jeopardized by prolonging working life beyond ages 60 to 65.

If work obligations remain overwhelming at a time when the need for mutual support is more pressing, there is a fear that the accumulation of a heavier workload, family support obligations and personal and marital day-to-day tasks will compound the fatigue that mounts over the years. Or, faced with the unavoidable duty of supporting an ageing parent, individuals quit their jobs prematurely, as often happens, which means losing a good portion of their future pension.

Martin Rein was well justified in stating that a well-designed pension system helps to enhance mutual support in families (Rein and Turner 1997). We are currently caught in the paradox of “social unity” at this turning point between active life and retirement. On the one hand, economic and political decision-makers count on people to pursue their productive lives so they can finance their retirement, but on the other hand when they withdraw their availability to provide mutual support, they rely on families to make up for the cutbacks in public funding for people in need.

### **A third age is essential to social balance**

According to Bourdelais, “the retirement years have changed a lot. It is important to think of these extra ten to fifteen years as one of humanity’s major achievements, and to adapt the structure of society in a new way to manage the stages of life” (Bourdelais 1997).

The “third age”, which was initially designed as an apparently artificial and technocratic classification of these new “young seniors”, has taken on its own life and meaning in the life cycle and in the social structure. It has proven its usefulness to the marital, family, associative and economic units. Today the “third age” and society alike are confronted with an existential conflict that arises from the pressure to impose an extension of the period of professional activity, by encouragement or by obligation, in the name of financial balance. The assumption is made that productive life is supposed to be the driving force of life — an assumption that is still widely held in the higher social classes, to which it confers status and benefits, mainly through men — and that other sectors of life must be accorded lower priority.

This range of values seems to be decreasingly shared by our European fellow citizens, as shown by recent surveys (see Table 8.1).

The family, along with friends and acquaintances, and leisure, are becoming increasingly important in the aspirations and preoccupations of today’s men and women, which is essentially consistent with a society that has seen continuous productivity

**Table 8.1: Scale of values held by respondents in recent surveys in Europe, 1990 and 1999**

	Spain		Portugal		Great Britain		Italy		France		Belgium		Ireland	
	90	99 <sup>1</sup>	90	99	90	99	90	99	90	99	90	99	90	99
Family	83	86	62	84	89	88	87	90	81	88	82	87	91	91
Work	64	63	35	58	47	38	62	61	60	70	55	64	65	51
Friends & Relatives	44	39	20	30	48	58	39	35	40	49	47	47	54	61
Leisure	38	31	15	20	43	51	34	29	31	37	40	39	32	40
Religion	22	15	19	27	18	12	31	33	14	11	17	21	48	32
Politics	6	4	3	5	10	5	7	8	8	8	6	10	5	6

	Greece		Denmark		Germany		Austria		Nether lands		Sweden		Average	
	99		90	99	90	99	90	99	90	99	90	99	90	99
Family	86		88	87	70	80	85	89	80	79	86	89	82	86
Work	57		51	39	34	44	61	65	50	47	67	54	53	54
Friends & Relatives	33		52	55	36	48	35	43	59	59	69	71	43	47
Leisure	36		48	44	39	32	36	39	50	53	55	54	37	37
Religion	48		8	8	12	9	25	20	21	18	10	11	20	17
Politics	9		8	8	9	9	7	10	12	10	11	11	8	8

1. Codes to represent the years: 90 = 1990, 99 = 1999.

Source: Bréchon Pierre, Tchernia Jean-François. Les enquêtes sur les valeurs des Européens. Futuribles, 2002.

gains through technical progress. Family links have been preserved, and sometimes even strengthened against the tide, but involvement in civic and community life also takes time and energy. Curiously, investment in volunteer activities seems to be missing from the many discussions on work. Paid work is presented as the only “productive”, hence valid, activity, even though we know how important volunteer activity is to bring about social cohesion. Yet, adults between 50 and 70 years of age are the most stable and dynamic agents of communal or informal outreach activities, precisely because they have gained some measure of freedom from work obligations and career issues.

There is no denying that economic constraints justify a change in the distribution of work throughout the working life and among individuals. It might be a good idea to try to find a better balance between the stages of life: young people have been waiting

too long in “holding” or precarious jobs, overly heavy burdens placed on the shoulders of adults (30 to 45 years) at a time when family responsibilities are greatest, the premature weeding out of workers (especially women) after age 50, etc. Family and society can only gain from this re-examination of the use of the labor force between ages 25 and 60. Before older workers are asked to prolong their working lives, would it not be best to let the third age fulfill its own mission, one that is particularly important in supporting the youngest and most disadvantaged members of society?

According to Bourdelais:

“... it is important to be very clear on this point: these days in many large families, which have been burdened by unemployment or the precariousness of employment, only the generation in its sixties, with its retirement cushion, provides a solid base and a minimum of security for the future. Should we even consider weakening the income of this core family?” (Bourdelais 1997).

Or, might we add, its availability?

Because what good will rich companies do, with their accumulated benefits and profits, or well-stocked public coffers, if it is at the cost of disintegrated families, a more entrenched “everyone for themselves” mentality and more individualism, less time for gatherings and non-monetary social contacts?

The balance between the cycles of life is delicate: it is fundamental in attenuating social inequalities and ensuring a better distribution of roles between the sexes. We might try to change it hoping to correct a pressing problem; but at what social or economic cost for the future? Researchers and decision-makers cannot afford to ignore these questions.

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# *Theme Two*

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## **Chapter 9. Gender and family — Major dimensions of retirement research**

by  
Lynn McDonald

Retirement is a concept derived from labour force participation and therefore does not capture activity outside of the paid labour force. Historically, women were essentially invisible workers and therefore invisible retirees because they did not work for very long in the paid labour force. During the industrialization of Canada, work and retirement became firmly linked with the public sphere for men while women's retirement was buried in the recesses of the family. Women's work encompassed the private sphere of reproduction and child rearing and men's work involved the public sphere of economic life.

Single women who worked in the paid labour force “retired” into unpaid labour in marriage and married women “retired” from the unpaid labour of marriage into widowhood and/or back into the paid labour force, while some women worked all their lives on the margins of the economy for women's wages as unacknowledged breadwinners. Thus, women's retirement was originally anchored in the family wherein women's welfare in old age was dependent on the nineteenth century male model of retirement — that of an economically dependent wife supported by a breadwinner with a pension.

It comes as no surprise then, that the study of women's retirement took a secondary place to men's retirement. Because of the strong attachment of men to the labour force, retirement was solely a male preserve. At the outset, women were usually slipped into the retirement research as part of their husbands' retirement. At best, women were considered retired if their spouse retired and the retirement decision usually involved an evaluation of the current and future largesse of the husband's pension.

Beginning in the 1960s, the growing participation of women in the labour force helped to shift the focus of the research to an interest in the attributes of retired women that lasted through the

1980s. Perspective on women's retirement at this time hinged on the impact of family and spouse on women's retirement and compared retired women and homemakers since the main sphere for women was the home and family and retired women were seen as an anomaly.

By the mid 1990s, it is likely that the impressive labour force participation rates of baby boom women, their continuous labour force attachment and inevitable retirement, triggered a move to directly apply the male model of retirement to women. Researchers studied separate subsamples of men and women with a new focus on women's employment history, occupation, industry, job tenure, wages etc. However, the harder researchers tried to shoe-horn women into a male retirement model based on paid labour force participation, the less successful they were. This *individualist* approach based on economic participation ignored context and did very little to explain much of women's retirement.

The thinking at the time was that women's and men's retirement were beginning to converge and that women were headed toward a comfortable retirement — a far cry from the poverty they experienced in earlier decades. Related to this view was the startling realization that the work and retirement patterns of baby boom women would influence the number of children they had and, as a result, the size and composition of the future labour force; their enhanced work experience and higher levels of education would be a valuable source of labour that could influence labour supply practices and policies and, because of their lengthy work history, they were likely to make demands on the pension system never made before. Gender started to matter insofar as it was recognized that women might have some impact on retirement, at least in male terms.

While these observations were correct, the model behind it was flawed. The male model of retirement with its emphasis on individual, rationale choice, founded on a one-job, continuous work history with pension trade-offs, made no sense for women because it was lopsided. The model ignored gender differences in work and the fact that the majority of men and women live or have lived in

some type of family arrangement. The model also did not recognize that to understand retirement, a life course perspective is required. A new model that included gender and family was needed that captured the interdependence between men and women and their families over time.

Many researchers today would agree that retirement is a complex transition that reflects linked lives, historical and political events across the life course and changes in family structures as people grow older. Most would also recognize that a broader framework with new theoretical underpinnings is long overdue. At minimum, a broader approach to gender relationships that addresses the relationships between men and women and the totality of these relationships as manifested in societal institutions such as the family, law, welfare states and employment regimes, is necessary.

It is to these matters that researchers turn in the second section of this book. The four chapters address the issues of gender and family in retirement and initiate arguments that underscore the problems with a male model of retirement.

Lynn McDonald briefly sets the stage for a discussion of gender and family by tracing the history of the male model of retirement in Canada and how it has never applied to women, especially in light of changes in the labour force patterns of men and women over time. The data portends the possibility of a “new retirement” wherein retirement no longer represents an abrupt transition from work to non-work. Retirement today is evolving into a process without a clear beginning or end, it is much less likely to be chronologically determined, and it is not as tightly regulated by the state through public pensions, by firm policies or by one’s relationship to the labour force. Furthermore, there are a multitude of pathways leading to retirement that are interwoven with the lives of others. It is argued that this transformation in retirement is actually women’s retirement.

Baby boom women, who will be the first female cohort to participate fully in the labour force over most of their adult life, will help define the parameters of this new retirement for three reasons.

Taken together, the declining prevalence of marriage, the need for double caretaking and the fact women's work is still women's work will make women's retirement somewhat amorphous, uncertain and irregular. Being in the majority, baby boom women are likely to question the inadequacies of policies based on a male model of retirement and be pioneers in creating new forms of retirement.

Maximiliane Szinovacz picks up the family thread and the need for a new theoretical perspective by providing a model of family-retirement linkages which is grounded in a life-course perspective. The model emphasizes the importance of different contexts such as work, marriage and family, peoples' experiences in various roles and how these contexts are interdependent. At the same time, retirement transitions are affected by family members through their linked lives and by changes in other life spheres according to when they occur and in what sequence. Research about how families affect retirement is considered from the perspective of marital and family contexts, with the proviso that the impacts often vary by gender and race or ethnicity. She goes on to review the less voluminous research on how retirement affects families in terms of marital and family relationships. The links between retirement policies and families are identified as the shifting of economic responsibility for older adults from the family to the state, by providing financial security for disabled workers and survivors and by incorporating regulations that favour specific types of family relationships. Family behaviours have, in turn, consequences for old age social security policies.

Having provided examples of the multiple interdependencies in the retirement transition, the author identifies what research is needed next about families and retirement. In this capacity she expands the idea of the family beyond the couple to include the widowed and divorced, she suggests further explorations of the accumulation of life events (illness, death) around the retirement decision and the interplay between old age security policies and their regulations and the needs of families.

Grant Schellenberg, Martin Turcotte and Bali Ram provide evidence that the interdependence of men and women in dual-earner couples is fast changing, heralding new relationships

that affect the retirement decision. They ask, “What are the correlates of the intentions and experiences of joint retirement in Canada for dual-earner couples approaching retirement (aged 45 to 54)?”. They suspect that women’s increased labour force participation, the gains they have made in their contribution to household income, their growth in pension coverage and increased involvement in managerial and professional occupations will influence how couples approach joint retirement. Using multiple data sources from Statistics Canada, they make their case about these changes in the characteristics of women employees and show how the changing labour market characteristics of these women have altered the characteristics of couples approaching retirement. The outcome of these changes is that in Canada we have a cohort of well-educated dual-earner couples with high incomes on the verge of the retirement transition. Given these improvements, the researchers observe that dual-career couples will now have to make two retirement decisions instead of one. Indeed, almost one half of married individuals now approaching retirement say they intend to retire at the same time as their spouse, although only about one-third of married couples manage to achieve this coordination. Using the General Social Survey from 2002 they find that the factors that could be associated with the economic independence of women are not correlated with expectations of joint retirement, and that more economically independent women may view the timing of their retirement as an event independent of their spouse.

In the last paper in this section, Nathalie Deschênes and Leroy Stone recognize the significance of two dimensions of the retirement transition frequently overlooked: the unavoidable fact that the retirement transition is a process and the importance of measuring this retirement process. Using the Survey of Labour and Income Dynamics, the researchers explore the differences in the retirement transitions of women and men, focussing on the different processes involved in reaching the status of retirement from the initiation of retirement until formal retirement or to the end of the observation period. They separate the sample into completed and incomplete retirement trajectories that are voluntary or involuntary. Three hypotheses are proffered. It is predicted that women retire at a more rapid pace than men; of the involuntary

retirees, men are more likely to still be in the labour force at the end of the observation period than are women and, finally, family and household factors are predicted to be more influential in achieving retirement for women than for men. While the first two hypotheses are supported — women have greater odds of being retired within the first year and involuntary male retirees are still in the labour force at the end of the observation period compared to involuntary women — it is surprising that the last hypothesis is not supported. There is no question that gender matters in the retirement transition since the male/female trajectories are different. However, family characteristics like marriage, having a child or parent in the home or a person who is dependent, does not figure in the actual transition process which can take up to four years. Although there may be several explanations for this finding, what is clear is that we know very little about the actual process of the transition into retirement for men or women.

Together these papers signal that change is afoot in the study of retirement. If we pull all the threads together from the previous papers, at least four observations can be made: gender is a crucial aspect of the study of retirement simply because the majority of women work; people who retire live in families where the interdependence of people and events influence retirement and vice versa; the study of retirement is in the state of transformation where dated ideas about retirement coexist with new ideas; and scholars in retirement research need to move forward to develop more complex models of retirement that cover the exigencies of ordinary people, both male and female, and their interdependence.

In the first case McDonald sketches the conditions of work and retirement of baby boom women, while Szinovacz's review of the literature on families and retirement shows significant differences by gender. Schellenberg, Turcotte and Ram follow up with a demonstration of how the advanced economic position of women in dual-earner couples affects the joint retirement decision of couples. Deschênes and Stone provide evidence that the actual transition into retirement differs according to gender. Although these papers provide only a brief introduction to the "new retirement" literature they are compelling about the value of studying gender as vital to understanding retirement transitions.

To think that the first text devoted to families and retirement came out as late as 1992 is curious because it highlights the tenacity of researchers to cling to the idea that retirement is only about economic security and individual processes of adaptation. Szinovacz, a true pioneer in the study of the family and retirement, unmistakably shows the effect of the family on retirement and the effect of retirement on the family. The marital relationship as a form of family structure is to be ignored at one's peril in the coordination of joint retirement. Failure to recognize that husbands and wives wish to coordinate their retirement decisions can distort the impact of any policy initiatives. Family can also take on other forms such as single-parent families, or common-law relationships — several of the real possibilities for baby boom women that will have lifetime implications for their retirement transitions. That the short window for exit from work to retirement is immune to family influences for men and women suggests that other factors must be at work that have yet to be considered.

The coexistence of the male model of retirement with newer forms of retirement is apparent in each and every paper. After arguing that baby boom women's retirement will be fluid and amorphous, McDonald illustrates how pension policy is built on a male model of retirement that does not accommodate interdependence, care giving or intermittent and contingent work histories. In the same vein, Szinovacz makes the point that it is almost impossible for many couples to jointly retire because social security rules militate against it. Any age difference between spouses means a reduction in benefits if either spouse retires before reaching full benefit eligibility. This same problem is echoed by Schellenberg, Turcotte and Ram in their study of dual-earner couples, while Deschênes and Stone indicate that their model of the transition to retirement may not capture the interdependence of women's lives, a situation less applicable to men. The coexistence of the old (individualist) and the new (interdependence) in theory, research and policy is likely part of the dilemma that holds back the advancement of new thinking about retirement.

It would seem, therefore, that the time has come for scholars to go back to the drawing board and address the lack of theoretical progress about gender, families and retirement. At minimum, a life

course perspective with revised definitions of retirement that include gender/family/work linkages would be valuable in reflecting the experiences of people and would lead to policies that would have a better chance for success. As the situation stands now, current social security and pension rules do not reflect women's interwoven life styles of work and care giving, as well as the interdependence of family members.

# **Chapter 10. Gendered retirement: The welfare of women and the “new” retirement**

by  
Lynn McDonald

## **Introduction**

The dramatic changes associated with economic restructuring and the retrenchment of the welfare state in western industrialized nations have led to the questioning of the ‘education-work-retirement’ lockstep of the life course. On one side of the debate it is argued that the threefold model of the life course is “coming undone” to the extent that, “It is impossible to see one’s life course.” (Guillemard and Rein 1993:496, Guillemard 1997:455) On the other side of the debate several scholars argue that the life course seems to be becoming simply “longer and fuzzier” (Kohli and Rein 1991:22) or blurred (Mutchler et al. 1997). Somewhere in between, Henretta argues that the life course is uniform but becoming more variable in timing (Henretta 1992). Whatever the precise nature of the changes, most agree that there have been modest adjustments in the temporal order of the stages in the life course and changes in the time spent in the various stages (Chappell et al. 2003).

The debate surrounding the shifts in the life course has spilled over into a new debate about the nature of retirement. Retirement, a social institution invented to insure the orderly exit of workers from the labour force, always has been subject to re-definition in accordance with changing social, economic and political forces. Historically, retirement was first introduced to strengthen workers’ attachment to the labour force, while today it is used to weaken attachment to the labour force through early retirement programs.

Certainly, retirement is no longer defined by a single chronological age — most people retire between the ages of 55 and 62, well before the institutionalized age of 65 and well before physical decline. Although retirement is viewed as a right as well as a positive social act, many are forced into retirement against their

will due to poor health, caregiving responsibilities, unemployment, or the retirement of a spouse. Retirement is also less likely to be circumscribed by pension policy since growing numbers of people use unemployment and disability programs or early retirement packages as bridges into retirement. The devolution of state responsibility for retirement income to the individual also helps to loosen the ties that bind the individual to the state. Furthermore, retirement does not always constitute a one-time event representing an abrupt transition from work to non-work: retirement can be gradual, it can be part-time and it can involve multiple exits from the labour force, or it may never happen.

These variations, taken together, reflect the transformations in the lockstep order of the life course and in the relations between the individual, government and the employer. In short, the blueprint for retirement is being transformed in such a way that the various pathways in and out of retirement are becoming more and more diverse, while ever more responsibility for retirement income is being transferred from the state to the individual. Because of the recentness of these trends, the implications for the well-being of older people are uncertain. They are also in danger of being ignored, especially in view of the strong support for the retrenchment of the welfare state and the existing, but masked, poverty amongst some groups of older persons (McDonald and Robb 2004).

Surprisingly, we know little about women's retirement in Canada. There is little scholarship on Canadian women's retirement addressing the retirement issues faced by women, notwithstanding the abject poverty many older women experience. What is more, for the first time in history we have a generation of women entering retirement who have worked in the labour force for most of their adult lives and who still have managed to provide the greater part of care for the young and, now, for growing numbers of the very old. The common view is that this is a non-issue because today's and tomorrow's women will have worked all their lives and they will have ample pensions in their old age.

The purpose of this paper, then, is to examine women's retirement in the context of these transformations and the implications for their well-being in old age. The basic argument

is that the “new” retirement *is women’s retirement*. Women’s retirement has always been different from men’s and will continue to be different for the foreseeable future, despite arguments to the contrary. The observation applies to the baby boomers and the generation of younger women following in their wake. Women’s transition into retirement and their material conditions in retirement are a direct result of gender relations as they play out in work and the family over the life course. These relations are, in turn, tempered by the intersection of race, class and sexual orientation within a particular historical era.

Although Canadian data is favored in the analyses, the retirement transition and the social and economic processes influencing retirement are similar in most western industrialized nations. The Canadian case is particularly informative since Canada has had one of the largest baby booms in the world, it has had the worst recessions in the last two decades and it still supports mandatory retirement. As well, the ethnic diversity of Canada underscores how retirement is experienced differently by different groups.

### **A brief history of women’s retirement**

When Simone de Beauvoir observed in 1949 that women “...have no past, no history...”, her statement still rings true today when applied to women’s retirement. Retirement and its history has been largely a male preserve until very recent times even though the number of women in the paid labour force has steadily increased throughout the twentieth century. In Canada in 1921, 20.5% of women worked (Urquhart and Buckley 1965:63), while in 1999, 55% of women were in the paid labour force (Statistics Canada 2000:99), and this rate reached 61.6% in 2003 (Statistics Canada 2005). In fact, in most developed countries in the world, the average labour force participation rate of women reached 55% by the early 1990s (The World’s Women 1995). The limited, if almost nonexistent, history of women’s retirement is a direct reflection of the situation that, for much of the twentieth century, women were “invisible” workers and hence, “invisible” retirees (Hesse-Biber and Carter 2000:17).

Women's work has been invisible in most historical contexts because traditional economic measures have usually been restricted to paid employment (Hesse-Biber and Carter 2000, Waring 1999, Nyberg 1994, Bose 1987, Beneria and Roldan 1981). Work done outside of the market economy typically was not recorded as work, although there are a few exceptions.<sup>1</sup> Marilyn Waring, using data files from numerous countries in support of this observation, included Canada in her examples. As late as 1986 she shows how the Canadian Census contributed to the disappearance of women from the economically productive population. Question 25(a) of the 1986 Canadian Census asks "Last week, how many hours did you work (not including housework, maintenance, or repairs for your own home)?" (Waring 1999:100) It wasn't until 1996 that the Canadian Census included, for the first time, questions about unpaid housework (Arneil 1999).

Omitting the domestic labour of women in census counts is a longstanding practice in Canada. Since the inception of the Canadian Census in 1871, a "gainful occupation" was the conceptual definition used to collect occupational data until 1951 when it was replaced by the labour force concept. A gainful occupation was defined as:

"...one by which the person who pursues it earns money or in which he assists in the production of marketable goods... children, 14 years and over, assisting parents in the work of the farm or in some family business in a 'No Pay' capacity were considered as gainfully occupied, but daughters assisting with household duties in their own homes without wages were not included..." (Urquhart and Buckley 1965:55).

Not surprisingly, "Housewives ... were excluded by this definition." (Urquhart and Buckley 1965:55)

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1. Using Britain as a case study, Hakim (1996) argues that women's market work is not undercounted due to relative under-reporting and that women's domestic work is not undervalued because it is measured. In Britain full-time unpaid domestic work was listed as an occupation in the census classification up until 1871.

In addition, much of women's paid work has gone unrecognized because remunerative part-time work, like taking in borders or sewing, selling eggs or produce, or doing housework or childcare for others, was considered to be a natural extension of women's service to their families (Prentice et al. 1996).

The rationale behind the data collection practices of most countries stems from the beliefs underpinning the public/private divide, the distinction drawn between the family on the one hand, and markets and states on the other (O'Connor, Orloff and Shaver 1999, Boyd 1997, Sainsbury 1996). The most common view posited by researchers is that during the transition from an agricultural economy to a capitalist industrial economy, economic and technological transformations wrought major social structural changes in society that contributed to the workplace/family divide. Industrialization separated the home and the workplace by moving industry out of the home and into the factory. This process brought about an increased differentiation in the division of labour by gender to the extent that women's work encompassed the private sphere of reproduction and child rearing and men's work involved the public sphere of economic life (Mies 1998, Eichler 1997, Boris 1996, Valenze 1995, Armstrong and Armstrong 1978, Connelly 1978).<sup>2</sup>

It is not the purpose of this paper to outline the history of men's and women's retirement in Canada (see McDonald 2001) but to underscore that women's retirement was tied to the breadwinner model of the family, a model embedded in our social security system that lingers on today. The following limited examples from the history of the Canadian pension system support this argument.

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2. Marjorie Griffin Cohen disagrees with this analysis based on her study of women and dairy production in Ontario and Quebec in the second half of the nineteenth and the early part of the twentieth century. She argues that the division of labour between males and females was well-defined in the pre-industrial stage in Ontario. The characteristics of a staples and export market economy were such that the volatile nature of exports markets, the general scarcity of labour, and the underdeveloped nature of the domestic market made the activity of women in the household sector critical to staple development and critical to capital accumulation (Cohen 1988). Her view has been challenged by historian Jane Errington who has argued that often there was little distinction between production for the household and production for the market during this time (Errington 1995:83-84).

Using the military as a metaphor, the first private pensions in Canada in 1870 and 1874 were set up to control male behavior through uniforms, hierarchies and strict regulations in exchange for loyalty. Women, of course, were not 'soldiers of labour' and did not qualify. In reference to the Annuities Act of 1908 where both sexes might pay the same amount into their account, the annual returns were lower for women.<sup>3</sup> In 1911, Newfoundland, still a British Colony, introduced the first state-run old age pension program, which, consistent with women's place in the private sphere, did not include them at all (Snell 1993a). Even though historian Struthers (1992) heralds the Old Age Pensions Act of 1927 as the first "gender inclusive" social program in Canada, women were not included in the program on an equal basis when compared to men (Struthers 1992:237). Snell (1993b), an historian, provides a number of examples of how the State, through its *administration* of the Act was careful to maintain the gendered nature of marriage.<sup>4</sup> While the Old Age Security Act and the Old Age Assistance Act in 1951 gave women for the first time their own regular source of income independent of their male relatives,<sup>5</sup> the pension was to be augmented by pensions from work and from personal savings, two forms of income not available to the majority of Canadian women at the time. The Canada/Quebec Pension Plan (C/QPP) that resulted from this thinking about personal contributions in 1965 was not overtly biased against women workers but certain provisions that applied equally to women and men were simply disadvantageous for women. Two obvious examples were that all benefits were

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3. On the maximum total annuity of \$1000, a man aged 70 received \$135.50 while a woman would receive \$121.20 (Strong-Boag 1993:188).

4. In another example in Manitoba in the 1930s it clearly was an affront to the husband as breadwinner if the wife was paid a larger benefit than the husband. The policy basically was, "...Manitoba grants that the wife is eligible, for a higher pension, on account of reduced assets, but cannot see any other alternative, but to keep the wife's pension at the same rate as the husbands." (Quoted in Snell 1993b:514)

5. While many retired men added their private pensions and their savings from their paid labour to the flat-rate pension, women were solely dependent on the meager flat-rate pension. The stratification that resulted (e.g., in 1957-58 a proportion of 128.8 females to 100 males were on social assistance (Clark 1960:265), is a precursor to the situation today with more women depending on Old Age Security (OAS) pension and the Guaranteed Income Supplement (GIS).

linked to the level of contributors' incomes and, secondly, a retirement pension varied according to the length of time a person spent in the labour force (McDonald 2001).

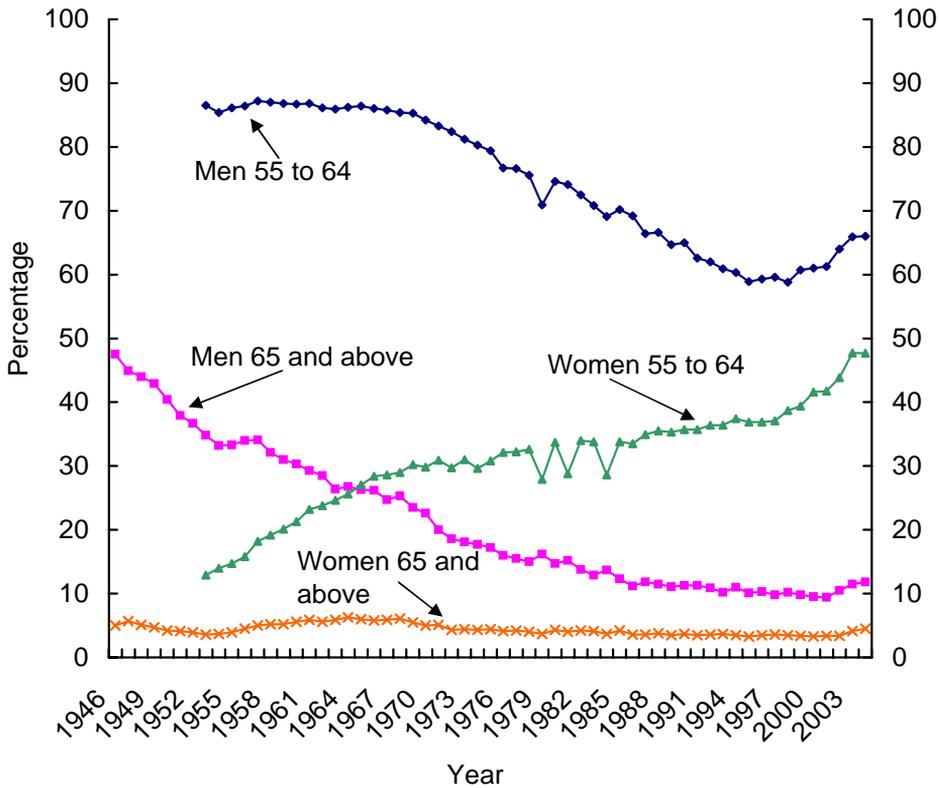
When retirement took permanent root with the introduction of social insurance provided by the Old Age Security (OAS) pension and the C/QPP, women were confronted with an anomaly in the public pension system that made their retirement experience somewhat distinctive. The insurance component of the system presumed equal citizenship for women with the accompanying assumption that women could look after themselves in retirement — despite their enduring socioeconomic inequality in the labour force. Having to turn to the Guaranteed Income Supplement (GIS) for social assistance, many women found their retirement income at the bottom of the income ladder. This untenable position of being equal but not equal because of a different relationship to the labour force is the bedrock upon which women's retirement is built and is the source of the many income disparities women experience today. The argument, then, is that we have a very old nineteenth century model for the pension system while women lead a modern twenty-first century lifestyle.

### **Modern retirement**

Today in Canada, retirement is still the norm for most older workers. According to the 2002 General Social Survey, people aged 45 to 59 cited an average planned retirement age of 60.8 years, while 18.4% of Canadians said they did not intend to retire at all (Schellenberg 2004). Although preferences may easily be changed by unforeseen circumstances, the preferences of Canadians are consistent with their retirement behavior.

As indicated in Chart 10.1, 66% of men aged 55 to 64 remained in the labour force in 2004 compared to 86.5% in 1953. For men 65 years of age and over, the labour force participation rate was 11.8% in 2004 compared to 47.5% in 1947, an amazing drop by any measure. Three observations can be made based on the data for males in Chart 10.1. Declines for men have been

**Chart 10.1: Labour force participation rates for age groups 55 to 64 and 65 and above, by sex, Canada, 1946 to 2004**

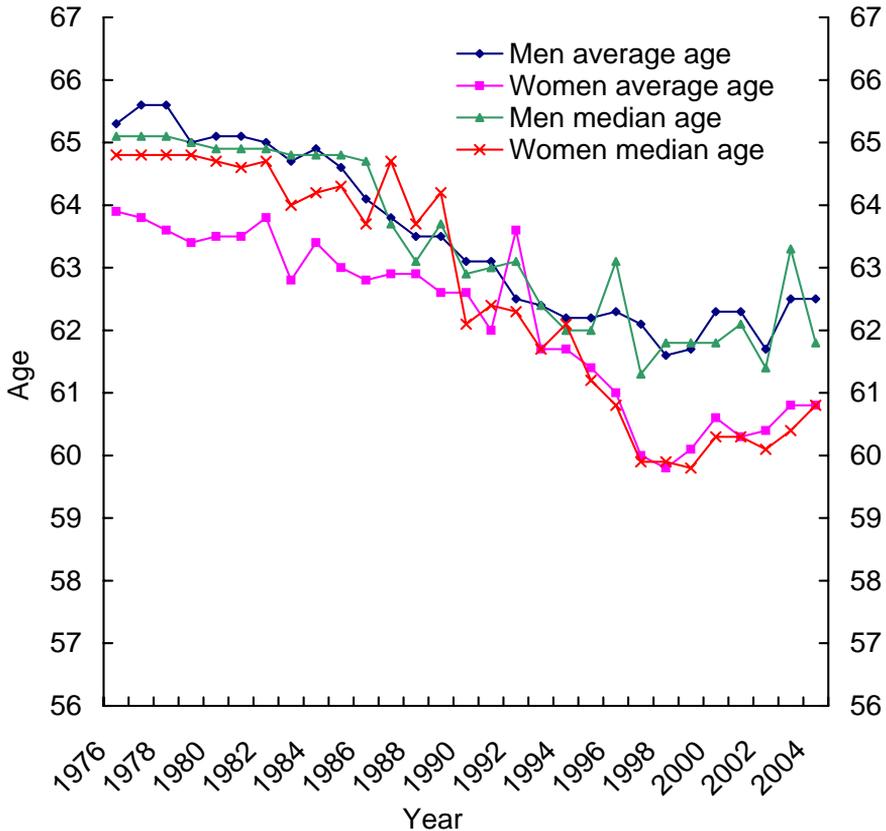


Source: Labour Force Survey (retrieved from Statistics Canada's CANSIM database).

greater over age 65, although there has been a decline for all ages; early retirement before age 65 seems to be slowing and, during the 1990s, labour force participation seems to have fluctuated somewhat. The fluctuations may represent such factors as government cutbacks that occurred during this time and corporate downsizing (Kieran 2001, Gower 1997). Looked at another way, the median age of retirement for men in 2004 was 61.8, down from the median age of 65.1 in 1976 shown in Chart 10.2.

The pattern for women's labour force participation, as seen in Chart 10.1, appears different from men's because the rates represent two trends: the dramatic increase in women's labour force participation starting in the 1960s and the trend to early

**Chart 10.2: Average and median retirement age by sex, Canada, 1976 to 2004**



Source: Labour Force Survey (retrieved from Statistics Canada's CANSIM database).

retirement among men. The increasing midlife participation of women aged 55 to 64 is evident in the chart. In 1954, only 12.9% of women aged 55 to 64 were in the labour force compared to 47.7% in 2004. In contrast, the labour force participation rates for women 65 years of age and over have never exceeded the rate of 6.3 in 1964 and have remained fairly stable since 1946, suggesting that the two trends offset each other for older women. An examination of women's median age of retirement is more telling. As shown in Chart 10.2 the median age of retirement for women dropped from 64.8 in 1976 to 60.8 in 2004 (Statistics Canada 2005).

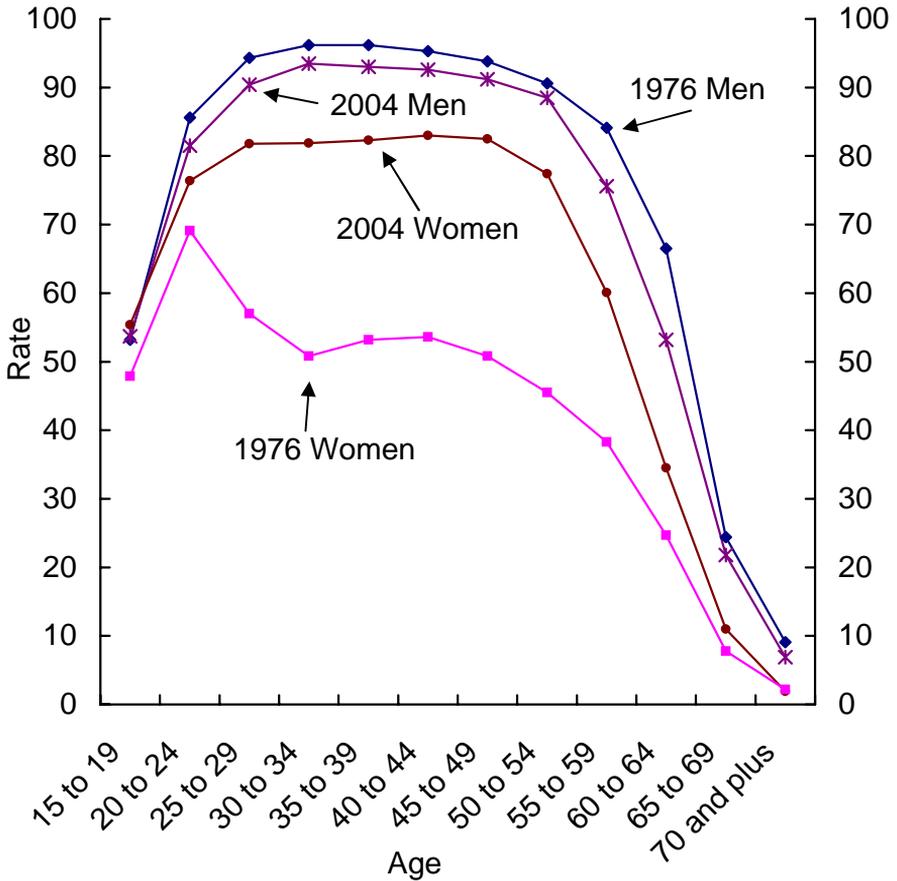
Chart 10.3 clearly indicates women's labour force patterns in relation to those of men. Beginning in the 1970s each successive cohort of women was in the labour force longer. In light of the larger baby boom cohorts, the participation rates rose dramatically as seen in the cross-sectional rates in Chart 10.3. The decline in the participation rates of men, noted above, served to narrow the gap between the rates of men and women and the participation profile of women has begun to resemble the same high and flat shape of men's rates (Sunter 2001). The flat participation rates of women during the 1990s have been attributed to several factors: the full integration of women into the labour force (Beaudry and Lemieux 1999) and/or that the participation rates of successive generations have become more similar leading to slower growth, although both observations are speculative (Sunter 2001).

In summary, the decline in men's participation has, over time, become more and more closely associated with age 62. For women, waged labour has become a central element in their lives, tightening the previous weak link between women's paid work and retirement. Most importantly, the patterns indicate that women's retirement will be different than that of men's retirement. Women's late entry into the labour market means that their individual history with retirement is about to begin and this history is likely to be different. At minimum there will be a structural lag on the retirement front where women will be playing pension "catch-up" to men (Moen 1996).

### **What's new about the new retirement**

The life course has been argued to be more asynchronous (O'Rand and Henretta 1999, Han and Moen 1999) or, more vividly argued, is a "...veritable revolution in the age structure of society" (Riley and Riley 1994). Retirement no longer represents an abrupt transition from work to non-work: it can be gradual, it can involve multiple exits, it is multi-layered with other life events and it may never happen. Han and Moen (1999) capture the essence of the new arguments when they conceptualize retirement as "clocking out". Retirement is a multiplex process governed by multiple institutional schedules and by the diverse pacing of individual biographies which intersect with institutional timetables, all of

**Chart 10.3: Labour force participation rates by age and sex, Canada, 1976 and 2004**



Source: Labour Force Survey (retrieved from Statistics Canada's CANSIM database).

which lead to variability in the age of retirement. Guillemard (2000) specifically argues that the retirement pension system no longer regulates early retirement in Europe. Rather, disability insurance creates the bridge between work and retirement. Gardyn (2000) argues that retirement is being reinvented not only to include second careers but also continuing education and volunteerism.

As would be anticipated, changes in the temporal order of the life course has influenced retirement which has been the gateway to the last phase of life and the conduit that links the institutional structures of work and non-work. It has almost become vogue to talk about the “new retirement”, although what is “new” about the “new retirement” is not agreed upon by gerontologists. Gathering up the various strands of Canadian research, what seems different about retirement today is that it is evolving into a process without a clear beginning or end, it is much less likely to be chronologically determined, it is not as tightly regulated by the state through public pensions, by firm policies or by one’s relationship to the labour force and there are a multitude of pathways leading to retirement that are interwoven with the lives of others. It almost goes without saying that retirement is embedded in a life course. At the heart of the life course perspective is the synchronization of “individual time” and “historical time, and the cumulative impact of earlier life events as shaped by historical forces on subsequent events” (Hareven 1996:31).

The evidence for these changes is growing, although some of the Canadian data cited below are out of date. It is also difficult to make comparisons to earlier times since data was not collected about some of the “new” routes. While the continued lowering of the age of retirement could still be argued to be tied to public and private pensions, what is interesting is that a full 31% of Canadians reported in 1994 that they did not know at what age they would retire. The group most uncertain was women: 36% of women did not know when they would retire compared to 25% of men. The average planned retirement age of employed persons in this survey was 58.5 years for both sexes, well below the age of 60 when pensions first become available in the C/QPP.

The 2002 General Social Survey (GSS) data show a similar pattern. Among Canadians aged 45 or older who said they were not retired, 20% reported no intention to retire, and another 12% did not know when they would retire.<sup>6</sup> Thus, as in 1994, just over 30% declined to indicate when they would retire. However, in 2002 the figures for men and women are closer than they were in 1994.

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6. Data from the 2002 General Social Survey were computed at Statistics Canada in the Unpaid Work Analysis Division.

Thus, 29.7% of men say they do not intend to retire or do not know when they will retire compared to 31.2% of women (Schellenberg 2004).

Although the evidence is tenuous because of the lack of available data over time, there does seem to be a wider number of routes into retirement than was available in previous times. At least five “new” routes that have come to the fore in recent times would include retirement via early retirement packages, the use of disability benefits, the need to caregive for a family member, involuntary retirement and the reversal of the retirement decision. In the 1992 Survey of Persons Not in the Labour Force, 26% of men and 12% of women indicated that they had retired unexpectedly because they were offered an early retirement package (McDonald, Donahue and Marshall 2000). The corresponding figures, for those who said they had retired, in the 2002 General Social Survey are 19% for men and 9% for women.

Another example, as in the European experience, is the use of disability benefits as a route into retirement. Disability benefits were originally intended to provide income for those who could not earn a living because they had a severe disability. However, in a number of countries they were used as a vehicle to remove older workers from the labour force in response to high levels of unemployment. The uptake was so sharp that in 1990, recipients of disability benefits outnumbered those in receipt of unemployment benefits in 12 of 23 OECD countries (McDonald and Donahue 2000).

In the 2002 General Social Survey, there are data about retirement because of poor health. The prevalence of disability benefits among those citing this reason for retiring is unknown. However, it is notable that among those who said they had retired, just over one quarter (26% for men, and 25% for women) cited health as a reason for their retirement.

In the 1991 survey of Ageing and Independence, 5% of the women who were still employed identified retiring to caregive as a possible reason for their retirement. However, in the General Social Survey five years later, at least twice as many women (13%) reported retiring to caregive (Monette 1996). More recently, the 2002 General Social Survey results indicate that 12% of

women and 6% of men had retired in order to take care of a family member. A 1997 national caregiver survey conducted by the National Alliance for Caregiving and the American Association of Retired Persons (AARP) reported that nearly one-quarter of U.S. households contained a family caregiver for someone 50 years of age and over. Nearly two-thirds of family caregivers worked full- or part-time, while about 4% retired early and 6% gave up work entirely to caregive (National Alliance for Caregiving and the AARP 1997, 2004). Looking specifically at caregivers who retired to provide care for an aging relative, McDonald, Donahue and Moore (1998) used Canadian data from the national Survey of Ageing and Independence and compared retired caregivers to other retirees. They found that employees who retired to caregive were more likely to be female, were more likely to be on the margins of the economy and were more likely to retire very early. Furthermore, persons who retired to caregive were women with lower personal incomes, were less likely to receive benefits from the public pension system and were less likely to receive private pensions or to have income from investments.

Some Canadians have also reversed their retirement decision. Depending of the data file used, between 13% (General Social Survey 1994) and 17% (Survey of Ageing and Independence 1991) of Canadians reversed their retirement decision and returned to the labour force, mainly to what have been called “bridge jobs” to retirement (Doerringer 1990). In a small, non-random study of a telecommunications company in Canada, almost 47% of male and 25% of female early retirees went back to work (Marshall, Clarke and Ballantyne 2001). Among those who said they had retired in the 2002 General Social Survey, 24% of men and 18% of women reported that they had done some paid work after their first retirement.

Most persons in Canada who returned to work, took up part-time work and they tended to be persons who were forced to initially retire because of mandatory retirement provisions or because of early retirement packages (McDonald 1999). In particular, women who were professionals with a high personal income returned to work. Unlike the men, they had planned for their retirement and retired either because they had access to an early

retirement package or because there was no available work. The women's pattern of re-employment seemed, however, to be more a form of career progression than a form of retirement (Hayward et al. 1994).

The 2002 General Social Survey also indicates that the rate of going back to work is much higher than average for those who had retired due to mandatory retirement provisions or because of early retirement packages. In this group, 30% did some paid work after their first retirement, compared to 18% for those who did not state such reasons for retiring.

In the United States, it is now estimated that between 30% and 50% of people move into their "final" retirement via partial retirement, or use "bridge jobs" from their career jobs into retirement (Mutchler et al. 1997, Quinn 1999).

Perhaps even more revealing is the number of Canadians who have no intention of ever retiring. Among both men and women aged 45 or more who said they had not retired in the 2002 General Social Survey, 20% reported they had no intention to retire.

Using the longitudinal *Health and Retirement Survey* in the United States, Ekerdt et al. (2001) showed that the uncertainty about the form and timing of retirement is substantial. In their analyses, 40% of workers aged 51 to 61 could not state how they would exit their job and about 12% did not know the date or age of their retirement. They provide some evidence that the uncertainty was less likely among those who led a more "socially attended life" meaning a more public life influenced by people on the job, at home and by friends. A socially attended life is one under surveillance by others at work and at home. Work in larger, more bureaucratic organizations that recognize, discuss and control the retirement planning of employees makes retirement more visible than work in self-employment. As well, spouses and friends act as surveillants of each other, so that within these relationships people are more likely to mutually discuss and review retirement planning. The findings in this study indicated that uncertainty in the form and timing of retirement was most likely for women, the unmarried and those not enrolled in pension plans — all factors that could lead to a less "socially attended life".

In terms of the influence of other people on one's retirement (linked lives), most research has been done on marriage and the family. The research considers how a partner takes into account their spouse's career and retirement when making their own decisions to retire. In a study of Canadian married couples, McDonald (1996) found that a married woman's age of retirement was influenced by the age difference between herself and her husband, his level of education and occupational prestige, their household income and whether or not he was retired. If the husband was older than his wife, her age of retirement increased, a finding not supported in the American data (Szinovacz and DeViney 2000). The husbands' higher levels of education and occupational prestige and income led to lower retirement ages for the wife. The husband's age of retirement was increased if the wife was the same age or older, had high occupational prestige and a larger household (McDonald 1996a). In contrast, Tompa (1999) found that both men and women tend to make joint retirement decisions with their spouses. He found that the larger the C/QPP or other pension income a spouse received, the more likely an individual was to exit the labour force.

Finally, many Canadians will be retired involuntarily. In earlier times, involuntary retirement for some was an expected event in the form of mandatory retirement and is still challenged in the legal system today (Gillin, MacGregor and Klassen 2005, Klassen and Gillin 1999). Most recently, there is a trend in Canada to do away with mandatory retirement. For example, the Ontario Government introduced legislation in June 2005 to end mandatory retirement after extensive consultation across the province. It is therefore not surprising that only about 14% of people are affected by these policies compared to 27% of retirees in 1975. Today involuntary retirement is a hidden issue and is probably higher than what is reported in the current research — about 27% of men and 22% of women retire involuntarily (McDonald, Donahue and Marshall 2000). In the 2002 General Social Survey, 26% of those who said they had retired reported having an involuntary retirement.

Of the one in four Canadians who retired involuntarily, as reported by McDonald et al., the primary reasons are poor health first, followed by mandatory retirement and unemployment (McDonald, Donahue and Marshall 2000). In the 2002 General Social Survey nearly one-half (49%) of those who reported

involuntary retirement cited health as a reason for retiring. The involuntary nature of retirement can go undetected by some retirees until after the fact. In a study of caregivers it was found that most did not even realize that they were being forced into premature retirement until after the caregiving was over, when they attempted to re-enter the labour force and were unsuccessful (McDonald, Sussman and Donahue 2002).

Although there is preliminary evidence that the very nature of retirement is changing, only time will tell the magnitude and the permanence of these changes. A group of Canadian scholars have stated that, "...Statistics Canada is urged to consider that the terms retirement and retired are no longer valid for understanding a person's paid labour force status." (Payne et al. 1996) However, more than 80% of Canadians currently remain retired, so their suggestion may be somewhat premature. Recent evidence supports the idea that the institutionalization of retirement is still strong, at least in the United States. One study found that retirement anticipation was normative among older workers (Ekerdt, Kosloski and DeViney 2000) and another found that institutionalized retirement criteria have been strongly internalized to anchor people's self-definition as retiree (Szinovacz and DeViney 2000).

### **Parallels between the "new retirement" and women's retirement**

It could be argued that the transformation in retirement that we are witnessing today is, at bottom, women's retirement. In the past, women's retirement was amorphous and fluid and is likely to continue to be so in the future but for different reasons. It also could be argued that baby boomer women will have an important role in establishing the framework for the "new retirement" (Statistics Canada 2000). The basic principles of this argument rest on the fact that the baby boomers are the first female cohort whose labour force participation will span most of their adult lives. As Galarneau (1994:6) describes, in 1971, 54% of the first wave of baby boom women (those born between 1946 and 1955), then aged 16 to 25, were in the labour force. This compared with 39% of all women that year. Ten years later 70% of the second-wave baby boom women (aged 16 to 25) were in the labour force. These women will have the option for the first time of defining their own retirement, at least in terms of a stronger presence in the labour force, their higher

levels of educational attainment and their increased occupational prestige. Because of the demographic changes in the Canadian population (older women constituted 57.4% of the population in 1998 and this number will not drop below 56% until after the year 2041), their very presence is likely to have some effect on the retirement.

The question then, is will the baby boomer women's retirement be different from their mothers'? The answer is probably yes. The argument is made here that women's retirement, starting in the immediate future, is more likely to look like the "new retirement" for three reasons: the declining importance of marriage; double caretaking and women's work is still women's work. These factors, taken together, will make women's retirement somewhat amorphous, uncertain and irregular.

### **The decline in the prevalence and stability of marriage**

Baby boom women increasingly postponed marriage. This is evident when baby boom women are divided into two waves: the first wave, born between 1946 and 1955, and the second wave, born between 1956 and 1965 (Galarneau 1994). At ages 26 to 35, 20% of second-wave women had never married compared with 14% of the first wave and 11% of pre-boom women (those born between 1936 and 1945) at the same age (Galarneau 1994). They also distinguished themselves by having fewer children. Just 13% of second-wave women aged 26 to 35 had three or more children compared with 16% for the first wave and 34% of pre-boomers.

These trends set by the boomers will continue. There has been a long-term decline in the proportion of women who are spouses in a husband-wife family because the rate of marriage is down to 20% in 1997 from 24% in 1989. Also in 1997, the average age at first marriage for brides was 28 years, up from 26 years in 1990. What is more, the long-term incidence of divorce in Canada (although most of the rise can be attributed to changes in legislation in 1968 and 1986) has risen and is much higher compared to the 1960s. In 1997 there were 225 divorces per 100,000 of the population. In turn, there is continued growth in the number of women who are lone parents. In 1996, female-headed lone-parent families represented 19% of all families with children and was

up from 10% in 1971 (Statistics Canada 2000). As well, recent generations of women are engaging in more common-law unions. More than 40% of women ranging from ages 30 to 39 are expected to choose a common-law union as their first union, while this percentage is expected to reach 53% among 20-to-29 year olds. With common-law relationships there are fewer legal protections and many unions suffer from instability (Statistics Canada 2000).

Taken together, these factors mean that marriage will not be quite as central to women's retirement as it was in the past, an enormous change since the inception of retirement when women's work/retirement was totally embedded in the family. It is well known in the retirement literature in Canada that, for women, marriage is the most important predictor of age of retirement since it determines income in retirement and satisfaction with retirement (McDonald 1996a, McDonald and Robb 2004). For example, marriage has been shown to be a major economic resource that buffers women against poverty in retirement. When marital support disappears, women's secondary poverty becomes all too evident in retirement (Logue 1991). One national study in Canada found that 49% of retired widows, 53% of divorced or separated women and 28% of ever-single women lived below the Low Income Cut-offs for Canada compared to 15% of married women (McDonald, Donahue and Moore 1997). The finding that married and single women are more likely to find their income in retirement satisfactory compared to divorced and widowed women comes as no surprise. In a more recent study of unattached women it was found that the separated and the divorced are the poorest of all older unattached women (McDonald and Robb 2004). The whole uncertainty around marital status and the tendency of women to "go-it-alone" is more than likely to introduce all kinds of unforeseen challenges and uncertainties into the retirement process.

### **Women will become double caregivers**

As Canadian society ages, an emerging issue is the problem of double caregiving — a parent looking after their own children and also caring for their aging parents. Women still have children. Almost two-thirds of women who have ever worked have had a work interruption in paid work of six months or more. Most women on maternity leave (86%) return to work within one year after giving

birth. However, one study has shown that after a work interruption, women are not as likely to return to the same job or a full-time job if they had a full-time job prior to their interruption (Fast and Da Pont 1997). In 1998, women employed full-time with children spent 1.7 hours more on unpaid work (about 5 hours per day) and leisure activities than women without children (Statistics Canada 2000). Another study found that, if a labour force adjustment must be made to accommodate family responsibilities, it is usually women who make the adjustment (Townson 2000). Of the men and women with family responsibilities who made adjustments in 1995, two-thirds of women adjusted their work schedules compared to about one-third of men. The adjustments included part-time work, irregular schedules, voluntary job absences and voluntary joblessness.

Add to this that there is no historical precedence for the experience of most middle-aged and older women having living parents. In 1940, one in three 50-year-old women had living parents compared to two in three, or double that number, in 1980. In the face of a growing demand for the care of aging parents and relatives, women are also more likely to provide care: 15% of women, compared to 9% of men, cared for both children and an aging relative in 1996. The data from one study suggests that employed women provide elder care by carrying out some of their paid work at home and by working in off hours (Marshall 1998). Adding to the instability of women's marital status and all that this implies, the double caregiving aspect of their lives means more time out of the paid labour force, more exits and entrances from the labour force and, as seen in a study of caregivers, many unexpected exits from the labour force with little hope of returning (McDonald, Sussman and Donahue 2002).

### **Women's work is still women's work**

Today, many economic analysts argue that the next generation of women, namely the baby boomers, will have been in paid employment for most of their lives and will have their own private pensions, RRSPs and most will receive C/QPP benefits. While all of this may be true, there are at least two overriding factors that suggest that their pension incomes will still not be equal to men's pension income in old age. To the degree that the private

and semiprivate (C/QPP) components of the pension system replicate the inequality in the labour market and as long as women have interrupted work histories due to family responsibilities as noted above, their ability to save and accumulate pension benefits will be affected.

Some of the more obvious patterns of women's labour force participation that will affect their pensions in the future include women's concentration in non-standard and part-time work, their under-representation in unions, their over-representation in the services sector and the continued distribution of their occupations in female employment. The number of women working in non-standard work, including temporary workers, part-time workers, self-employed workers and multiple job holders, has increased from 35% in 1989 to 41% in 1999. Part-time employment continues to be the most common form of non-standard work for women. Since the middle of the 1970s, 7 in 10 women have worked part-time even though a quarter of these women reported that they would prefer full-time work. In 1995, 43% of part-time workers earned less than \$7.50 per hour, and less than 20% of part-time jobs were covered by a registered retirement pension plan. Close to 15% of part-time jobs fell below the basic exemption of \$3,500 in the C/QPP.

Only 31% of women are covered by unions, a factor that has been directly linked to decreased pension coverage. In terms of the distribution of women's occupations, 70% of employed women in 1999 continued to work in teaching, nursing and related health occupations, clerical or other administrative jobs and sales and services occupations, down from 78% in 1982. It is well known that female occupations traditionally attract lower wages. Women still earn less for every dollar earned by men. The female-to-male earnings ratio in 1997 was 81% for those aged 15 to 24; 76% for women aged 25 to 34; 73% for those 35 to 44; 70 cents on the dollar, for those aged 45 to 54, and 66 cents among those aged 55 and over. The female-to-male average earnings ratio for full-time full-year workers was 72.5 in 1997 and shows signs of dropping since the ratio was 73.1 in 1995 and 73.4 in 1996. When all is said and done, it comes as no surprise that the average income of women in 1997 was \$19,874 compared to \$30,169 for men (Statistics Canada 2000).

Tomorrow's older women may have their own pensions but their position will be only marginally improved because RPPs, the C/QPP, RRSPs and savings all depend on earnings and length of time in the labour market. Unless these conditions are modified, a change in the size of women's benefits will be small. To add to women's problems, they outlive men so their private pensions are more likely to be subject to inflation in the long run.

### **The mismatch between the lives of women and the pension system**

The outcome of many of the changes highlighted above, portends a retirement that looks a lot like a version of the "new retirement." Women's lives already are, and will continue to be, typified by multiple transitions in and out of the labour force with employment in more than one job that is usually a contingent, nonstandard job, and their work will be segregated in the feminized sector of the economy where they are likely to receive lower wages. They are also likely to follow new routes into retirement especially to caregiving and are likely to retire several times.

These irregular work patterns certainly do not match the structure of the current pension system which was developed to meet the needs of the nineteenth century male worker who was a lone breadwinner supporting a large family. The pension system today, with its emphasis on job tenure in a life-long career job, excludes many Canadians who do not match this profile. Specifically, pension policy barely recognizes the burden of institutionalized lower earnings for women or the costs of their unpaid work, and ignores the multiple job changes that women have experienced in the last ten years. At its best, the pension system offers social welfare to the poor in the guise of OAS and GIS, which, in the final analysis, does little to relieve their poverty. While the C/QPP has great potential to accommodate women's lives, the size of benefits are small and have become even smaller with the adjustments made in 1998. Any improvements that are made to public or private pensions would have to start with a new vision of the life course in order to reflect the actual lives of Canadian women, not to mention men who are on the margins of the economy (Marshall 2002).

As I have said before

“...why do policy makers persist in making policy according to an orderly life course of education, work and retirement founded on the experience of the 19<sup>th</sup> century male industrial worker? Why are the changes in the life course being ignored? Why is social policy still being forged on an ad hoc basis? Why do we attempt to build social policy one generation at a time?”  
(McDonald 1997:395)

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# **Chapter 11. Families and retirement<sup>1</sup>**

by  
Maximiliane E. Szinovacz

Retirement processes and experiences are typically treated from an “individualistic” perspective (Szinovacz and Ekerdt 1995, Szinovacz, Ekerdt and Vinick 1992, Blossfeld 1990), that is, they are viewed exclusively in relation to individual characteristics such as health, work history, or Social Security and pension coverage. The purpose of this paper is to correct this perspective by delineating the intricate linkages between family and retirement experiences and their relationship to policies. I first present a conceptual and theoretical framework for family-retirement linkages and then a detailed discussion of available research addressing such linkages. The paper concludes with an assessment of family-policy linkages and recommendations for future research. Specifically, the paper addresses the following questions:

Why is it important to consider family-retirement linkages?

What are the connections between family and retirement experiences?

How do family contexts influence retirement behaviors and benefits?

How does retirement affect families?

How are retirement policies linked to families?

What research is needed on families and retirement?

## **Why is it important to consider family-retirement linkages?**

The importance of considering family-retirement linkages is perhaps best understood from the life course perspective. This perspective draws attention to four concepts that are crucial for the understanding of family-retirement linkages: (a) the interdependence of life spheres; (b) linked lives; (c) contextual embeddedness of life transitions; and (d) timing and sequencing of life transitions (Bengtson and Allen 1993, Hagestad 1990, Elder 1995, Settersten 1999, Szinovacz 2002).

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## **Interdependence of life spheres**

Even though individuals occupy numerous roles and operate in diverse spheres (e.g., family, work, leisure), it is the entire role set that structures and defines individuals' lives and influences their behaviors. It is well known that family and work spheres are closely linked throughout the life course. For example, child births often foster at least temporary withdrawal from the labor force, care for older family members can lead to absenteeism and changes in work hours (Johnson and Favreault 2000, Pavalko and Artis 1997), and stress in either the family or work sphere can spill over into the other realm (Rogers and May 2003). This interdependence between work and family spheres carries over into retirement: Family considerations influence retirement decisions, and retirement transition processes affect family members' behaviors and well-being.

## **Linked lives**

Individuals' attitudes and behaviors are often influenced by or responsive to others, most prominently the members of their families. Partners and children influence our decision-making (Szinovacz 1987b), needs of family members propel us to provide help (Börsch-Supan et al. 1990, Boaz, Hu and Ye 1999, Eggebeen 1992, Pezzin and Schone 1999), and the well-being of one partner is often tied to that of the other partner (Haug, Belgrave and Jones 1992). The linked lives of family members also permeate retirement transition processes and experiences. Partners can influence the timing of retirement, and one family member's retirement affects the lives and well-being of other family members. Retirement benefit regulations can restrain family members' retirement plans and, in doing so, have consequences for family members' post-retirement well-being.

## **Contextual embeddedness**

Life transitions are contextually embedded, that is, the planning of and adjustment to life transitions such as retirement depend on the specific contexts under which the transition occurs. For example, retirement transitions are often related to past work

history and selected job characteristics (Hayward, Friedman and Chen 1998). However, family contexts also play a role in retirement transitions and experiences as do family-related benefit rules (e.g., rules regarding benefits of spouses).

### **Timing and sequencing of life transitions**

Sociologists speak of a “chronologization” of the life course (Kohli 1986), that is, the notion that the life course is segmented and specific life spheres dominant at particular times in our lives. For instance, education occurs mainly early in life, adulthood up to but excluding old age is devoted to employment and child bearing and rearing, and retirement is restricted to old age. Although chronologization of the life course has become less pronounced during the past decades (as exemplified by life-long learning, postponed child bearing, post-retirement employment, or early retirement), cultural norms and personal expectations about the “appropriate” timing of life transitions continue to guide behaviors (Settersten and Hagestad 1996) and “off-time” transitions can undermine well-being (Hagestad 1990).

It is not only important when specific life transitions occur but also how they develop and are sequenced in relation to other life experiences and transitions (Szinovacz 2003). Trajectories refer to development within a life sphere such as the work career. Some work career trajectories (e.g., stable work patterns that ensure adequate pensions) may enhance retirement well-being (O’Rand and Henretta 1999), whereas others may hinder it (e.g., unstable work patterns, see (Marshall, Clarke and Ballantyne 2001)). Pathways are constituted by combinations of trajectories from different life spheres and the timing of life transitions in relation to each other. For example, dual-career couples may experience retirement differently than single-earner couples, and each spouse’s work career may influence the couple’s joint retirement plans.

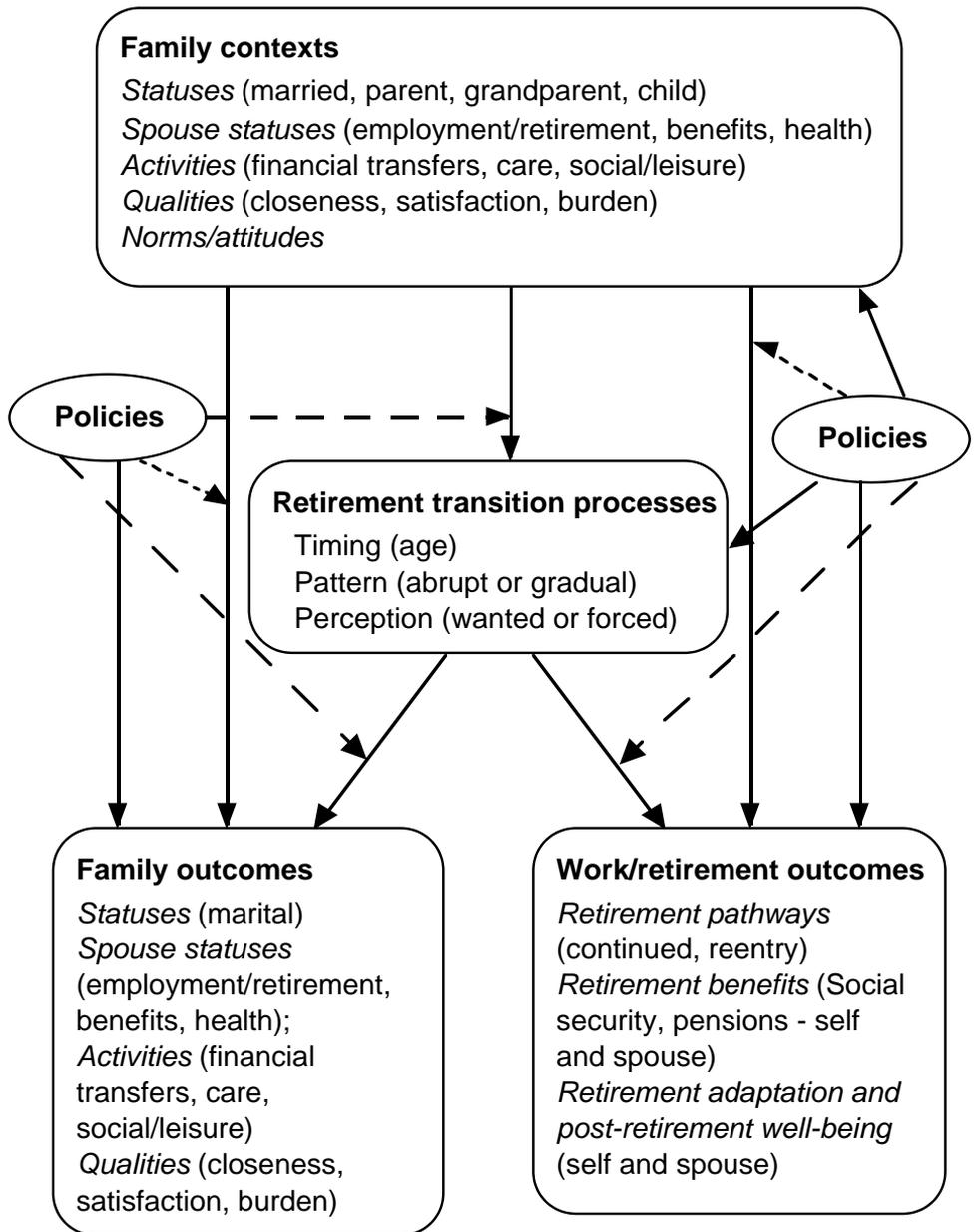
Each of these concepts, interdependence of life spheres, linked lives, contextual embeddedness, and timing and sequencing of life transitions, points to the importance of considering family circumstances and experiences as they affect and are affected by retirement transitions. A general overview of such family-retirement linkages is provided in the next section.

## **What are the connections between family and retirement experiences? An overview**

Figure 11.1 summarizes a model of family-retirement linkages which is grounded in assumptions of the life course perspective (figure attached at the end of the paper). Based on this model, retirement transition processes are contingent on contexts (work, marital, familial) that define individuals' experiences in specific roles (contextual embeddedness). It is further assumed that these contexts are connected (interdependence of work and family spheres). In addition, retirement decisions can be influenced by family members and affect their lives (linked lives). Retirement transitions also must be understood in terms of changes in other life spheres (interdependence; timing and sequencing). Although contexts other than family (e.g., work, leisure) have importance for retirement experiences, this paper focuses exclusively on the family realm.

Family contexts consist of marital and family characteristics that precede the retirement transition and can impinge on retirement decision and adaptation processes. They include family-related statuses, spouse characteristics, activities, the quality of relationships and norms/attitudes. Statuses are the family positions held by workers, that is, whether workers are married, have children, have grandchildren, have living parents or parents-in-law, or have siblings or siblings-in-law. The influence of these contexts on retirement transitions may be either direct (e.g., wives tend to retire earlier if their husbands' retirement precedes their own) or it may be indirect. For example, having siblings per se might have little impact on retirement transitions. However, siblings who care for frail parents may enable the worker to remain in the labor force rather than to opt for perhaps premature retirement. The impact of family statuses will be conditioned by the type of activities involved in each role, the quality of each relationship and pertinent attitudes and norms. For instance, the push effect of husbands' retirement on wives' retirement may depend on the couple's gender role attitudes. If spouses abide by traditional attitudes that stress husband's role as main family provider, the continued employment of the wife after the husband's retirement can be particularly

**Figure 11.1: Linkages between family and retirement experiences**



problematic (Szinovacz 1996), and husbands may be more likely to pressure their wives into retirement if spouses (and especially husbands) have more modern gender role attitudes. Family contexts can influence the initial retirement transition process itself (timing, pattern, perception), as well as the family and retirement outcomes following the initial retirement transition. In addition, the implementation of such family context-related retirement choices is contingent on policies such as benefit reductions in case of early retirement. For example, when age differences between spouses are large, couples may be unable to retire jointly (typically the preferred retirement transition for couples) because joint retirement would either require one spouse to remain in the labor force after s/he reaches benefit eligibility or lead the other spouse to retire with considerable benefit reductions due to early retirement. Past research offers some insights into family contexts that influence retirement decisions but provides little information on the interplay between family contexts and policies in retirement transition processes.

How and under which family circumstances individuals retire will then affect both post-retirement family activities and relationships as well as retirement outcomes, again contingent on policies. For example, if retirement benefit rules prompt wives to postpone their retirement well beyond that of their husbands, marital relations as well as personal well-being may suffer (impact on family outcomes), or disenchanted husbands may decide to reenter the labor force until their wives reach benefit eligibility and retire (retirement outcomes). Whether such options are feasible depends on prevalent policies. For instance, reentry may be impossible in countries with mandatory retirement rules. Current evidence on the outcomes of retirement transitions is quite limited. Some studies have addressed the impact of retirement on marital relations and personal well-being, but they rarely consider family contexts underlying the retirement transition as predictors of either family or retirement outcomes. They also lack information on how outcomes may be mutually shaped by family contexts *and* retirement policies. Available evidence pertaining to the family-retirement linkages shown in Figure 11.1 is described in the following sections.

## **How do family contexts influence retirement transitions?**

A growing body of research suggests that family contexts can play an important role in retirement decisions. Much of this literature has focused on marital contexts but some evidence on other family contexts exists as well. Frequently, the impact of marital and family contexts differs by gender (Arber and Ginn 1991, Clemens 1997, Disney, Grundy and Johnson 1997, Niederfranke 1991, Ruhm 1996) and by race or ethnicity (Williamson and McNamara 2003, Szinovacz, DeViney and Davey 2001).

### **Marital contexts**

Numerous marital contexts have been linked to retirement decision processes. They include marital status itself, health, age, employment and pension characteristics of spouses, as well as qualities of the marital relationship.

Several studies show that married individuals are more prone to retire and tend to retire somewhat earlier than unmarried persons (Blöndal and Scarpetta 1998, Flippen and Tienda 2000, Hardy and Hazelrigg 1999, Pienta, Burr and Mutchler 1994, Szydlik and Ernst 1996; for contradictory evidence see Lindeboom (1998) and Schmidt (1995)). Whether the married retire earlier than their unmarried counterparts may be contingent on several factors, but especially the age difference between spouses (Ruhm 1996, Szinovacz 2002). For example, wives with much older husbands are less likely to retire early as are married men with younger wives (Ruhm 1996). The reasons for these marital status effects on retirement timing are complex. They include the association between economic well-being and marital status (Wilmoth and Koso 2002, Yabiku 2000) as well as the differential attractiveness of retirement for married and unmarried individuals. For example, both divorce and widowhood prior to retirement have been linked to lower preretirement income and assets (Holden and Kuo 1996). In addition, marital status changes preceding retirement can impinge on retirement timing. For example, White women who marry in their preretirement years tend to retire earlier, whereas preretirement marital disruptions lead especially Black women to postpone retirement (Williamson and McNamara 2003).

Increases in the labor force participation of women in general, and middle-aged women in particular, during the past 50 years imply that retirement is becoming a “couple phenomenon” (Poulin 1998, Szinovacz and Ekerdt 1995). This trend means that spouses face not only decisions about husbands’ but also about wives’s retirement and both spouses’ retirement in relation to each other (Szinovacz 1989a). Studies from a variety of countries (US, Europe) show that dual-earner couples strive to retire jointly (Disney, Grundy, and Johnson 1997, Blöndal and Scarpetta 1998, Allmendinger 1990, Blau 1998, Henkens 1999, Johnson 2004, Johnson and Favreault 2001, Pepermans 1992, Zimmerman et al. 2000, Zweimueller, Winter-Ebmer and Falkinger 1996). One reason for this retirement pattern is that it satisfies traditional provider role expectations (i.e., husbands are the main providers). Some qualitative research indicates, for example, that husbands who retire prior to their wives exert pressure on their wives to retire as well (Skirboll and Silverman 1992, Szinovacz 1989a). According to another study, retired husbands’ attitude toward their wives’ continued employment proved to be one of the most potent predictors of wives’ retirement (Szinovacz and DeViney 2000). Other reasons include spouses’ preference for joint leisure activities, similarities in spouses’ background (age, education) or shared economic restrictions (Gustman and Steinmeier 2002, Henkens, Kraaykamp, and Siegert 1993, Kohli et al. 1989). However, couples are not always able to implement this preferred timing pattern. Data from the 1997 Canadian Survey of Consumer Finances indicate, for example, that only a third of couples retire together. In 37% of couples the wife retired first, and in the remaining 30% of couples, husbands’ retirement preceded their wives’ (Gower 1998). US data also confirm that many couples do not retire jointly (O’Rand and Farkas 2002). Selected circumstances such as a large age difference between spouses, disability of one spouse, economic need for at least one spouse to remain employed, or spouses’ work commitment, can keep couples from retiring jointly (Allmendinger 1990, Arber and Ginn 1995, Hurd 1990, O’Rand, Henretta and Kreckler 1992, O’Rand and Farkas 2002).

Spouses’ retirement timing decisions further depend at least partly on benefit eligibility and pensions of both spouses. Individuals whose spouses have achieved Social Security or pension

eligibility are less likely to remain in the labor force (Anderson, Clark and Johnson 1980), but others observed the opposite effect (Allmendinger 1990) or report only effects of husbands' retirement income on their wives' retirement (Zweimueller, Winter-Ebmer and Falkinger 1996). Another study, relying on German national data, shows that husbands tend to retire earlier the higher their wives' relative contribution to the couple's income, whereas wives with relative higher incomes tend to remain longer in the labor force (Drobnic 2002).

Another factor in couples' retirement decisions is spouse's health or disability. Studies addressing this issue yield contradictory evidence. Some indicate that spouse's illness delays retirement, whereas others find that it hastens retirement (Hayward, Friedman and Chen 1998, Blau 1998, Szinovacz 2000, Arber and Ginn 1995, Hurd 1990, Honig 1996, Pienta and Hayward 1997). This inconsistency most likely derives from the fact that illness of the spouse entails both caregiving responsibilities and economic costs. The balance between these two forces will then determine whether the healthy spouse opts for earlier or delayed retirement.

That spouses do indeed exert mutual influence on each other's retirement decisions is also evident from studies that asked spouses directly about such influences (Henkens and van Solinge 2002, Smith and Moen 1998). Most couples admit to at least some influence of the spouse but it is not clear which spouse has more influence. The Dutch study by Henkens and Van Solinge (2002) indicates more influence of wives on husbands, whereas the US study by Smith and Moen (1998) indicates more influence of husbands on wives.

Retirement decisions are also influenced by the quality of the marital relationship. Spouses in close relationships, those who have joint hobbies, and those desiring more time together are more inclined to retire, whereas couples in conflict-laden relationships may delay retirement to avoid too much togetherness (Henkens 1999, Henkens and Siegert 1994, Henkens and Tazelaar 1997, Honig 1998, Kohli et al. 1989, Szinovacz and Schaffer 2000). Some husbands also postpone retirement because they fear that loss of the main provider role could diminish their power position in the marriage (Kulik 1996, Szinovacz and Schaffer 2000).

## Family contexts

Evidence on other family conditions influencing retirement transitions is rather sparse. Most of this research focuses either on the presence of dependents in the household or on care obligations. Financial obligations, especially for dependent children but also for other household members, can render retirement too costly and lead to a delay of the retirement transition (Hayward, Friedman and Chen 1998, Szinovacz, DeViney and Davey 2001, Blöndal and Scarpetta 1998, Pienta, Burr and Mutchler 1994, Zweimueller, Winter-Ebmer and Falkinger 1996, Anderson, Clark and Johnson 1980, Clark, Johnson and McDermed 1980, Talaga and Beehr 1995). In contrast, the burden of combining employment with care for frail relatives has been shown to push some caregivers into retirement. This seems to be particularly the case for women and Whites compared to Blacks (Ruhm 1996, Zimmerman et al. 2000, Szinovacz 1989a, Talaga and Beehr 1995). Very little research addressed whether close ties to relatives (including adult children) affect retirement transitions. One study indicates that childless married women and childless unmarried men may delay retirement (Szinovacz, DeViney and Davey 2001).

Although findings are not always consistent, this body of literature provides clear evidence that marital and family contexts impinge on retirement attitudes and behaviors. Marriage itself embodies financial and leisure advantages that induce some couples to retire earlier. Among dual-earner couples retirement is a particularly complex process. It involves considerations pertaining to both spouses' benefit eligibility, expected post-retirement income, health and lifestyle preferences. Financial and care obligations for family members other than one's spouse exert economic and time constraints on individuals that are reflected in their retirement decisions. These divergent marital and family influences on retirement processes create equally diverse post-retirement scenarios, ranging from single-retired to dual-retired couples, from retirees with dependent children to those caring for frail parents or spouses, or from couples who enjoy their time together to those desiring more separate life styles. Because of this diversity, individuals' adaptation to retirement varies as well. How marital and family conditions impinge on post-retirement well-being is addressed in the next section.

## How does retirement affect families?

As is the case for retirement decisions, much of the literature dealing with effects of retirement on families addresses marital relationships. Nevertheless, a few studies go beyond the couple to explore the influence of retirement on other family relationships.

### Retirement effects on marital relationships

Myths abound that retirement causes divorce or leads to serious marital problems (Harbert, Vinick and Ekerdt 1992). Generally, scientific research offers little support for such myths. Marital relationships demonstrate considerable continuity over the retirement transition and divorce among retirees remains rare (Atchley 1992, Orbuch et al. 1996). Indeed, retirement tends to reinforce the quality of the preretirement marriage: Happily married couples seem to profit from retirement, whereas unhappy couples' marriages deteriorate after retirement (Davey and Szinovacz 2003, Myers and Booth 1996). It is not entirely clear whose (the husband's or the wife's) retirement is more important for marital quality. Some studies suggest primary importance of wives' retirement especially for husbands' post-retirement well-being (Szinovacz 1996, Szinovacz and Schaffer 2000). However, other studies suggest that both spouses' retirement matters even though in different ways (Davey and Szinovacz 2003). In addition, each spouse's post-retirement adjustment spills over to the other spouse (Haug, Belgrave and Jones 1992, Buchmüller 1996, van Solinge and Henkens 2005).

Despite the overall continuity in marital quality over the retirement transition, there is evidence for specific changes (both positive and negative) in marital relations and interactions after retirement. Freedom from work-related stresses and obligations often brings about positive changes in marital relationships (Rosenkoeter and Garris 1998). Couples enjoy the increased opportunities for companionship and joint endeavors (Dorfman and Hill 1986, Vinick and Ekerdt 1991a). Similarly, couples report fewer tensions, a more relaxed atmosphere at home and fewer arguments (Vinick and Ekerdt 1991a, Szinovacz 1980), changes

they attribute to cessation of the spillover from work-related stresses into the marital relationship (Hughes, Galinsky and Morris 1992, Rogers and May 2003). Another change viewed positively by some couples is that some husbands increase their housework contributions after they retire, especially if their wives are still employed or are housewives. However, wives' retirement seems to restore a more traditional division of household labor (Dorfman and Heckert 1988, Dorfman 1992, Niederfranke 1991, Szinovacz 2000, Szinovacz and Harpster 1994).

Even though retirement brings about many positive changes in marital relations, some negative consequences have been noted as well. Such negative consequences tend to center on household routines and time use. One such problem is the so-called "husband underfoot" problem. Some wives resent that retired husbands interfere in the household domain and interrupt their daily routines (Cliff 1993, Ekerdt and Vinick 1993, Siegert 1994, Schäuble 1995). Because retired husbands often rely on their wives for leisure planning or their wives feel compelled to plan leisure activities for their husbands (Gilford 1986, Vinick and Ekerdt 1991b), wives further complain that husbands' retirement curtails their privacy and the time they have for themselves (Crawford 1971, Hill and Dorfman 1982, Keating and Cole 1980, Vinick and Ekerdt 1991b). The often-cited saying: "I married him for better or for worse but not for lunch" reflects such sentiments. Whereas wives are dissatisfied with husbands' impingement on their domain, husbands are sometimes displeased with their wives' household management. As they spend more time at home, retired husbands obtain a "second look" at their wives' household routines. Both "underfoot" and "second look" problems can lead to marital conflicts (Vinick and Ekerdt 1991b, Kohli et al. 1989).

Finding the right balance between togetherness and separation, or what Caradec (1994) calls a "good distance", is another prerequisite for high-quality retirement marriages. Too much togetherness or disagreement over involvement in joint activities can undermine marital quality (Kohli et al. 1989, Dorfman and Hill 1986, Schäuble 1995). Such conflicts often occur when one spouse depends primarily on the marriage for the fulfillment of intimacy and social needs (Kulik 1996). Myers and Booth (1996) found, for example, that retirement contributes to marital quality

if spouses have many friends, and that a decline in friendships upon retirement reduces marital quality. Similarly, Kulik and Bareli (1997) reported higher status anxiety among retired husbands who depended heavily on wives for fulfillment of social needs. Results based on the US Health and Retirement Study further confirmed that the impact of retirement on the marital power structure may influence well-being. This study suggested that retirement undermines married retirees' retirement satisfaction if it enhances the other partner's influence in the marriage (Szinovacz and Davey 2005).

Particularly important for couples' post-retirement marital quality and spouses' personal well-being is the timing of their retirement in relation to each other and in relation to their plans. Studies show quite consistently that marital quality and personal well-being decline when husbands retire while their wives are still employed (Szinovacz 1996, Davey and Szinovacz 2003, Myers and Booth 1996, Szinovacz and Schaffer 2000, Lee and Shehan 1989, Moen, Kim and Hofmeister 2001, Kim and Moen 2002). This retirement pattern contradicts traditional gender role expectations that emphasize men's role as main providers. Indeed, its negative effect on marriages and spouses seems to be particularly strong among couples who abide by traditional gender role norms (Szinovacz 1996). However, negative outcomes associated with husband's earlier retirement may be short-lived and contingent on husbands' perception of shared leisure interests as well as couples' options to retire jointly (van Solinge and Henkens 2005, Szinovacz and Davey in press). In addition, wives' retirement adjustment seems to be more difficult if spouses' health problems lead to premature retirement (Szinovacz and Davey 2004).

Thus, retirement can lead to some marital problems, especially if spouses' expectations are not met (Kohli et al. 1989, Vinick and Ekerdt 1992). It is not clear, however, whether such problems persist. Most researchers argue that the typically long-term marriages of retired couples withstand potential upheavals surrounding the retirement transition. These couples are able to work out compromises, so that retirement-related marital problems are usually of short duration (Vinick and Ekerdt 1991b). Of course, problems surrounding the single-retired husband pattern are automatically resolved once the wife retires.

## Retirement effects on family relationships

Whereas post-retirement marriages have attracted the attention of numerous researchers, practically nothing is known about retirement influences on other family relationships. Because the family constitutes the main life sphere of many retirees (Kelly and Westcott 1991), family relationships tend to take on greater significance after retirement (Niederfranke 1991). It is not clear, however, whether greater significance also lead to more contacts. Some studies indicate that retirees increase contacts with children, grandchildren, or siblings, but others refute these findings or find variations by gender (Niederfranke 1991, Kohli et al. 1989, Niederfranke 1989, Kremer 1985, Schäuble 1989, Östberg 1992). For example, men in particular may catch up on previously neglected contacts with their children or grandchildren (Niederfranke 1991, Szinovacz, DeViney and Davey 2001). However, it is not clear whether such increased contacts also further post-retirement well-being. For example, Szinovacz and Davey (in press) found that high grandchild care obligations in conjunction with retirement did not improve well-being as measured through depressive symptoms. Retirees may also be less able to provide financial support to children (Kremer 1985). In addition, kin obligations such as care for relatives may become less stressful after retirement due to decreased role conflict (Kolland 1988). However, caregiving obligations also restrain retirees' leisure and may "spoil" their retirement plans (Kolland 1988, Vinick and Ekerdt 1991b). Furthermore, women who feel forced into retirement due to care obligations or family needs tend to have problems adapting to retirement (Szinovacz 1989a, Szinovacz 1987a, Szinovacz and Davey 2004).

Taken together, retirement effects on marital and family relationships seem to depend on two main factors: the preretirement quality of relationships and the extent to which post-retirement marital and family relations meet retirees' and their spouses' or family members' expectations. Retirement typically does not magically fix preretirement marital problems (unless they are tied exclusively to one or both spouses' employment), but it can enhance marital quality among already happy couples as they find more time for joint endeavors. Similarly, the quantity and quality of

post-retirement kin relations will depend not only on retirees' but also on their relatives' needs and wishes. For example, parents may desire more contacts with adult children, but their children may fear that such increased contacts would render their parents too dependent on them (Remnet 1987). Realistic expectations and finding the right balance between togetherness and separation will safeguard marital and kin relationships after retirement.

### **How are retirement policies linked to families?**

The institutionalization of retirement in the late nineteenth and early twentieth century was founded on the development of employer pensions and later government-sponsored old age security programs such as Social Security in the United States (Costa 1998). Benefits based on these programs are typically tied to workers' age, employment history, job tenure, earnings and, in some cases, marital status (Social Security Administration 1999).<sup>2</sup> My discussion focuses on Social Security regulations in the United States, but is applicable to other countries with similar old age security rules (for a detailed discussion of these issues see also (Meyer and Bellas 1995)).

Old age security programs are linked to family concerns in three main ways: they shift provision for old family members from the family to the state; they offer albeit partial relief to families with disabled workers and provide for workers' survivors; and they incorporate regulations that favor specific family arrangements and life course trajectories. On the other hand, family behaviors can influence old age security programs in a dual way: they have implications for the solvency of such programs as well as the success of specific changes in policies.

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2. This does not apply to universal old age pensions that are based exclusively on workers' age. However, such universal pensions are typically complemented by work-related pensions. The following discussion does not pertain to universal old age pensions.

## Provision for older persons

The foremost implication of old age security programs is that it shifts the main responsibility for old age economic security from the family to the state (Gratton and Rotondo 1992, Harber and Gratton 1994) through taxation of workers' earnings. It has been argued that the current Social Security system profits older persons at the expense of the young (see (Pampel 1998, Williamson, Watts-Roy and Kingson 1999) for summaries of these arguments) and undermines intergenerational relations. Both arguments have been criticized in the gerontological literature (Kingson, Hirshorn and Cornman 1986, Binstock 1991, Quadagno 1991, Williamson, Watts-Roy and Kingson 1999).

Prior to the development of old age security programs, older persons either had to accumulate savings that guaranteed economic survival when they could no longer work or depended on family members or community charity for survival in old age (Gratton and Rotondo 1992, Harber and Gratton 1994, Held 1982, Laslett 1977, Thomson 1989). The accumulation of household savings (so-called family funds) was often at the expense of children and unmarried young adults whose wages constituted an integral part of this accumulation system. The system required children and young adults to join the labor force at early ages and to contribute a majority of their earnings to the family fund. Early employment precluded further education and often the prospect of upward mobility, whereas contribution of wages to the family fund hindered accumulation of own savings and could lead to delayed marriage.

Furthermore, lack of old age security programs forces many older persons to work until disability or death (Costa 1998) as is still the case in some developing countries (International Labour Office 1999). Old age welfare systems thus regulate older workers' exit from the labor force and open job opportunities for younger people (Szinovacz and Ekerdt 1995).

The old family fund system not only contained considerable disadvantages for young family members, it was also vulnerable to family misfortune, as evidenced by considerable old-age poverty

prior to old age security programs (Haber and Gratton 1994, Held 1982, Laslett 1977, Thomson 1989). Indeed, in developing countries that lack old age security provisions, many elders still rely on their families' economic support. Such family support often proves to be unreliable and creates unwanted dependencies (Ngan, Chiu and Wong 1999). By decreasing such dependencies, old age security systems encourage emotional kin ties that are not burdened by financial considerations and duties (Kingson, Hirshorn and Cornman 1986, Knipscheer 1988, Quandagno and McClellan 1989). Of course, families continue to provide for each other in times of need. Yet for general old age support, even today's younger generation favors state-based support of the elderly (Treas and Spence 1989, Dekker 1993, Rix 1999).

Thus, an important function of age security programs is that they release adult children from most direct financial responsibilities for their parents and allow them to devote their financial resources to their own children's upbringing and education (Szinovacz 1995). They also regulate the labor market, protect families from misfortune and foster emotional kin ties. Furthermore, as Szinovacz (2003) notes:

“the inherent redistribution of income within old age security programs (i.e., replacement rates are higher for lower-income groups) lightens the financial burden of those who would be particularly strained by economic supports of their elders. A shift to private retirement savings, on the other hand, would benefit higher income groups. It would also erode the intergenerational contract by shifting the old age security paradigm of interdependence and social cohesion toward a paradigm of independence and individualism (Rix 1999, Williamson, Watts-Roy and Kingson 1999).”

### **Provisions for family members**

Many old age security programs include provisions not only for workers themselves but also for their family members in the form of spouse allowances and survivor benefits. Allowances for spouses of living partners are grounded on the traditional provider

role ideology that views men as main and often single earners (Bernard et al. 1995, Arber and Ginn 1991, Sainsbury 1996, Rolf 1991). Although this ideology permeated thinking at the time many old age security programs were founded, it has undergone rapid change during the latter part of the twentieth century as evidenced by the rise in women's employment in Western countries (Prinz and Marin 1999). Nevertheless, many old age security programs still provide spouse benefits. In the United States, for example, spouses are entitled to either their own benefit (based on their own work career) or to one half of their spouse's benefit, whichever is higher (Social Security Administration 1999). Because husbands often have the higher entitlement, their wives rely on their husbands' rather than their own benefits (National Economic Council Interagency Work Group on Social Security 1998). This regulation, on the one hand, favors married recipients and, on the other hand, negates the value of women's accomplishments in the labor force (Hieden-Sommer 1993, Pampel 1998, Rosenman and Winocur 1990).

In addition to spouse allowances, most old age security programs include provisions for survivors (widowed persons and dependent children of workers). Survivor benefits reflect the same male provider role ideology as spouse allowances (i.e., economically self-sufficient survivors could rely on their own benefits as the unmarried are required to do). Survivor benefits for dependent children, on the other hand, constitute another example for the protective role of old age security programs against family misfortune and demonstrate that old age welfare programs can profit not only older persons but also children.

The regulations for spouse and (adult) survivor benefits not only reflect traditional gender role ideology, they are also at odds with other types of family change. For instance, they entail disadvantages for divorcees who (at least in the United States) are only entitled to benefits derived from their previous marriage if that marriage lasted 10 years or more. However, most marriages break up earlier. Similarly, there is continued debate about entitlements of persons in alternative family unions, especially homosexual couples.

## Old age security regulations and family careers

Old age security benefits are typically based on average earnings over a considerable time period. They, therefore, favor workers with uninterrupted work histories and high earnings. This creates a dual disadvantage for many women. Women still earn less than men, and they often disrupt their careers for child bearing and child rearing or take on part-time work to accommodate parenting and employment responsibilities. The benefit penalties for work interruptions thus take on the character of child bearing and child rearing penalties (Chen 1988). Women's employment in industries that are not covered by private pensions and investment provisions in private pension plans further aggravate this economic disadvantage (Allmendinger, Brückner and Brückner 1991, Arber and Ginn 1995, Gonnot 1995, Kingson and O'Grady-LeShane 1993, O'Rand 1988, Quadagno 1988, Rolf and Wagner 1992, Walker, Alber and Guillemard 1993). The European Community countries as well as Canada (but not the United States) counteract the mother penalty in old age security provisions by crediting some care years as "work" years in benefit calculations (Prinz and Marin 1999). However, such credits do not fully compensate for lost work years. They also contain no adjustments for other family work such as care for frail parents or other disabled family members. Women's lower benefits in turn reinforce the need for spouse allowances and the perpetuation of traditional gender role ideology and contribute to economic insecurity of single mothers who never remarried and whose marriages lasted under 10 years (Holden and Kuo 1996).

In summary, then, old age security provisions for other family members offer a safety net for families whose main provider(s) are unable to work. They also guarantee economic security for spouses who either did not work at all or have interrupted work histories that preclude old age financial well-being. However, they also reinforce traditional family values and provide inadequate protection for those who follow nontraditional family careers.

## The interplay between family behaviors and old age security programs

Because old age welfare programs are financed through taxes (either general income taxes or special old age security taxes), they are contingent on the size of the work force. Fertility behavior of families in succeeding cohorts thus determines to a large extent (except for migration) the solvency of old age security programs. The predicted shortfall in old age security funds in the second quarter of this century derives from the aging of the baby boom generation (those born in the 1950's and 1960's) and the continued decline in fertility since the later part of the twentieth century (Williamson, Watts-Roy and Kingson 1999). Although fertility patterns originate from a complex set of factors, mother penalties in old age security regulations certainly don't encourage women to bear more children.

Old age security rules are not only at odds with family care obligations, they also discount the wishes of many couples for joint retirement. In many Western nations husbands are slightly older than their wives, yet retirement age is the same for men and women.<sup>3</sup> In the United States, benefits for the couple are reduced if either spouse retires before reaching full benefit eligibility (currently at age 65). This means that husbands with younger wives would have to postpone retirement beyond age 65 if their wives are to reach full eligibility, an option that runs counter to many couples' preferences. The result is an intricate interplay between spouses' preferences and old age security rules. This is demonstrated by the effect of interest in joint retirement leisure on labor force participation in the later years, as well as by the mutual influence of spouses' benefit eligibility and pension wealth on each other's retirement decisions (Gustman and Steinmeier 2002, Coile 2003, Kim and Feldman 1998). It also means that changes in old age security programs or employer retirement incentives that go counter to spouses' preferences may not fully succeed. Some regulations, on the other hand, can facilitate joint retirement of couples. For

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3. Some European countries (e.g., Austria and Germany) still have lower retirement ages for women than men but these provisions will be phased out.

example, the addition of a spouse allowance to Canada's income security program resulted in increased earlier joint retirement among eligible couples (Baker 1999).

These two examples show that family behaviors have consequences for old age security programs and that policies will be more successful if they accommodate family preferences and needs. On a more general level, research linking family and retirement experiences overcomes both the individualistic and economic bias that predominates in the current literature. Retirees are (and in many cases are foremost) family members. As such they adapt their retirement decisions not only to bureaucratic rules but also (and in many cases primarily) to their families' needs.

### **What research is needed on families and retirement?**

The preceding discussion leaves little doubt that family-retirement linkages are still not well understood. Although practically all family-retirement linkages deserve further exploration, some research needs seem particularly pressing. These include research on family-retirement linkages beyond the marital relationship, studies that truly capture the complexities of retirement-family linkages, and investigations of the interplay between family needs and retirement policies.

Much of the current literature on families and retirement focuses on couples. Although most men and a majority of women enter retirement while they are married, neglect of the unmarried retiree population is problematic because it implicitly entails a male bias (most unmarried retirees are women) and because it is the unmarried who may face special problems in retirement. Not only are unmarried retirees more prone to have financial difficulties in retirement (Social Security Administration 2003, National Advisory Council on Aging 1999), they also lack the companionship marriage affords. How the unmarried fare in retirement will depend on both their work and family careers, as well as the timing of marital disruptions in relation to the retirement transition. For example,

divorce or widowhood following shortly after retirement may be particularly detrimental to well-being if retirees' post-retirement plans focused on joint leisure activities with their spouses.

There also is need for studies that reflect the complexity of linkages between work and family careers. To date much of the literature focuses on the retirement transition itself (typically the transition from employment to full retirement) but little is known about how the intersection of work and family career trajectories impinges on retirement processes and outcomes. Some studies indicate, for example, that variations in work interruptions due to motherhood influence women's retirement timing (Pienta, Burr and Mutchler 1994, Pienta 1999). Other research shows that close to one third of retirees experienced other family transitions (e.g., marital disruption, illness or death of family members, moves) within three years prior to or following retirement. Such accumulation of life events surrounding the retirement transitions was linked to reduced well-being especially among women (Szinovacz and Washo 1992). Only by exploring such diverse pathways will we come closer to understanding the complexities of retirement transition processes.

Because old age security policies have been relatively stable and most research centered on specific countries, it is difficult to assess the interplay between family needs and policy regulations. There can be little doubt that individuals' retirement behaviors are responsive to old age security policies (Gruber and Wise 1999, Kohli and Rein 1991), but we lack knowledge on how much this response is moderated by specific family contexts such as marital relationships, family obligations and even family policies (for an overview of potential effects of family and household structures see Gonnot 1995)). For example, couples' retirement timing is affected differently when retirement ages for men and women are similar and when they are dissimilar (Szinovacz 2002). In addition, the effect of old age security programs may be influenced by other policies such as those relating to family leave and family care. Programs providing financial care support to frail older persons (such as in Austria and Germany) may enable care recipients to hire help during time periods when family caregivers are at work and thus reduce the negative impact of care on retirement benefits. Lack of such programs, on the hand, may force some middle-aged

caregivers out of the labor force, thus counteracting policies that encourage postponement of retirement (Bosworth and Burtless 1998, Walker and Taylor 1998, Walker 1999, Szinovacz and Davey 2004).

Linkages between the work and family spheres throughout the life course manifest themselves in close connections between family circumstances and retirement transitions. Family contexts influence retirement transitions and retirement under diverse family circumstances has consequences for retirees' economic and psychological well-being. To further our understanding of retirement processes we will have to pay closer attention to these linkages. Such understanding is necessary to identify risk groups among retirees and to develop programs that help individuals, couples, and family members adapt to the retirement transition. In-depth knowledge of family-retirement linkages will also be needed to assess how recent changes in the old age security policies of many countries will impact families and how families will respond to these changes.

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## **Chapter 12. The changing characteristics of older couples and joint retirement in Canada**

by

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Increased labour force participation of women has been one of the most important social revolutions of the later half of the twentieth century in Canada and other industrialized countries. Women have become progressively more involved in career-oriented occupations and have accumulated continuous work histories. No longer are they marginal contributors to the family income or economically dependent on their husbands. They have become equal partners in most family decisions regarding economic issues, including those involving retirement (Henkens and Van Solinge 2002).

In this chapter, we examine one of the important decisions that most individuals involved in working couples have to make — whether to retire at the same time as their spouse. The relationship between women's level of economic independence and joint retirement intentions has not received much attention in Canada. What are the correlates of intentions of joint retirement in Canada? In what ways are men and women different (or similar) in deciding to retire at the same time as their spouses? Using the 2002 General Social Survey (GSS) data on 'near-retirees' aged 45 to 59, this study addresses these and other related questions.

We pay particular attention to the relationship between the characteristics associated with women's increased labour force participation — greater contribution to household income, increased pension coverage, and involvement in managerial and professional occupations — and their intentions to retire jointly with their spouse.

The chapter is divided into two sections. In the first section, we document changes in the characteristics of individuals and couples nearing retirement from the early 1980s to the early 2000s. Emphasis is placed on the changing employment characteristics of women and the implications this may have for couples approaching retirement. In the second section, we examine expectations of joint retirement among women and men in dual-earner couples and the factors associated with such expectations.

## The changing characteristics of older workers

The employment and income characteristics of older women have changed significantly over the past two decades, altering the circumstances in which individuals and couples make retirement decisions. Women now approaching retirement have far greater attachment to the paid labour force over the course of their lives than did earlier cohorts. Between 1981 and 2004, the labour force participation rate of women aged 45 to 54 increased from 55% to 80%, and of those women who were paid employees<sup>1</sup>, the share with job tenures of 10 years or more increased from 30% to 48% (Table 12.1). Over this period, the share of women aged 45 to 54 working on a full-time basis increased from 73% to 79%, again testifying to greater labour force involvement.

The sectors of the economy in which 'older women' (defined as age 45 to 54) are employed have changed as well. The share of female employees aged 45 to 54 working in the public sector, broadly defined to include health, social services, education and related services, and government and religious organizations, increased from 37% to 45% between 1981 and 2004 (Table 12.1). This is an important consideration given that pension coverage is higher in the public sector than in most other industries (Statistics Canada 2004). Moreover, the share of older female employees belonging to a labour union increased from 33% to 40% over this period, with a large portion of this increase attributable to changes in the industrial profile of these employees (Morissette, Schellenberg and Johnston 2005).

Changes have also been evident in the types of occupations in which older women work. Between 1981 and 1998, the share of older female employees in managerial occupations increased from 7% to 16%, and the share in professional occupations increased from 20% to 27%. While clerical, sales and service occupations still account for a significant share of female employment, the growing importance of managerial and professional jobs is certainly clear. This is consistent with rising levels of educational attainment, as the share of older employees with a university degree increased from 8% to 21% between 1981 and 2004.

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1. In 1981 and 2004, the shares of employed women aged 45 to 54 who were self-employed were 12.4% and 13.6% respectively.

**Table 12.1: Selected characteristics of paid employees aged 45 to 54, Canada, selected years**

Attributes of employment	1981	2004	Percentage point change
Percentage with job tenure of 10 years or more			
Men	56	55	- 1
Women	30	48	+ 18
Percentage employed in the public sector <sup>1</sup>			
Men	23	20	- 3
Women	37	45	+ 8
Percentage who belong to a labour union			
Men	48	42	- 6
Women	33	40	+ 7
Education	1981	2004	
Percentage who have a university degree			
Men	12	22	+ 10
Women	8	21	+ 13
Occupation	1981	1998	
Percentage employed in managerial jobs			
Men	14	20	+ 6
Women	7	16	+ 9
Percentage employed in professional jobs			
Men	11	17	+ 6
Women	20	27	+ 7
Earnings	1980	2000	
Percentage with annual earnings of \$40,000 or more			
Men	62	60	- 2
Women	21	35	+ 14
Taxfilers	1991	2001	
Percentage with a positive pension adjustment			
Men	52	46	- 6
Women	42	46	+ 4

1. Public sector broadly defined to include health and social services, education and related services, government and religious organizations. Sources: 1981 Survey of Work History, 2004 Labour Force Survey, 1981 and 2001 Census, and 1991 and 2001 tax file data.

Women have also been making gains in earnings. Between 1980 and 2000 the share of female employees (aged 45 to 54) with annual earnings of \$40,000 or more increased from 21% to 35% (Table 12.1). More broadly, Heisz, Jackson and Picot (2002) report that the weekly earnings of full-time female workers increased by 13% between 1989 and 2000, while the weekly earnings of comparable male workers remained unchanged. As a result, the gender earnings gap, while still persistent, narrowed over this period (Drolet 2001). Finally, gains have been made in pension coverage, as the share of female tax filers aged 45 to 54 reporting coverage increased from 42% to 46% between 1991 and 2001.

Sustained employment over the life course also means that women now approaching retirement have made larger contributions to private and public pensions than earlier cohorts, and consequently, will be eligible for larger retirement benefits.

The changing labour market characteristics of women have altered the characteristics of couples approaching retirement. Of married and common-law couples in which the older partner is aged 45 to 54, the share of couples in which both partners worked a full year<sup>2</sup> increased from 27% to 46% between 1980 and 2000, and the share in which both partners worked full time and full year increased from 20% to 37% (Table 12.2).

The relative financial contributions of male and female partners have changed as well. Between 1980 and 2000, the proportion of couples (older partner aged 45 to 54) in which the female partner contributed 40% or more of the combined income of both partners more than doubled, rising from 19% to 43%. The share of couples in which the female partner contributed less than 20% declined from 56% to 27%.

All in all, the past two decades have witnessed substantial changes in the characteristics of individuals and couples approaching retirement. The cohort of individuals now poised to make the transition into retirement is comprised of a larger share of women than any previous cohort. In 1981, women accounted for 35% of employed persons aged 45 to 64, while in 2004 they

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2. Full-year employment is defined as 49 weeks or more.

**Table 12.2: Married or common-law couples in which the older partner is aged 45 to 54, selected characteristics, Canada, 1980 and 2000**

Employment and income attributes	1980	2000	Percentage point change
Percentage of couples in which both partners were employed 49 weeks or more during the year	27	46	+ 19
Percentage of couples in which both partners were employed full-time for 49 weeks or more during the year	20	37	+ 17
Percentage of couples in which the female partner contributed...*			
Less than 20% of total income of couple	56	27	- 29
20 to 39% of total income of couple	25	30	+ 5
40 to 49% of total income of couple	10	17	+ 7
50 to 59% of total income of couple	4	13	+ 9
60% or more of total income of couple	5	13	+ 8
Total	100%	100%	
Average contribution of female partner to total income of couple*	20%	35%	+ 15

\* Excludes couples with zero or negative income.

Source: 1981 and 2001 Census.

accounted for 46%.<sup>3</sup> Many analysts have shown that women and men tend to experience retirement differently. For example, women typically retire earlier than men.<sup>4</sup> And among dual-earner couples, the retirement of women has typically been more contingent on the retirement of their husbands, while the retirement of men has been less contingent on that of their wives (Hurd 1990, Smith and Moen 1998, Henkens and Van Solinge 2002, Gustman and Steinmeir 2000). With the changing sex composition of retirees, the effects of differences in the retirement plans and expectations of women and men will be more far-reaching in the years ahead.

3. The figures are similar if we consider employed persons with a university degree. In 2004, women accounted for 44% of employed persons aged 45 to 64 who had a university degree, up from 32% in 1990.

4. In an Ordinary Least Squares Regression model, women retired about two years earlier than men after taking into account other factors such as occupation, industry, pension coverage and marital status.

**Table 12.3: Selected characteristics of retirement for female recent retirees<sup>1</sup>, by education, occupation and industry, Canada, 2002**

	Average retirement age	Percentage who retired before age 60 %	Percentage who retired involuntarily %
<b>Education</b>			
Less than high school	60.7	43	37
High school <sup>2</sup>	59.7	53	25
Certificate or diploma	60.0	49	29
University degree	58.7	62	18
<b>Occupation prior to retirement</b>			
Managerial & professional	58.5	62	21
Technical & clerical	60.0	49	26
Sales & services	60.9	42	35
Blue collar <sup>3</sup>	60.5	42	30
<b>Industry prior to retirement</b>			
Goods-producing	59.5	51	33
Consumer services	60.5	45	37
Business services	59.7	53	24
Public services <sup>4</sup>	59.8	52	20

Furthermore, changes in the labour force characteristics of older women bode well for their imminent retirement transition. This point can be illustrated by briefly considering the experiences of women who retired between 1992 and 2002. Among this group, positive retirement experiences were most prevalent among those with higher levels of education, employment in managerial and professional jobs, and employment in the public sector (Table 12.3).

Women with these characteristics were more likely to have retired before age 60, were more likely to have retired voluntarily, and were more likely to have retired because they could afford to do so than women with lower levels of education, employment in sales and service jobs, and employment in consumer services. Other things being equal, the share of women positioned to make a favourable transition into retirement has been on the rise.

**Table 12.3 continued: Selected characteristics of retirement for female recent retirees, by education, occupation and industry, Canada, 2002**

	It was financially possible to do so %	They were eligible for pension benefits %	Their health required it %
<b>Education</b>			
Less than high school	49	29	35
High school	62	33	22
Certificate or diploma	61	28	27
University degree	73	52	18
<b>Occupation prior to retirement</b>			
Managerial & professional	69	45	22
Technical & clerical	65	36	19
Sales & services	51	25	35
Blue collar	52	28	27
<b>Industry prior to retirement</b>			
Goods-producing	54	28	22
Consumer services	52	21	28
Business services	68	37	26
Public services	68	46	25

1. Female recent retirees includes women who retired during the years 1992 and 2002 and who were 50 years of age or older when they did so.
2. Includes persons who have taken some post-secondary education, but have not completed a post-secondary certificate, diploma or degree.
3. Blue collar includes trades, transportation, equipment operators, occupations unique to primary industries, and occupations unique to processing, manufacturing and utilities.
4. Goods-producing industries include agriculture, mining, forestry, fishing, manufacturing, construction and utilities. Consumer services include trade, accommodation and food services, information, culture, recreation and other services. Business services include finance, insurance, real estate, professional, technical, scientific and management services, transportation and warehousing. Public services include health, social services, education and related services and public administration.

Source: Statistics Canada, 2002 General Social Survey.

## Expectations of joint retirement

A further implication of the changing labour force characteristics of older women pertains to the retirement decisions made by couples. Specifically, many couples must now make two retirement decisions rather than just one, and must balance the preferences and constraints faced by partners who both make substantial contributions to the household income. For women, greater investments in education and training, prolonged attachment to the paid labour force, employment in occupations with career trajectories, and significant earnings and retirement savings may translate into increased autonomy and independence in their retirement decision vis-à-vis their spouses. Thus, in addition to taking into account their husbands' retirement plans, women must increasingly weigh the financial and non-financial returns of their own employment when making their retirement decision.

As O'Rand and Farkas (2002) suggest, "women's increased relative economic independence has, in all likelihood, influenced their retirement timing relative to that of their husbands." One way to gain further insights on this issue is to examine the prevalence and correlates of joint retirement. It is to this issue that we now turn.

A growing number of studies indicate that couples prefer to synchronize the timing of their exits from the labour force (Blau 1998, Drobni 2002, Henretta, O'Rand and Chan 1993, O'Rand and Farkas 2002). When 'joint retirement' is not possible, evidence suggests that later-retiring spouses tend to leave the labour force as quickly as possible, with later-retiring wives doing so at a faster rate than later-retiring husbands (Ruhm 1996, Henretta, O'Rand and Chan 1993).

Yet in spite of such preferences, many couples do not synchronize their labour force exits. In Canada, Gower (1998) reports that 33% of spouses in retired couples left the labour force within one year of each other, while 12% did so within the same month. In the U.S., Szinovacz (2002) reports that 42% of couples retire within one year of each other, while 56% retire within two

years of each other<sup>5</sup>. Of course, the incidence of ‘joint retirement’ depends on how wide a timeframe is used by researchers to capture the labour force exits of both spouses.

On the 2002 General Social Survey, non-retired individuals were asked a battery of questions regarding their plans and expectations regarding retirement. In this section, we focus on non-retired individuals aged 45 to 59 who are married or in a common-law relationship in which both partners are employed<sup>6</sup>. These respondents were asked:

*“Do you intend to retire at the same time as your spouse/partner?”*

A logistic regression model was constructed using the yes/no responses to this question as the dependent variable. GSS respondents who said they did not intend to retire<sup>7</sup> and those who did not state whether or not they intended to retire at the same time as their spouse/partner were excluded from the analysis.<sup>8</sup> A total of 1,180 women and 1,215 men were included in the analysis. Separate regression models were run for women and men, recognizing that labour market experiences, domestic roles and retirement transitions vary by sex.

A series of demographic, labour market and financial characteristics were included as independent variables in the model, the results of which are shown in Table 12.4. We begin

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5. In the data used by Szinovacz (2002), month of retirement was not available, so the possible range for the retirement date of each spouse was actually 0 to 35 months.

6. ‘Employed individuals’ were identified as those who said their main activity during the previous 12 months was ‘Working at a paid job or business’. Also included were individuals who said their main activity was something other than paid work, but who had at least 26 weeks of employment during the year. To be included in the analysis, individuals also had to declare that their spouse’s main activity during the previous 12 months was ‘Working at a paid job or business’.

7. A discussion of the characteristics of this group can be found in Schellenberg (2004).

8. A total of 176 (or 7%) respondents who were potentially in-scope for the analysis said they did not know if they intended to retire at the same time as their spouse or refused to answer the question.

**Table 12.4: Predicted probability<sup>1</sup> of expecting to retire at the same time as one's spouse, for near-retirees<sup>2</sup> in dual-earner couples, Canada, 2000**

	Women	Men
<b>Age difference with husband</b>		
Wife is at least 5 years older	41%**	17%**
Wife is 3 to 4 years older	48%	57%
Wife is 1 to 2 years older	48%	49%
Same age*	60%	57%
Husband is 1 to 2 years older	57%	52%
Husband is 3 to 4 years older	47%**	45%*
Husband is 5 to 9 years older	39%**	36%*
Husband is at least 10 years older	25%**	16%*
<b>Age</b>		
If respondent was aged 45	58%**	47%
If respondent was aged 50	49%**	44%
If respondent was aged 55	41%**	41%
<b>Marital Status</b>		
Common-law union	44%	40%
Married*	49%	44%
<b>Presence of children aged 0 to 17</b>		
None *	49%	44%
One	56%	47%
Two or more	33%**	41%
<b>Presence of children aged 18 or older</b>		
None *	50%	44%
One	53%	43%
Two or more	34%**	45%
<b>Self-rated health</b>		
Excellent	45%	47%
Very good	48%	41%
Good	56%	43%
Fair/Poor	47%	48%
<b>Expect to be influenced by spouse's health</b>		
Yes	53%	45%
No*	46%	45%

**Table 12.4 continued: Predicted probability of expecting to retire at the same time as one's spouse, for near-retirees in dual-earner couples, Canada, 2000**

	Women	Men
<b>Sense of Mastery</b>		
Some, few or no control	60%**	46%
Most control*	46%	44%
All control	49%	41%
<b>Occupation</b>		
Managerial/Professional/Technical	44%**	45%
Clerical	47%*	48%
Sales/services*	56%	36%
Blue collar	47%	45%
<b>Employment Status</b>		
Self-employed	68%**	49%
Paid employee*	44%	42%
<b>Pension Coverage</b>		
Yes	44%*	44%
No*	53%	44%
<b>Personal income</b>		
Less than \$20,000*	45%	46%
\$20,000 to \$39,999	44%	43%
\$40,000 to \$59,999	44%	38%
\$60,000 and over	47%	38%
<b>Contribution to household income</b>		
Less than 40%*	53%	43%
40% to 59%	50%	50%
60% and over	42%*	46%
<b>Perception of future retirement income</b>		
Adequate	52%**	46%
Not adequate *	42%	42%

\* Reference group

\*\* Significant at .05 level of confidence or better.

1. Predicted probabilities computed by setting other co-variates to their mean values. For categorical variables like occupation or marital status, the mean values represent the percentage of the population of interest falling in each of the categories of the independent variable.

2. Near retirees are defined as employed individuals aged 45 to 59.

Source: Statistics Canada, 2002 General Social Survey.

by discussing the demographic characteristics associated with expectations of joint retirement, followed by a discussion of labour market and financial correlates.

Overall, expectations of joint retirement are quite prevalent among non-retired Canadians in dual-earner couples, with 48% of women and 46% of men saying they expect to retire at the same time as their spouse or partner. Consistent with other research, expectations of joint retirement are most prevalent among individuals who are the same age as their spouse, and decline as the age difference between spouses increases (Gower 1998, Szinovacz 2002, O'Rand and Farkas 2002). For example, the predicted probability of expecting to retire jointly is 60% among women who are the same age as their husband, while it is 39% for those who are five to nine years younger (Table 12.4). Expectations of joint retirement among men are also significantly correlated with the relative age of their spouse. Joint retirement may not be appealing to younger spouses because they do not think they will be psychologically ready to leave their job or will not be eligible to receive pension benefits at the time their older spouse retires.

For women, expectations of joint retirement are also associated with their current age. Women in their late-fifties are less likely to expect to retire jointly than women in their forties. This may reflect a selection effect, as older women who expected to retire jointly with their spouse have already done so. Alternatively, older women may have more conservative assessments of their prospects for joint retirement given that they are closer to the actual retirement transition than their younger counterparts.

In our analysis, individuals in common-law relationships are distinguished from those who are legally married. Marital dissolution is more prevalent among common-law than married couples (Lebourdais, Neill and Turcotte 2000) and common-law couples are less likely to have children (Statistics Canada 1997). In this context, one might expect that individuals in common-law unions approach retirement more independently vis-à-vis their partner than do individuals in legal marriages. However, the evidence does not support this hypothesis, as expectations of joint retirement are not significantly different between these groups.

In terms of family structure, expectations of joint retirement are less prevalent among women with two or more children at home than they are among women with less than two children at home. Compared with women who have few or no children at home, women with dependent children may face more financial demands and have less latitude in the timing of their retirement. The presence of children was not significantly associated with expectations of joint retirement among men.

Joint retirement and health operates in a complex way (O'Rand and Farkas 2002). On the one hand, the poor health of one spouse may be associated with greater likelihood of joint retirement if the other spouse must withdraw from the labour force to provide care. On the other hand, poor health may be associated with reduced likelihood of joint retirement if health problems result in financial need due to lost earnings and/or high out-of-pocket health care costs that compel the other spouse to continue working.

Two health variables were included in our model: the respondents' self-assessment of their current health status and whether or not they expected their spouse's health to be a factor in their own retirement decision. Neither variable was significantly associated with expectations of joint retirement among women or men.

Finally, a question regarding the degree of control which individuals feel they have over decisions affecting their life was included. Many studies have found that sense of mastery is an important determinant of attitudes, behaviours and well-being (Soederberg Miller and Lachman 2000, Mirowsky and Ross 1989) and is a significant determinant of labour-market success (Dunifon and Duncan 1998). Women who say they have control over most decisions affecting their life were less likely to expect to retire jointly with their spouse than women who said they have control over some, few or none of these decisions (predicted probabilities of 60% and 45% respectively). This may reflect traditional gender roles, insofar as women in households where husbands are the primary decision-makers may also be those who are most likely to make retirement decisions based on their husband's health and retirement status.

Turning to labour force characteristics, expectations of joint retirement among women vary across occupational groups. The predicted probability of expecting to retire jointly with one's husband is 44% among women in managerial, professional and technical occupations, compared with 56% among women in sales and services occupations. In short, women in occupations typically characterized by career trajectories and higher earnings are more likely to view their retirement transition as independent of their spouse. This may reflect differences in career orientations, career trajectories or job satisfaction among women in these groups.

Expectations of joint retirement among women varied markedly between paid employees and self-employed workers. The predicted probability of expecting to retire jointly is 68% among self-employed women compared with 44% among paid employees. Self-employed women may have greater latitude over how and when they retire and hence may be better able to time their retirement to coincide with that of their spouse. Participation in a family-run business in which both spouses work and from which both plan to retire may be another explanation. Evidence from the Census provides some clues in this regard. In 2001, there were just over 170,000 couples in which the older spouse/partner was aged 45 to 54 and in which the female spouse/partner was self-employed. In 53% of these couples (90,700), the male spouse/partner was also self-employed, while in 45% of these couples the male spouse/partner was a paid employee.<sup>9</sup> The key point is that a substantial share of older women who are self-employed are married to self-employed husbands.<sup>10</sup> Although we do not know if these couples are involved in the same business or enterprise, it does appear that for self-employed women retirement is a family affair with labour force exits synchronized with their spouses'.

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9. In two percent of these couples, the male spouse/partner was not in the labour force.

10. Similarly, in 2001 there were 307,000 couples in which the older spouse/partner was aged 45 to 54 and in which the male spouse/partner was self-employed. In 30% of these couples (90,700) the female spouse/partner was self-employed, in 60% the female spouse/partner was a paid employee, and in 10% the female spouse/partner was not in the labour force.

Turning to income characteristics, pension coverage is negatively correlated with expectations of joint retirement among women. Those with coverage have a predicted probability of joint retirement of 44% compared with 53% among those without pension coverage. It appears that pension coverage constrains the latitude that women have for joint retirement. Wives are often two to three years younger than their husbands and significant financial costs would be incurred by them if joint retirement meant they would have to leave the labour force *before* becoming eligible for a retirement benefit, or meant they would have to continue working *after* becoming eligible for a retirement benefit. Interestingly, the negative correlation between joint retirement and pension coverage is not evident among men, suggesting that women and men have different assessments of the constraints that pension coverage will have on the timing of their retirement relative to their spouse.

The total income received by individuals was not significantly associated with expectations of joint retirement. However, the proportion of household income contributed by individuals was significant. Women who contributed 60% or more of the household income were less likely to expect to retire jointly with their spouse than women who contributed less than 40% (predicted probabilities of 53% and 42% respectively). It would appear that shouldering responsibility for the household income diminishes the scope that married women feel they have to retire at the same time as their spouses. Again, however, this relationship is not evident among men. Finally, women's perceptions that adequate financial preparations for retirement were being made were positively correlated with expectations of joint retirement.

Overall, many of the characteristics that one might associate with greater economic independence among women are negatively correlated with expectations of joint retirement. Women in managerial and professional occupations, those with pension coverage, and those who contribute most of the household income are more likely than others to view the timing of their retirement in an autonomous manner vis-à-vis their spouses. Furthermore, many of the characteristics associated with expectations of joint retirement among women are not significantly correlated with such expectations among men. This is consistent with the view that women and men approach retirement in different ways (Smith and Moen 1998, Henretta, O'Rand and Chan 1993).

## Conclusions

The past two decades have witnessed significant changes in the labour market and in the financial characteristics of women in their forties and fifties. This has been evident in terms of women's attachment to the paid workforce over the course of their lives, the characteristics of the jobs they hold, and their earnings. Broadly speaking, these trends have positive implications for the financial well-being of the next generation of seniors in Canada.

The changing employment characteristics of women have also reshaped the profile of couples approaching retirement. A cohort of well-educated, dual-earner couples at the top of the earnings distribution is now poised to make the transition into retirement (Morissette and Johnson 2004). Increasingly, couples must make two retirement decisions rather than just one. In this respect, the 'baby boomers' are different from previous cohorts.

It is interesting to note that while slightly less than half of married individuals now approaching retirement say they intend to retire at the same time as their spouses, evidence from the mid-1990s shows that only one-third of married Canadians actually retired within one year of their spouse (Gower 1998). It appears that joint retirement intentions are more prevalent than joint retirement transitions. One reason may be that some couples are unable to achieve their preference for joint retirement because of financial constraints (such as pension eligibility criteria or financial imperatives to continue working) or because of non-financial constraints (such as career goals or job (dis)satisfaction).

Evidence from the 2002 GSS suggests that the characteristics one might associate with economic independence, such as employment in managerial and professional occupations, pension coverage, and a majority contribution to the household income, are positively associated with women viewing retirement in an autonomous manner vis-à-vis their spouses. This is consistent with the view that as women make gains in the labour force and contribute more to the family income, their own labour market and financial circumstances will weigh more heavily in their retirement decisions.

Our analysis underscores the differences in the way that women and men view the retirement transition. While several demographic, labour market and financial characteristics are significantly associated with joint retirement expectations among women, very few of these characteristics are significantly associated with joint retirement among men. As often noted in the literature, models of retirement that fail to take differences between women and men into account are likely to offer only partial accounts of this transition.

Other researchers have documented some of the implications of joint retirement within the household. Moen, Jungmeen and Hofmeister (2001) report that the transition from a career job into retirement is associated with a decline in marital quality, and that such a decline is most often reported by men and women who retire while their spouses remain employed. Their analysis underscores the correlation between marital conflict and incongruence in the work/retirement circumstances of husbands and wives. Szinovacz and Davey (2005) report that husbands find it difficult staying home alone after retirement when their wives are still working. And Smith and Moen (2004) report that satisfaction with retirement is less prevalent among retirees whose decision to leave the labour force was greatly influenced by their spouse.

Joint retirement has broader implications as well. With the imminent retirement of the baby boom generation, increasing emphasis is being placed on the role that public policies and employer strategies might have in encouraging older workers to remain on the job (OECD 2002). Older women ought to be central to such strategies given that they account for a sizeable pool of well-educated, experienced workers. This is particularly the case in the public sector where relatively large shares of workers will become eligible for retirement in the years ahead (Henry 2004).

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# **Chapter 13. The probability of reaching the state of retirement – a longitudinal analysis of variations between men and women<sup>1</sup>**

by

Nathalie Deschênes and Leroy O. Stone

## **The research question**

Researchers generally agree that retirement is not so much an event as a process that may extend over a number of months, or even years. This process, which we shall label “the transition to retirement”, ends when retiree status is permanently achieved. However, there is very little available information concerning the length of time this transition takes, or the kind of trajectory it follows.

Despite a labour market participation rate that has been rising strongly since the early 1970s, we still know very little about the dynamics of women’s transition to retirement, and the factors that influence it. It has only quite recently become a subject for research. Until the mid-1990s, in fact, the vast majority of studies of retirement considered the situation of men only.

Nevertheless, growing concern about the situation of women during their retirement years has led a few researchers to conduct a more specific study of the transitions they go through when their working lives end. Some have suggested a more thorough study of the dynamics of the transition to retirement that would take their special characteristics into consideration (Atchley 1982, George, Fillenbaum and Palmore 1984, McBride 1988, McDaniel 1995, McDonald 1996, McDonald, Donahue and Moore 1997, McDonald 2003, Richardson 1999, Ware-Hargis 2001, Weaver 1994).

The same questions about transitions at the end of working life arise in most developed countries, but our study will be restricted to the Canadian context. The data are from the Survey of Labour and Income Dynamics (SLID) for individuals surveyed annually from 1996 to 2001. These individuals form the second panel of the survey, which covers six years of observation.

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1. This text is a translation of the original French version.

The general objective of our study will be to use longitudinal data to examine certain differences between men and women with respect to the transition to retirement. First, for those who have begun the transition to retirement, we shall analyse the differences relative to the probability of reaching retirement. That is to say, we shall focus on the probability of reaching retirement during the years following the year in which the respondent — man or woman — is deemed to have begun his or her transition to retirement. Where there are differences, we shall then try to see to what extent the variables related to work and family offer an explanation.

In the second part of the study, we shall describe the variations according to sex in the different types of trajectory followed in the transition to retirement. We chose to classify the trajectories observed by certain criteria, such as whether they were voluntary or not.

One of our main objectives is to determine how women behave in their transition to retirement. The question is highly pertinent since most of the studies on retirement of both sexes have noted specific differences between men and women. It emerges from these studies that retirement models, most of which still relate to the experience of men, should not be applied to the experience of women without taking women's special characteristics into account (Atchley 1982, George, Fillenbaum and Palmore 1984, McBride 1988, McDaniel 1995, McDonald 1996, Richardson 1999, Ware-Hargis 2001, Weaver 1994).

## **Key concepts**

### **Retirement**

In our study, we distinguish between the condition of retirement and the process of retiring: the transition to retirement. Here, retirement is considered a condition achieved when a person leaves the labour market for good, and receives retirement income (CPP/QPP, private pension, etc.). Retirement is deemed to have been achieved when a person has spent at least a year out of the labour market, has received retirement income during that period, and does not return to the labour market before the survey

ends. It is not possible to determine whether retirement is indeed permanent from the data we have. However, we believe that after at least a year spent outside the labour market, the probability of returning to work is much lower, and diminishes with age (Galarneau and Stratyckuk 2001, Pyper and Giles 2002).

### **The transition to retirement**

The literature offers few explicit definitions of the concept of the “transition to retirement”. Most researchers have mainly considered a few particular aspects of the transition, such as partial retirement, the end of a career job, and so on. To that end, they have used certain indicators, including only one or two variables related to labour market activity, such as the drop in personal income, the drop in the number of hours worked, the end of a job held over many years etc. However, to determine the starting point of the transition to retirement, Stone and Nouroz (2004a) concluded it was necessary to consider a larger number of aspects within a single indicator (see Appendix A for more details).

The transition to retirement occupies a period of uncertain length during which workers take certain related decisions and steps and carries on linked activities. The transition may begin when a person begins to plan for retirement, or when their spouse retires, or when they reduce the hours they work or change jobs or, in a more involuntary way, or when they lose their job or fall ill.

### **Types of trajectory taken in the transition to retirement**

The concept of the “trajectory” with reference to the transition to retirement, means a sequence of movements among a set of positions, or conditions, through which a person passes (voluntary or involuntary job change, job loss, reduction in employment income, and so on) before reaching retirement. Appendix A presents a detailed discussion.

In this chapter, we shall classify the various types of transition to retirement according to the voluntary or involuntary aspect of the movements mentioned above. The end of gainful participation in the labour market is a significant step for all workers, and whether it is voluntary or involuntary can have a great influence

on their behaviour and their feelings about their situation. Note, however, that this is but one method of classification among many others (see Abott 1995, Han and Moen 1999).

We first divided these trajectories into two main groups: completed trajectories, and incomplete trajectories. A trajectory is completed when the respondent has achieved retirement before the end of the period of observation; otherwise, it is considered incomplete. Next, within these two groups, we determined three subcategories: voluntary trajectories, involuntary trajectories and unknown trajectories.

A voluntary trajectory means that the respondent did not undergo an involuntary job change or experience a period of unemployment between the year in which the transition to retirement began and the year in which he/she achieved retirement or the year in which the survey ended. An involuntary trajectory means that the respondent underwent an involuntary job change or experienced one or more periods of unemployment between the year in which their transition to retirement began and the year in which he /she achieved retirement or the year in which the survey ended.

“Unknown trajectories” means a residual category for respondents who do not fall into any of the above mentioned categories. For example, workers in transition to retirement might find themselves in this type of trajectory if at certain points in their transition to retirement they left the labour market. After further examination, we concluded this could involve people who were away from their job for a certain period (sick leave, sabbatical and so on) or it could involve a period between two work contracts, or unpaid workers within a family, like homemakers.

In all, we used six types of trajectories to classify those transiting to retirement, as Figure 13.1 shows.

## Method

First, it must be determined if and when a SLID respondent began the process of transition to retirement. Our procedure for this is similar in many ways to that discussed in Appendix A.

**Figure 13.1: Classification of trajectories taken by the transition to retirement**

Completed trajectories		Incomplete trajectories	
1	Voluntary	4	Voluntary
2	Involuntary	5	Involuntary
3	Unknown	6	Unknown

However, there are some slight differences. The objective was to develop an *annual* indicator (Appendix A discusses an indicator for the period 1996-1997) that could identify the events, or rather the combinations of events, likely to mark the beginning of the transition to retirement.

We recall briefly that this determination procedure looks for various behaviour identifiers (receiving retirement income, having ceased working, caring for a loved one, having reduced their income) that often mark the beginning of the transition.

Using this measure, we analysed duration by means of a logistic regression in which we call the year in which the respondent began the transition “year zero”. Note that in our study, the unit of time is a year, the maximum time a respondent can remain in transition is four years and the minimum is one. We then try to see whether this respondent has achieved retirement (by our definition, which requires a complete year out of the labour market, and the receipt of retirement income) before the survey ends. We thus obtain the dependent variable for our analysis of duration. This dependent variable is thus treated in one of two ways for each year spent in transition (value 1 means that the person achieved retirement at duration “*t*”; value 0 means that the person had not achieved retirement at duration “*t*”).

We thus obtain a measure of the time spent in transition to retirement with which it is possible to make a direct comparison between men and women. Moreover, this dependent variable serves to estimate the probability of reaching retirement, based on certain social and economic attributes such as employment factors, and the family situation as it applies to men and women.

To obtain these probabilities using logistic regression, the dependent variable must be altered slightly: consider a group of respondents for whom “*P*” represents the probability of being retired, and “*1 – P*” as the probability of not being retired.

The natural logarithm of  $P/(1 - P)$ , called “logit”, constitutes the dependent variable of the model, the value of which fluctuates according to the predictive variables and their estimated coefficients.

Schematically, the model may be presented as follows:  

$$\ln \{(P)/(1-P)\} = \Omega_0 + \Omega_1 X_1 + \Omega_2 X_2 + \Omega_3 X_3 + \dots + \Omega_n X_n \dots \dots \dots (1)$$

$$\Omega_0 = \text{constant}$$

$$\Omega_i = \text{estimated coefficient}$$

$$X_i = \text{independent (predictive) variable.}$$

To facilitate our interpretation of the results, we converted the estimated coefficients into predicted probabilities of reaching retirement. These probabilities were calculated as follows:

$$\text{Predicted probability} = \frac{e^Z}{1 + e^Z} \dots \dots \dots (2)$$

where  $Z = \Omega_0 + \Omega_1 X_1 + \Omega_2 X_2 + \Omega_3 X_3 + \dots + \Omega_i X_i$   

$$\Omega_0 = \text{constant}$$

$$\Omega_i = \text{estimated coefficient}$$

$$X_i = \text{independent variable} \dots \dots \dots (3)$$

We chose to estimate two distinct models, one for women and another for men. We would thus be able to isolate and compare the differing effects of the same independent variable on the process of transition to retirement by sex.

The idea of separating women and men into two models is consistent with what is found in the literature, and with our own regression tests, which led us to conclude that two separate models better reflect the different occupational patterns of men and women. As a result of these different patterns, certain independent variables will have a different impact according to sex on the probability of reaching retirement.

In order to discuss the probability of reaching retirement for each year spent in transition, the choice of independent variables was influenced mainly by the relevant literature on the subject. These variables fall into two broad groups: those related to work and the individual, and those related to the family and the household.

The variables related to work and the individual include level of education, number of years of work experience, category of worker (union, non-union, self-employed) and state of health. These are variables often found in studies on the retirement of men. However, now that women are participating in greater numbers in the labour market, these characteristics are also likely to affect their probability of reaching retirement.

The other group, those related to the family and the household, are often used in the literature about women. They are: marital status, the presence in the home of a parent or a child, the presence in the home of a person (other than the respondent) with a health problem and household income. Retirement of the spouse was also mentioned often as a variable relevant to the model, but as such information is not available in the SLID, we replaced it with the presence in the home of at least one person receiving retirement income<sup>2</sup> With this variable, we would track the effect of this additional household income on the probability of reaching retirement, rather than consider the specific status of the person receiving it (spouse or parent).

The family-related variables are less of a factor in the studies of retirement in men. However, since retirement is regarded less and less as a single event, it will be equally interesting to see what effect these variables will have on men's probability of reaching

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2. Note that we refer to income normally associated with retirement, including CPP/QPP benefits. The latter begin only at age 60, and benefits received earlier come from a disability pension or survivor's allowance. However, given the characteristics of our sample, in which a majority — 80% — of respondents were one of a couple, and about 70% did not report the presence in the home of a parent or a child, we can assume that CPP/QPP benefits were received as a retirement pension in most cases. Moreover, income associated with retirement included private retirement pensions and RRSP withdrawals, which may begin before age 60.

**Table 13.1 Distribution of respondents chosen in the year "0" sample, by sex, according to independent variables, ages 50 to 69 in 1996, Canada, 1996 to 2001**

	Women %	Men %	Both sexes %
<b>Age group</b>			
50 to 54 years	20.3	14.2	17.0
55 to 59 years	31.1	34.3	32.9
60 to 64 years	31.7	29.0	30.2
65 to 69 years	16.9	22.5	19.9
Total	100.0	100.0	100.0
<b>Highest level of education</b>			
No SSD	31.9	37.2	34.8
SSD	18.0	12.5	15.0
Post-secondary studies	50.2	50.3	50.2
Total	100.0	100.0	100.0
<b>Number of years' employment experience</b>			
Average	23.15	37.51	31.04
<b>Personal Income</b>			
Average (\$)	21,008	36,452	29,494
<b>Class of worker</b>			
Non-unionized worker	60.1	50.0	54.5
Unionized worker	26.7	23.6	25.0
Self-employed	13.2	26.4	20.5
Total	100.0	100.0	100.0
<b>Indicated a health issue</b>			
Yes	26.6	25.1	25.8
No	73.4	74.9	74.2
Total	100.0	100.0	100.0
<b>Marital status</b>			
Married	75.2	85.1	80.6
Separated/Divorced	7.1	5.7	6.3
Widow/Widower	11.1	4.5	7.5
Never married	6.5	4.8	5.6
Total	100.0	100.0	100.0

**Table 13.1 Distribution of respondents chosen in the year "0" sample, by sex, according to independent variables, aged 50 to 69 in 1996, Canada, 1996 to 2001 (continued)**

	Women %	Men %	Both sexes %
Presence of parents or children in the household			
Yes	27.9	33.6	31.0
No	72.1	66.4	69.0
Total	100.0	100.0	100.0
Presence of person living with a disability in the household			
Yes	28.3	20.8	24.2
No	71.7	79.2	75.8
Total	100.0	100.0	100.0
Presence of a person in the household who receives retirement-related income			
Yes	55.1	32.2	42.5
No	44.9	67.8	57.5
Total	100.0	100.0	100.0
Household income			
Average (\$)	52,255	56,592	54,638

Source: Statistics Canada, Survey of Labour and Income Dynamics, longitudinal data.

retirement.

Two control variables used in the study are: time spent in transition (in years), and age group; these will be defined in more detail below. Appendix D gives the definitions of the special variables we used to develop the model outlined above. For technical details of these variables, see Deschênes (2005), Appendix B.

Before we proceed to the next section, below is a summary table (Table 13.1) of the breakdown of our sample by sex, according to the independent variables applied at year zero, that is the year in which we estimate that the respondents' transition to retirement began.

## Research hypotheses

We assumed that the probability of achieving retiree status would be higher in women than in men, for each year of observation following the year in which the transition began, and that this difference would be statistically significant. This hypothesis is based largely on the relevant observations of other researchers (see McDonald (1996), and her remarks in Chapter 10 of this book) and on studies published by Statistics Canada showing that on average, women reach retirement sooner than men (Statistics Canada 2003a).

Our second research hypothesis was that a higher proportion of men who experienced an involuntary transition did not complete their trajectories before the end of the observation period<sup>3</sup>, compared with women who experienced the same type of transition. This assumption is based on the idea that men will stay in the labour market longer than women, even if they suffer a job loss or an involuntary job change (Galarneau and Stratychuk 2001, Pyper and Giles 2002).

Our third hypothesis concerns the impact of the independent variables in the model. On the whole, it is expected that the variables related to work and the person have more significant effects on men's probability of reaching retirement. According to the results found in the literature, it is considered that the number of years of work experience, personal income, the worker's situation in the labour market and state of health are important determinants in the probability of a man's reaching retirement (Blau 1994, Fleury 2003, George, Fillenbaum and Palmore 1984, Han and Moen 1999, Levine, Michelle and Phillips 1999, McBride 1988).

These variables are also expected to have impacts on women's probability of reaching retirement, but according to the literature on retirement for women, family and household characteristics are expected to have a greater impact (Bess

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3. A completed trajectory means that the respondent achieved retiree status — reached retirement — before the end of the observation period.

1999, Dailey 1996, Hatch and Thompson 1992, King 1995, McBride 1988, McDonald 1996, McDonald, Donahue and Moore 1997, McDonald 2003, Richardson 1999, Vinick and Ekerdt 1989, Ware-Hargis 2001).

### **Differences by sex in the probability of reaching retirement**

According to our results, almost 74% of women and 61% of men identified to be in transition to retirement achieved retiree status before the end of the observation period. The average age for men was 63 years, and 61 years for women.

Chart 13.1 summarizes the differences by sex of the probability of reaching retirement for each year spent in transition. The probabilities are the result of the logistic regressions run separately for men and women, where the independent variable is limited to time spent in transition.

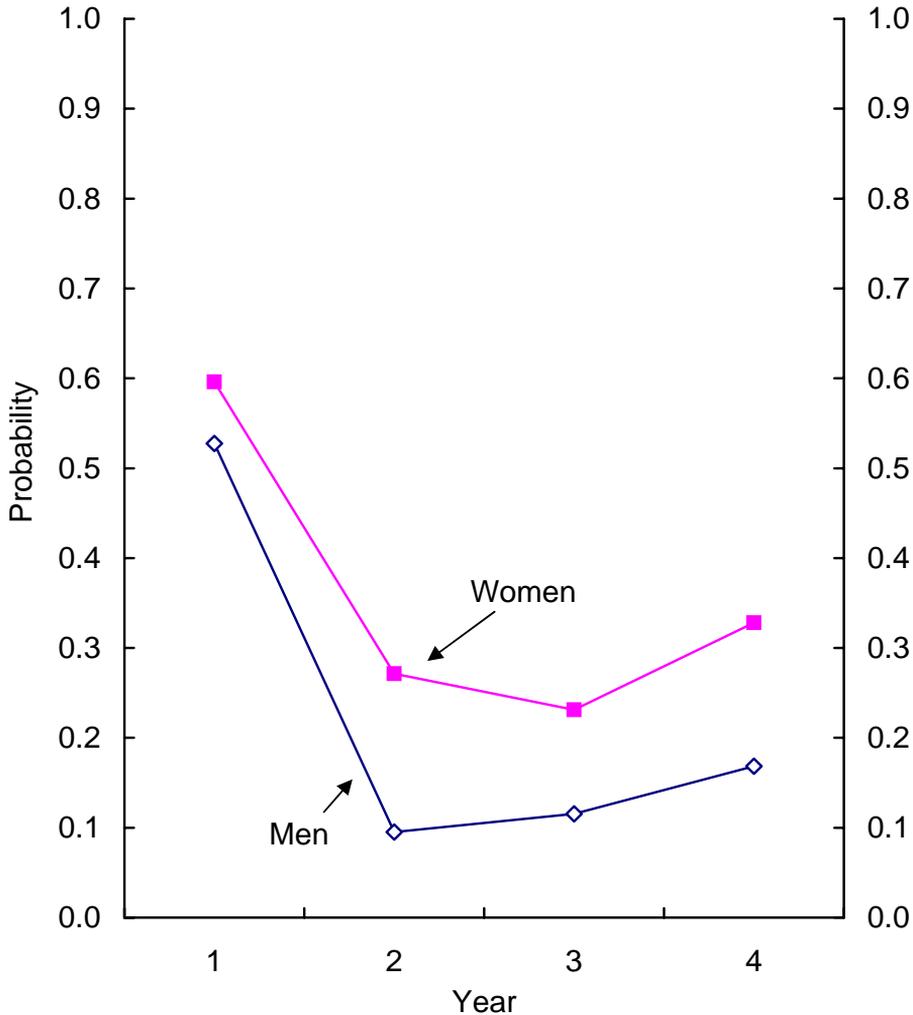
Note that in our study, the maximum time during which a respondent could be observed in transition was four years, and the minimum was one.

First of all, we can see that the probability of reaching retirement is much higher during the first year spent in transition (about 53% for men and 60% for women). Second, the probability falls much more quickly for men, creating a gap between them and the women, who maintain substantially higher probabilities each year.

These curves suggest that the transition to retirement is relatively brief. Most of the men and women who begin the transition in a given year reach retirement the following year. The tendency is more marked in women than in men.

The extinction rate is in fact much quicker among women. For 1,000 women identified as having begun their transition to retirement, 596 are expected to reach retirement after only one year spent in transition, compared with 528 men. In the second and third years, the gap widens. Finally, after four years spent in transition, only 152 women out of the original 1,000 have not yet reached retirement, compared with 314 men, which is more than double.

**Chart 13.1 Probability of attaining the status of "retired" for each year spent in transition, by sex, ages 50 to 69 in 1991 Canada, 1996 to 2001**



Source: Statistics Canada, Survey of Labour and Income Dynamics, longitudinal data.

The results for the probabilities of reaching retirement for each year spent in transition, according to age group, are presented by sex in Table 13.2. We used logistic regression in which the only independent variables are age group and time spent in transition.

**Table 13.2 Probability of attaining the status of "retired" by sex, by time spent in transition and age group, Canada, 1996 to 2001**

Year	50 to 54	55 to 59	60 to 64	65 and over
Women				
1	0.3359	0.5180	0.6853	0.7827
2	0.1211	0.2265	0.3724	0.4953
3	0.0846	0.1641	0.2845	0.3968
4	0.1290	0.2394	0.3895	0.5135
Men				
1	0.2113	0.4171	0.5638	0.7527
2	0.0231	0.0595	0.1025	0.2120
3	0.0271	0.0692	0.1183	0.2401
4	0.0405	0.1012	0.1691	0.3239

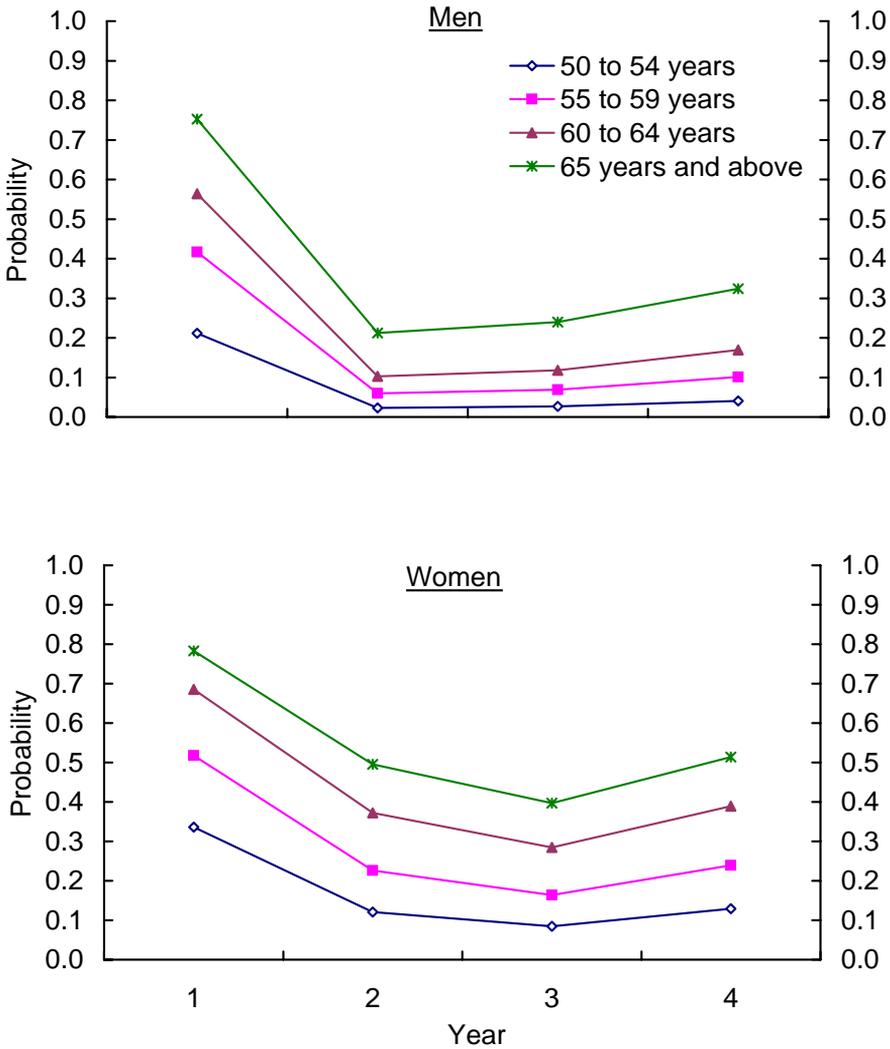
Source: Statistics Canada, Survey of Labour and Income Dynamics,

For all age groups, women have clearly higher probabilities than men of reaching retirement for each year spent in transition. Note that for men, those 65 or older have quite different probabilities than the other age groups, while for women there are narrower differences between age groups.

To better illustrate the point, we shall now look at the curves for probabilities by sex, according to time spent in transition and age group (Chart 13.2).

For men (Chart 13.2), during the first year of observation, the 55 to 59, 60 to 64, and 65 or older age groups are clearly distinguished from the youngest group, 50 to 54, with much higher probabilities of reaching retirement, while for the following years, only those 65 or older are distinguished by higher probabilities. After the first year of observation, the probabilities for the 55 to 59 and 60 to 64 groups fall, moving closer to the level of probabilities for the 50 to 54 group. Thus for men, we see a stronger association between advanced age and a high probability of reaching retirement.

**Graph 13.2: Probability of attaining the status of "retired" for each year spent in transition, by age group and sex, Canada, 1996 to 2001**



Source: Statistics Canada, Survey of Labour and Income Dynamics, longitudinal data.

For women (Chart 13.2), during the first year of observation, we see that the 50 to 54 group is distinguished from the others by having the lowest probability of reaching retirement. This probability is nevertheless 50% higher than that for men in the same age group (34% and 21%, respectively). Note also that the probabilities for the 55 to 59 and 60 to 64 groups are much higher than for men. For women, however, those 60 to 64 have probabilities that come quite close to those for women aged 65 or older, whereas for men, there is a clearer distinction between the two groups.

### **Differences by sex in the type of trajectory followed**

According to our results, almost 52% of all trajectories were voluntary and were completed before the end of the observation period. Thus, among persons in transition to retirement, most reach it without experiencing an involuntary job change or a period of unemployment. Only 14% of trajectories were voluntary and incomplete. Some 8% of those involved completed an involuntary trajectory, compared with almost 13% who followed an involuntary trajectory that was not completed before the end of the observation period.

Table 13.3 summarizes the breakdown by sex of those concerned, according to the type of trajectory followed. Overall, about the same proportion of men and women in transition completed a voluntary trajectory (50% and 53%, respectively). The resemblance appears to end there, however.

With respect to voluntary trajectories not completed, note that almost 20% of men, compared with only 7% of women, took such a trajectory. Thus, it would seem that even if the trajectory followed is voluntary, proportionally more men remain longer in the labour market, compared with women.

Among women, nearly 20% followed an involuntary trajectory: 10% had completed trajectories and about 9% of the trajectories were not completed. Thus it would seem that in the case of women, a period of unemployment or an involuntary job change does not have an explicit impact on whether or not the

**Table 13.3 Trajectories of transition towards retirement, by sex, ages 50 to 69 in 1996, Canada, 1996 to 2001**

Type of trajectory	Women %	Men %
Complete		
Voluntary	53.38	50.14
Involuntary	10.35	5.73
Unknown	9.78	5.29
Total	73.51	61.16
Incomplete		
Voluntary	6.78	19.67
Involuntary	9.22	16.02
Unknown	10.49	3.15
Total	26.49	38.84
Total	100	100

Source: Statistics Canada, Survey of Labour and Income

trajectory is completed. Among men, nearly 22% followed this type of trajectory, but only 6% of men completed it, compared with 16% who did not. Overall, then, the same proportion of men and women followed an involuntary trajectory. However, men were almost three times more likely than women to not have reached retirement before the end of the observation period. This seemingly tends to confirm one of our initial hypotheses: that men are more likely to remain in the labour market, even after experiencing events that have disrupted their employment activities.

### **Probabilities of reaching retirement, and variations between men and women**

In the context of the two models presented above (one for each sex), we sought to examine two sets of independent variables. The first consists of those related to work and the individual, such as highest level of education attained, number of years of work

experience, category of worker and whether a health problem was reported. The second consists of those related to the family and the household, such as being a couple, the presence in the home of a parent or child, the presence in the home of a person (other than the respondent) reporting a health problem and receiving retirement income, and total household income. These are variables generally found in explanatory models for retirement among women.

Calculation of the probabilities in a logistic regression model requires that we hold constant the values for all predictive variables for a “reference population”. Note that the reference population includes anyone with the following characteristics: being in the first year of transition, aged 50 to 54, without a secondary school diploma, being in the first quartile for number of years of work experience/personal income/household income, non-union, without health problems, not one of a couple, not reporting children or parents in the home, or persons with health problems, or other persons receiving retirement income.

The separate analyses by sex use a reference person with the same characteristics, the difference being that the variables divided into quartiles (years of work experience, personal and household income) do not have the same values for both sexes. These values are summarized in Table 13.4.

Table 13.5 shows the estimated probabilities obtained by logistic regression, including all the variables listed above.

### **The effectiveness of the model**

In order to determine how well the model fits the observed data, we used Wald’s chi-square goodness-of-fit test.<sup>4</sup> This tests the zero hypothesis: that the coefficients are equal to zero for all the terms in the model. Thus, in order to assess whether a model is meaningful overall, we have to obtain a chi-square that rejects the zero hypothesis that all its coefficients are equal to zero, and this difference must be statistically significant at an acceptable threshold. In both cases, our models yielded probabilities below

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4. Note that the Wald chi-square goodness-of-fit test was the only one available to us with which to assess the effectiveness of the models using the bootstrap weights (Statistics Canada 2003d:223).

**Table 13.4 Values of quartiles for the variables number of years of work experience, personal income and household income, by sex, ages 50 to 69 in 1996, Canada**

	Women	Men
Number of years of work experience		
1	≤ 13	≤ 33
2	[ 14, 23 ]	[ 34, 38 ]
3	[ 24, 32 ]	[ 39, 44 ]
4	>32	>44
Personal income (\$)		
1	≤ 5 100	≤ 12 800
2	[ 5 200, 11 700 ]	[ 12 900, 21 100 ]
3	[ 11 800, 20 000 ]	[ 21 200, 31 200 ]
4	> 20 000	> 31 200
Household income (\$)		
1	≤ 23 000	≤ 22 000
2	[ 23 100, 36 500 ]	[ 22 100, 35 200 ]
3	[ 36 600, 53 500 ]	[ 35 300, 53 000 ]
4	> 53 500	> 53 000

Source: Statistics Canada, Survey of Labour and Income Dynamics, longitudinal data.

0.01, as can be seen in the bottom lines of Table 13.5.

First, we noted that the chi-square for men was substantially higher than those for women, suggesting that the variables chosen are less successful in explaining what was observed in women, compared with what was observed in men.

This could thus imply that more associations are found between variables related to work and family among women, which is perhaps not surprising given that — as we saw in the literature — among women, work and the family seem to be more interdependent than was observed among men, and as a result, it may be more difficult to isolate their respective effects.

**Table 13.5: Estimated probabilities of attaining the status of "retired", by categories of the explanatory variables of the model, Canada, 1996 to 2001**  
(The reference categories are in parentheses)

	Women			Men		
	( $\beta$ )	p-Value	Probability <sup>1</sup>	( $\beta$ )	p-Value	Probability
Constant	-0.8870	0.1927	0.2917	-2.1184	0.0031	0.1073
Year						
(1)	0		0.2917	0		0.1073
2	-1,0968*	0.0171	0,1209*	-2,3522***	0.0000	0,0113***
3	-1,5839**	0.0024	0,0779**	-2,2035***	0.0000	0,0131***
4	-0.9809	0.8068	0.1338	-1.6475	0.2228	0.0226
Age group						
(50 to 54)	0		0.2917	0		0.1073
55 to 59	0.8252	0.1522	0.4846	1,5353**	0.0084	0,3582**
60 to 64	1,8717**	0.0018	0,728**	2,7339**	0.0001	0,6492**
65 and over	2,5047**	0.0009	0,8345**	3,6362***	0.0000	0,8202***
Level of education						
(No SSD)	0		0.2917	0		0.1073
SSD	-0.4895	0.3087	0.2016	-0.6275	0.2726	0.0603
Post-secondary education	0.1040	0.8323	0.3137	-0.3731	0.2795	0.0765
Years of employment experience, quartiles						
(1)	0		0.2917	0		0.1073
2	0.1453	0.7659	0.3226	-0,7445°	0.0977	0,0540°
3	0,3030	0.5717	0.358	-0,9131°	0.0849	0,0460°
4	-0.0587	0.9131	0.2798	-0.8464	0.1619	0,0490
Employee type						
(Non unionized)	0		0.2917	0		0.1073
Unionized	1,5576**	0.0017	0,6616**	2,5300**	0.0010	0,6015**
Self-employed	0.0343	0.9134	0.2989	-0.5228	0.1847	0.0665
Health problem						
(No)	0		0.2917	0		0.1073
Yes	-0.4332	0.2823	0.2108	0.4655	0.1619	0.1607
Married						
(No)	0		0.2917	0		0.1073
Yes	-0.1992	0.7345	0.2523	0.3121	0.5061	0.1411

**Table 13.5 continued: Estimated probabilities of attaining the status of "retired", by categories of the explanatory variables of the model, Canada, 1996 to 2001**  
(The reference categories are in parentheses)

	Women			Men		
	( $\beta$ )	p-Value	Probability	( $\beta$ )	p-Value	Probability
Presence of a child and/or a parent (No)	0		0.2917	0		0.1073
Yes	-0.2166	0.6261	0.2491	-0.2117	0.5248	0.0887
Presence of a dependant (person) (No)	0		0.2917	0		0.1073
Yes	-0.0546	0.8723	0.2806	-0.4314	0.2574	0.0724
Another person who receives retirement-related income (No)	0		0.2917	0		0.1073
Yes	0.2328	0.6447	0,3420	0,7429*	0.0201	0,2017*
Household income, quartiles (1)	0		0.2917	0		0.1073
2	-0.4640	0.2684	0.2057	-0.1036	0.8278	0.0978
3	-0.5286	0.3694	0.1954	-0.1039	0.8107	0.0978
4	-0.0471	0.9329	0.2821	0.0529	0.9107	0.1125
Wald Chi-square	44,9486**	0.0020		96,7077***	0.0000	
Degrees of freedom	(21)			(21)		

<sup>o</sup>p>0,1; \*p>0,05; \*\*p>0,01; \*\*\*p>0,0001.

1.  $\exp(\beta_0 + \beta_1 X_1 + \dots + \beta_i X_i) / (1 + (\exp(\beta_0 + \beta_1 X_1 + \dots + \beta_i X_i)))$ .

Source: Statistics Canada, Survey of Labour and Income Dynamics, longitudinal data.

## Variations between women and men in the behaviour of the most important independent variables

In the model, the probability of reaching retirement during the first year spent in transition for the reference population is about 11% for men, as against 29% for women. Thus, keeping the values for all other variables in the model constant, women were three times more likely than men to reach retirement during the first year.

However, these probabilities are substantially lower than those we obtained in the model in which the only independent variable was the year the transition began (see Chart 13.1). This means that what was attributed to the passage of time was in fact due to other factors included in the model.

Compared with men, women have probabilities that are often quite different for a number of independent variables. These results are reassuring as to our choice of separate regression models for men and women.

The presence in the home of another person receiving retirement income has the effect of increasing the probability of reaching retirement for both women and men. For women, the probability rises from 29% (in cases where no one else was receiving retirement income) to only 34% in cases where there was at least one person in the home receiving retirement income. For men, it goes from 11% to 20%, and the difference is statistically significant at the 5% threshold. Thus, whether or not there is at least one other person in the home receiving retirement income seems to influence men rather more than it does for women.

This result may seem strange at first glance, but it should be pointed out that 55% of the women selected in the sample based on TRANSCOR2 (respondents who had begun their transition to retirement) were already living with at least one other person receiving retirement income, compared with 32% of the men. It is thus not so surprising that this variable had a lesser effect on women's probability of reaching retirement. Moreover, this result is consistent in part with the study by Gower (1998) on the move into retirement of working couples. This study shows that couples tend to take retirement at least a year apart (two-thirds of the couples in the study) and that the woman will likely cease working before her spouse does. This might explain why this variable appears significant in the case of men, since they seem to leave the labour market soon after their spouses do.

Concerning the other independent variables that reflect family factors (such as the couple, the presence in the home of a parent or a child, the presence in the home of a dependant),

their impact on the probability of being retired is also very different according to sex. However, these variables did not show statistically significant effects on the probability of reaching retirement for women and men.

As to the “category of worker” variable, note that being unionized sharply increases the probability of reaching retirement for both sexes. It rises to 60% for men and 66% for women. Thus, we find that being a union member greatly increases the probability of reaching retirement for both men and women, and the difference is statistically significant at the 1% threshold in both cases.

The indicator we used to identify respondents who had begun their transition to retirement (TRANSCOR2) has already effectively identified a number of major characteristics that lead workers to go into retirement. This would explain why we observe many respondents who reach retirement during the first year spent in transition. It is also one of the reasons why in general, the variables we selected have few statistically significant effects on the probability of reaching retirement, because the probability is first and foremost related to the fact of having been identified as being in transition. Nevertheless, it is interesting to note that in spite of this, our results show that for men, the time spent in transition, age group, number of years of work experience, being a union member, and the presence in the home of another person receiving retirement income lead to statistically significant variations in the probability of reaching retirement, whereas for women, we find that time spent in transition, age group and being a union member are the only factors that have a statistically significant effect.

## Conclusion

We stated three main hypotheses.

- We assumed that the probability of reaching retirement would be higher for women for each year of observation following the year in which the transition began, and that the difference would be statistically significant.
- It was expected that a higher proportion of men who have

experienced an involuntary transition would not complete the trajectory before the end of the observation period<sup>5</sup>, compared with women who have also experienced such a transition.

- It was expected that the independent variables related to work and the individual would have more significant effects on the probability of reaching retirement for men. It was felt that these variables would also have impacts on the probability of reaching retirement for women, but it was expected that the characteristics of the family and the household would be more important factors affecting transition to retirement.

Generally, our results support the first hypothesis: that the probability of reaching retirement would be higher for women for each year of observation following the year in which the transition began.

As to the types of trajectory followed, we note that a similar proportion of men and women completed a voluntary trajectory (50.14% and 53.38%, respectively). We also noted that about the same proportion of men and women followed an involuntary trajectory (22% and 20%, respectively), but a larger proportion of men than women did not complete the trajectory before the end of the observation period. This tends to confirm one of our initial hypotheses: that men are more likely to remain in the labour market, even after experiencing events that may have disrupted their activities in the labour market.

Women were also 2.5 times more likely than men to follow an unknown trajectory in their transition to retirement. Thus, women reach retirement in a greater proportion than men do, but they also seem more likely than men to follow different types of trajectory in their transition to retirement. In fact, when men do reach retirement, they seem more likely to have taken one type of trajectory in particular: the voluntary type.

We expected the characteristics of the family and the household to be more of a determining factor for women. Support

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5. A completed trajectory means that the respondent reached retirement before the end of the observation period.

for this aspect of the third hypothesis is somewhat weak, since family and household characteristics are not the main factors affecting women's retirement: no variable is significant.

However, the results of the regression analysis show that retirement for women is different from that of men. We note this in the comparison of the structure of estimated parameters of the models for both sexes, where we encounter major variations. We are thus of the view that in order to understand the dynamics of retirement for women better, we should not include both sexes in a single model. The development of two distinct models gives us an opportunity to perceive the differential impact of certain explanatory variables on women and men.

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# *Theme Three*

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## **Chapter 14. Growing diversity? Typical transitions towards retirement from active workforce participation**

by

Hervé Gauthier and Suzanne Asselin

Ending one's professional life is among the most significant transitions that will occur in an individual's lifetime. After 10, 20, 30, 40 years or more spent doing paid work, devoting much of their energy to their professional activity and defining themselves, to a large extent, in relation to their work, individuals in this situation now face a totally different social status and role.

Quite often, retirement from the job market occurs at the same time as other changes in a person's life such as children leaving the family home for good, the arrival of grandchildren, providing support to elderly parents and the loss of one's parents. Men and women sometimes experience such transitions quite differently, especially those related to the job market, insofar as many women may not have held paid employment on an ongoing basis for as long as men normally would. That said, a majority of the new generations of women who will attain retirement age in the coming years will have been part of the labour force. In fact, 70% or more of Quebec women born between 1946 and 1951, during the initial phase of the baby boom, will have been employed in the 40 to 44 and 50 to 54 age groups (Gauthier 2003). The experience of women respecting retirement, though not identical to that of men, will tend nonetheless to show similar features in the future.

Widely available statistics shed light on some cross-sectional aspects of retirement, though the process of retirement from the workforce itself, despite its significance, is largely unknown. For example, we know that retirement age has dropped dramatically in recent decades. Average retirement age in Canada reached a low point in 1998 (60.9 years). It has risen slightly since then (61.8 years in 2004), though it remains to be determined whether this is a result of economic conditions (termination of major public retirement programs and an economic upswing) or the sign of a long-term trend. The Labour Force Survey (LFS) also reveals certain features that foster activity among older individuals (such as self-employment).

Interesting as they may be, these cross-sectional statistics do not explain significant aspects of the retirement process. Let us take another look, for instance, at our prior observations. Where there is an increase in the workforce participating rate of the 55 to 59 and 60 to 64 age groups on a year-to-year basis, as is currently the case in Canada, it is unclear what motivates individuals to extend their market participation. Indeed, we are unable to determine even whether these are individuals who choose to stay in the workforce or retirees who have decided to return to work. Nor do we know how long self-employed individuals have enjoyed their current status or if they are former salaried employees. Finally, are university graduates, whose retirement age is rather low, more likely to take on a new job after retirement? As mentioned by L. O. Stone and H. Nouroz (2005) with reference to statistics from the Netherlands cited by the OECD (1995), cross-sectional data on the numerical importance of certain classes of individuals (employed, unemployed, handicapped, retired, social assistant recipients, etc.) provide no information on the preretirement process or the duration of the various stages experienced by individuals in transition to retirement. These few examples underscore the interest in longitudinal studies of the transition towards retirement.

Further, in recent years analysts and planners have been considering how to increase the retirement age. In fact, many retirement plan reforms have been conducted in industrialized countries for this very purpose. In Canada, such changes were made to Old Age Security in 1989 and to the Québec Pension Plan/Canada Pension Plan in 1998, though the aim was to increase plan financial viability rather than delay retirement. Certain results achieved have indeed caught the attention of governments, whose retirement programs have led to a drop in the retirement age in Canada, while experts in the field were expecting the opposite (OECD 1998). On an industry basis, retirement age among workers in the public administration sub-sector is among the lowest (Statistics Canada 2003). However, the past few years have seen growing support for continued workforce participation among older workers as a remedy to a slowdown in the growth rate of the population of individuals of working age over the coming decades, and even to a forecast negative growth rate among those individuals in provinces such as Quebec (Légaré 2004). However,

prior to considering particular measures to increase the retirement age we must get a better understanding of the process of transition towards retirement.

There is at least one more compelling reason to study the process of transition towards retirement, namely, its impact on individual income (Crespo 2005). It has been determined, for example, that replacement income levels among Québecers who retired between 1991 and 2000 are lower than the desirable standard of 70%. That is not all. Among those with a preretirement income between \$29,000 and \$49,000, the level of replacement income was less than 60% of preretirement income in 45% of all cases (Langis 2004:246-247). Which groups will be most affected? Will the new generations currently contemplating retirement be willing to reduce their level of consumption so sharply? If not, they will be more inclined to rejoin the workforce.

There is frequent mention of potential social problems stemming from an increase in postretirement life expectancy due to a lowering of retirement age along with an increase in life expectancy in general. We often forget, however, that the length of the postretirement period creates risks for the individual: the longer the life expectancy upon leaving the workforce, the greater the need for financial resources. According to Georges Langis (2004:276-277), the length of the postretirement period among Quebec men has risen from 16 to 20 years between the generations born around 1920 and those born around 1940. These figures are based on averages: for many individuals the length of the postretirement period will be much greater. For all the above reasons, we must no longer rely exclusively on static data. We must evolve towards the use of dynamic information.

The chapters contained in this section analyse the preretirement process based on longitudinal data from the *Survey of Labour and Income Dynamics* (SLID). The SLID allows us to observe the behaviour and characteristics of an individual over six consecutive years.

The first two chapters and Appendix A form one integrated unit that arises from a single, highly innovative project initiated by Leroy O. Stone of Statistics Canada. In view of the aging of the workforce over the next 30 years, policymakers and the

public are contemplating various means of extending the working life of individuals. This course of action is being considered for several reasons: it meets the needs of the worker who has no desire to retire, it provides assurance to employers that the most experienced workers will transfer their knowledge gradually and allows them to better manage the job supply, and it maintains or improves economic conditions and the potential to redistribute collective wealth.

For most people, transition to retirement means a passage from a working state to another, that of a person with no job. This simple scenario is only one of several possible paths. Indeed, the paths are many: they were described thanks to an abundance of information gathered through the SLID (samplings of respondents are surveyed 12 times in 6 years). Stone and his team identified individuals who were in the workforce in Canada during the first quarter of 1996 and who initiated a transition towards retirement during 1996 to 1997. Insofar as the survey contains no questions on plans or the intention to retire, the authors rely on a series of events as indicators of a transition towards retirement, for example, receiving retirement benefits or the onset of a long period of unemployment. The abundance of details on the activities and periods considered makes this study a highly original initiative.

The paths followed by these individuals towards retirement, over the four following years, are analysed on the basis of five properties of trajectories of transition to retirement (of the eight that have been defined theoretically), such as the length of the transition, events that increase vulnerability to reductions of retirement income, instability, flexibility and the propensity to rejoin the workforce. The authors set out the results related to such properties for the quarters of the 1998 to 2001 period.

Based upon this general exposé (found in Appendix A), the *first* chapter of the section, by H. Nouroz and L.O. Stone, adds to our limited knowledge of the characteristics of the paths taken by self-employed workers between work and retirement. According to LFS data, self-employed workers tend to be older than other workers when they leave the workforce. In 2004, the median retirement age of Canadian self-employed workers was approximately seven years greater than that of public-sector salaried workers and three years above that of private-sector

salaried workers. The gap has increased and is reason enough to pay particular attention to the transition path between work and retirement followed by self-employed workers.

Specifically, longitudinal analysis may be of use in predicting changes in the various paths to retirement with the massive arrival of the baby-boomers. Thus, the transitional path followed by self-employed workers is longer than that taken by salaried workers, with the exception of university graduates. One may wonder whether the paths of salaried university graduates are caused by the fact that they are in and out of the workforce.

The study also shows that the propensity to rejoin the workforce, as expressed by the number of returns to work and the length of job retention, is greater among self-employed workers. Financial insecurity after retirement may be an important explanatory factor for re-entering the job market.

It is stated, furthermore, that self-employed workers enjoy greater flexibility than salaried workers in terms of reducing the number of hours worked, especially among university graduates. When faced with a potential change in work activity leading to lower living-standard expectations upon retirement (for example, bankruptcy for the self-employed worker or job loss for the salaried worker), the self-employed person experiences a lower level of vulnerability.

A recent OECD (2005) study on measures for improving the employability of older workers suggests that Canada should implement a support program for the self-employed.

The section's *second* chapter, by L. O. Stone and H. Nouroz, deals with the differences between public- and private-sector employees from the standpoint of the work-to-retirement transition. Public-sector employees retired at age 59.1 in 2004, 2.5 years earlier, on average, than their private-sector counterparts. Thus, the waves of the baby boom will affect government organizations much earlier than they will private companies. Retirement is more highly regulated and gradual retirement is more stringently controlled in public organizations, making the sector a fertile ground for increasing our knowledge of the transition between work and retirement.

When considering the link between health and work, the effect of poor health on retirement or that of inferior working conditions on health come to mind. In the section's *third* chapter, He et al. emphasize, rather, the link between professional instability and health.

Yaohua H. He, A. Colantonio and Victor W. Marshall also draw on the longitudinal nature of the *Survey of Labour and Income Dynamics* in their study of the link between work and health. More to the point, they seek to determine the extent to which various types of professional instability cause changes in a worker's state of health. They define professional instability as the number of work-free periods, weeks of unemployment or weeks spent outside the workforce. Their assumption is that professional instability is linked to, and, in fact, plays a causal role in, the future deterioration of a worker's state of health. Though it is impossible to claim that professional instability caused the health problems disclosed by respondents, it is nonetheless significantly related to serious health problems.

In conclusion, what will be the future direction of research on the link between work and retirement? In the first instance, though the studies are complex, the authors have proved skilful in using innovative concepts such as the definition of the transition towards retirement and the various properties of the path leading to retirement. They offer results demonstrating important aspects of the transition. In so doing they open the door on a field of research that has largely been untouched to date and will certainly elicit keen interest in the future.

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# **Chapter 15. The distinctive patterns of work-to-retirement transition among the self-employed<sup>1</sup>**

by

Hasheem Nouroz and Leroy O. Stone

With special assistance from Harpreet Kaur Randhawa

## **Introduction**

Among several OECD countries, the aging of population, the growth in the ratio of retirees to workers and related changes in retirement patterns and longer life expectancy have raised concerns about the viability of social security programs. This has brought into focus the issue of securing adequate labor supply in future years (OECD 2001). Labor supply of older workers will be a key factor in the resolution of this issue. Improving labor supply of older workers will require a greater prevalence of gradual and flexible work-to-retirement transitions. A number of experts concur that this achievement requires attention to opportunities for self-employment (see ILO 1990, Parker and Rougier 2004, Morris and Mallier 2003 and Taylor 2002).

Although self-employment will be a prominent aspect of labor market participation among older workers in the years ahead (see Morris and Mallier 2003, Parker and Rougier 2004 and Taylor 2002), their labor supply decisions and the related patterns of transition to retirement are an area in which few research studies have been published. Among them are Fuchs 1982, Quinn and Kozy 1995, Bruce, Holtz-Eakin and Quinn 2000, Parker and Rougier 2004, and Karoly and Zissimopoulos 2004.

None of these studies deals with Canada, and we have found only one Canadian study that devotes attention to transitions to retirement among self-employed workers (Sunter 2001).

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1. The authors thank the peer reviewers for their contributions to improving earlier drafts of this chapter. The comments of Don Bruce, Kevin Cahill, and Hervé Gauthier were especially helpful. All opinions and errors herein are our sole responsibility.

Therefore, to support both policy deliberations and teaching about a major dimension of later-life transitions in Canadian society, it is worthwhile to devote this chapter to the distinctive patterns of work-to-retirement transitions among the self-employed in Canada.

The questions addressed in this chapter are as follows: What are the major or systematic differences between the patterns of transition to retirement of the self-employed and those of workers who were receiving wages and salaries as employees? (The latter are called “salaried employees” or simply “employees” below.) Are the main patterns in these differences evident after we hold constant a set of variables that could simultaneously determine both the probability of being self-employed and the pattern of transition to retirement, and what is the relative importance of self-employment as a variable in helping to predict how a cohort transiting to retirement will be distributed over alternative patterns of transition to retirement?

Before going on to outline how we developed answers to the questions cited above, we present some contextual information about recent developments affecting older self-employed workers in Canada, in the next two sections.

### **Growth of self-employment in Canada among older workers**

The labor market experienced dramatic changes during the 90s. The corporate and government down-sizing in the mid-1990s resulted in a significant shift in the types of jobs created, and this led to a relatively rapid growth of self-employment among older workers. During the period 1990 to 1999, among those aged 45 and above the average annual growth rate for the self-employed was 6.4% while it was 3.4% for the wage and salary earners. The spurt in self-employment growth during this period was especially strong among women. Their average annual growth rate was 9.4% while it was 5.3% for men.

There was an abrupt downturn in the growth rate of self-employed from 2000 to 2003 (the average annual rate fell to 2.7% for women and to 2.4% for men). It seems likely, however,

that with the massive future wave of retirements among baby boomers, there will be a further rise in the rate of self-employment. (For related discussion see Quinn 2000.)

### **Trend in the average age of retirement among the self-employed**

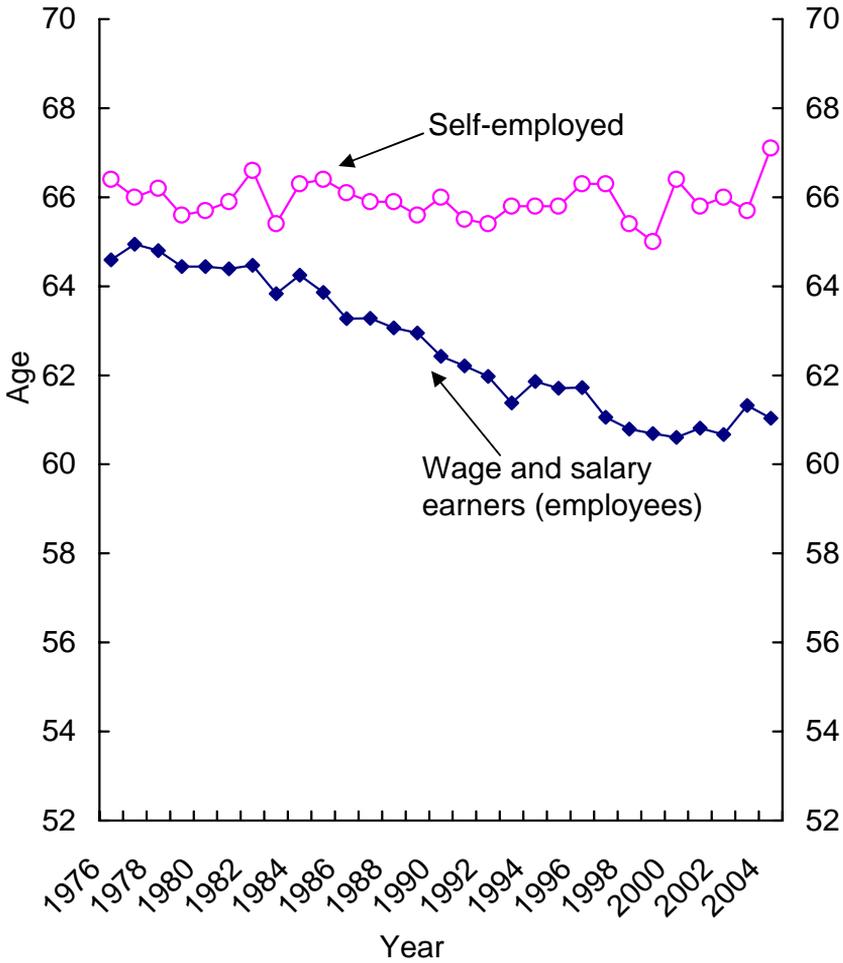
There has been a systematic tendency for the self-employed to retire two or more years later (on average) than wage and salary earners. This pattern has been found by researchers in the USA, going back to work in the early 1980s (Quinn 1980 and Fuchs 1982).

Chart 15.1 shows that among the self-employed, since the mid-1970s the average retirement age has fluctuated within a band marked by 65 and 67. Statistics for the median age of retirement among the self-employed, show the same fluctuation just cited; except that for this measure the range is from 64 to 66 years (Statistics Canada 2004:81).

In contrast to the pattern just noted for the self-employed, the average retirement age for employees had a marked downward trend from 1976 to about 2000, going from nearly 65 to about 61. However, since 2000 the curve has flattened and is hinting at a modest rise; though in 2004 it was still below 62. Thus, among employees, the trend toward retirement well below the age of 65 remains in force in 2004, even though a decline in the curve seems to have stopped.

The net result of this contrast between the self-employed and wage-and-salary earners is that the gap between their average retirement ages has widened. It was about two years in the late 1970s, and now it is close to four years. This finding suggests that whether self-employment resumes strong growth among older workers will be a key factor in achieving a substantial rise in the trend toward more gradual retirement.

**Chart 15.1: Average age of retirement<sup>1</sup> for employees and for the self-employed, Canada, 1976 to 2004**



1. The average is computed by taking into account the ages of Labour Force Survey respondents who left the labour force within the past 12 months and gave "retired" as their reason for not being currently employed. An exact computational procedure has been published in Gower (1997).

Source: Labour Force Survey (retrieved from Statistics Canada's CANSIM database).

## Data source

The data source for this analysis is Panel Two of the Survey of Labour and Income Dynamics (SLID). The target population for SLID is all persons living in Canada, excluding people in Yukon or Northwest Territories, residents of institutions, persons living on reserves and full-time members of the Canadian Armed Forces living in barracks. The exclusions constitute about 3% of the population.

The members of Panel Two of SLID were repeatedly interviewed about 12 times, from 1996 to 2001. The data for the first two years have been used to apply our scale for determining which panel members had begun their transitions to retirement during 1996 to 1997. Focusing on these members, we then mapped transitional patterns from 1998 to 2001. (Additional information about SLID is given in Appendix A, see also Statistics Canada 2004.)

As already noted, Panel Two comprises the same sample of main respondents and their household members, starting in 1996 (initial interviews) and ending in 2001. Our plan to show results for Panel One (1993 to 1998) had to be abandoned because some key variables needed for this analysis began to be measured only in the 1996 Panel.

This chapter focuses on those members of Panel Two whom we judge to have begun their transitions to retirement between 1996 and 1997, and were aged 45 to 69 in 1996.<sup>2</sup> Appendix A describes how a sub-group within this age range is identified to have started their transitions in the 1996 to 1997 period.

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2. One reviewer suggested that there was no need to identify a group that started their transitions within a specified time period. However, without that step we will not be able to estimate the period covered by a person's work-to-retirement transition.

## Key concepts

Several concepts that require special definitions are used in this chapter. The next few paragraphs present definitions and discuss measurement for the special concepts that are unique to this chapter. They are “self-employed” and “salaried employee” (the more accurate term for the latter is “wage and salary earner”).

Generally, a self-employed person is an independent business owner who is active in the operation of the business, often as a sole proprietor or partner. This person may or may not have employees. When there are no employees, he/she is called an “own-account self-employed person”.

The salaried employee is defined as one who provides paid labor services in an organization that is owned by another person (or a group of persons that exclude this employee).

A notable issue here is that many people both own (and help to operate) a business and are employees in another organization. The classification of a worker as being self-employed (or not) is usually based on her/his main job.

The categories explained above are used in this study to define a two-year class-of-worker variable, for the period 1996 to 1997. Two categories of this variable are the focus of our attention: (1) those who were self-employed in both 1996 and 1997 as their main job and had no wage and salary earnings, and (2) those who were salaried in both years and had no self-employment.

Table 15.1 shows the breakdown of those who started their transitions during 1996 to 1997 according to the categories of the said two-year class-of-worker variable, by sex and age in 1996. A shortage of sample observations for important sub-groups is indicated by this table. However, the number of self-employed respondents is similar to that found in some other studies that have focused on this group of older workers (see Quinn and Kozy 1995, and the samples of self-employed in Parker and Rougier 2004, Fuchs 1982, Quinn 1980, and Zissimopoulos and Karoly 2003).

**Table 15.1: Sample size by two-year class of worker, sex and age, Canada, 1996**

(Persons who began their transitions to retirement during 1996 to 1997)

Two-year class of worker	Sex		
	Men	Women	Total
Self-employed in 96 and 97	200	88	288
Not self-employed in 96 or 97	448	438	886
Self-employed only in 97	19	13	32
Self-employed only in 96	63	21	84
Unclassified	34	23	57
Total	764	583	1347

Two-year class of worker	Age in 1996			Total
	45 to 54	55 to 59	60 to 69	
Self-employed in 96 and 97	75	53	160	288
Not self-employed in 96 or 97	390	190	306	886
Self-employed only in 97	22	6	4	32
Self-employed only in 96	22	12	50	84
Unclassified	13	11	33	57
Total	522	272	553	1347

Source: Survey of Labour and Income Dynamics, longitudinal file for Panel 2.

To compare patterns of transition to retirement between employees and the self-employed, one must define the phrase “transition to retirement”, and devise a scale to identify who began transitioning to retirement within a specified time period.

In this chapter, “transition to retirement” refers to a process that often involves multiple movements among designated positions toward the state of being retired. (“Retirement” here means the state of being retired, which is often marked by a long-term departure from the labor market, accompanied by the reception of some kind of retirement-related income.) The specific sequence of positions that comprises one person’s transition to retirement is called her “trajectory of transition to retirement”. (See Appendix A for details.)

Trajectories have properties that we can define and measure. And we compare patterns of transition to retirement between the self-employed and the salaried in terms of these properties of trajectories of transition to retirement.

This chapter deals with four properties of trajectories of transition to retirement. These properties are speed of closure, presence of flexibility in the work-to-retirement transition, exposure to events that threaten to reduce standard of living in retirement and propensity to return to the labor market after leaving it. The following paragraphs will offer brief remarks about each of these properties, to allow the reader to understand the research findings that follow without having to spend a lot of time studying the more detailed information given in Appendix A.

Speed of closure. A person (identified as being in transition during 1996 to 1997) is said to have closed her trajectory when (a) she has left the labor market and has been in receipt of some form of retirement-related income for at least six-consecutive months, and (b) following those six months she did not return to the labor market up to the end of 2001. The sooner the person begins this period of uninterrupted departure from the labor force (while receiving some form of retirement-related income) the faster is her speed of closure.

Closure can begin in any quarter from the first of 1998 to the third of 2001, i.e., 15 quarters. A sixteenth category contains those whose trajectories were unclosed as of the end of December 2001 (for details see Appendix A.) Although this implies 16 levels of speed of closure, based on the quarter as the unit of time, they are grouped into four broad speeds, when comparing the patterns of employees with those of the self-employed.

Flexibility of the work-to-retirement transition. In this chapter, flexibility in the transition to retirement is measured by means of counting certain movements that form part of a person's trajectory of transition to retirement. The movements in question are those that indirectly point to certain voluntary actions – those that reflect the use of available options or choices in how one's retirement process unfolds.

Exposure to events that increase vulnerability. Whereas the index of flexibility deals with movements that suggest voluntary changes undertaken by the SLID respondent, the index of vulnerability focuses on job loss and involuntary job change. In this text “vulnerability” means risk of loss or setback. Here we are referring to risk of setback to whatever plans or arrangements the person has made concerning standard of living in retirement.

Propensity to return to the labor market after leaving it during 1996-1997. Finally, we devised a special scale of propensity to return to the labor market, after leaving it at some time during 1996 or 1997. The measure of the propensity to return to the labor market rises with the number of returns (starting in the first quarter of 1998) and the length of stay in the market for each return. All of these returns form part of a person’s trajectory of transition to retirement.

## Method

The next few paragraphs outline the general strategy of analysis, using the property speed of closure as an example to make the discussion more concrete.

Speed of closure is represented by an index with four rank-ordered categories: rapid closure, moderately rapid closure, slow closure and very slow closure (this last being the set of unclosed trajectories). (Defining four speeds involves collapsing the 16 categories initially used in Appendix A when trajectories were introduced.) At the stage of multivariate analysis, the model will predict the probability distribution of trajectories over these four categories, and one of the predictor variables will be based upon the special two-year class-of-worker variable defined above.

Before going to the multivariate analysis, differences in speed-of-closure pattern between the self-employed and the salaried will be portrayed in the context of bivariate association. We use the model to re-estimate the pattern of these differences in terms of a comparison of conditional odds ratios for the two categories, as well as of the computed marginal effects (on the probability of any category of speed of closure) of shifting

(analytically) from one category to the other. The terms “conditional” and “marginal” used here are meant to point to the fact that several other determinants of speed of closure are held constant statistically when making the computations.

Speed of closure is just one of the properties for which models were developed. The models for the other properties are presented in Appendix C. The results presented in this chapter deal exclusively with the role of self-employment in the models. (Methodological issues concerning the models are discussed in Appendix C.)

### **The distinctive patterns of the transitions to retirement of the self-employed**

Our central research question is the following: what are the major or systematic differences between the patterns of transition to retirement of the self-employed and those of workers who were receiving wages and salaries as employees? Related to this is a key subsidiary question: what is the relative importance of class of worker (of which self-employment forms one category) among the variables that are useful in a model that generates probabilities for different classes of transition from work to retirement? The remainder of this chapter provides our partial answers to these questions, dealing with each of the properties of trajectories .

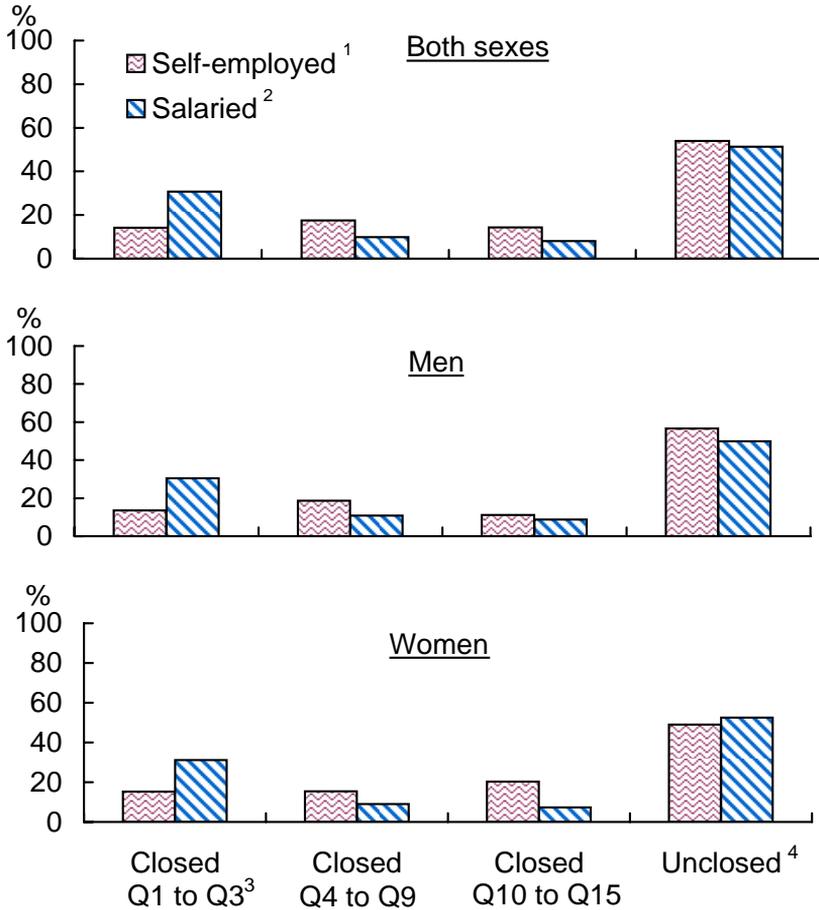
#### **Speed of closure of trajectories**

Bivariate analysis. On average, the speed of closure of the trajectories of the predominantly wage and salary workers, who will be called “employees” or “the salaried” from here onwards, is noticeably faster than that of the self-employed. Over 30% of the salaried closed their trajectories before the end of the third quarter of 1998, as opposed to slightly less than 15% of those who were self-employed in both years (Chart 15.2).

Across all three slower speeds of closure shown in Chart 15.2, the percentages for the self-employed are higher than those for the salaried. At the last quarter of 2001, just over 50% of the employees had unclosed trajectories, while a slightly higher

**Chart 15.2: Distribution according to speed of closure of trajectories, for self-employed and salaried employees, cohort aged 45 to 69 in 1996, by sex, Canada, 1998 to 2001**

(Persons who started their transitions to retirement during 1996 to 1997)



1. Employed in this sector in both 1996 and 1997.
  2. Not self-employed in either 1996 or 1997.
  3. The trajectory was closed before the end of Quarter 3.  
 Quarter 1 is January to March, 1998  
 ... ..  
 Quarter 15 is July to Sept., 2001.
  4. Unclosed = unclosed trajectories. A person (identified as being in transition during 1996 to 1997) is said to have closed her trajectory when (a) she has left the labour market and has been in receipt of some form of retirement-related income for at least six-consecutive months, and (b) following those six months she did not return to the labour market up to the end of 2001.
- Source: Statistics Canada, Survey of Labour and Income Dynamics, longitudinal file.

percentage of the self-employed had unclosed trajectories. Thus, for the population in transition to retirement, the speed of closure of trajectories was systematically slower for those self-employed in both years (1996 and 1997) than for the group of employees.<sup>3</sup>

When those in transition to retirement as of 1996-97 are classified into sub-groups according to gender, age in 1996, household income in 1996 and education, there is a tendency toward repetition of the pattern reported above – the trajectories for persons who were self-employed in 1996 and 1997 showed systematically slower speeds of closure than those of employees. The next few paragraphs will summarize the key patterns among selected sub-groups.<sup>4</sup>

Chart 15.2 shows that, among those who started their work-to-retirement transitions during 1996 to 1997, men and women had similar patterns as that for both sexes taken together. But there is a slight variation – in the case of women the percentage with unclosed trajectories among the employees is slightly higher than that of the self-employed. This divergence for women is confirmed when the sample is enlarged by lowering the TRANSCOR boundary to 2.1; but is not confirmed among all women aged 55 or more.<sup>5</sup> In the latter category of women the direction of difference between self-employed and salaried is the same as that for men.

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3. The sample sizes shown in Table 15.1 are a basis for concern about statistical significance of differences cited or implied in the text here and below. This issue is discussed in Appendix C.

4. The recomputation of the pattern among multiple subgroups has two purposes. For some of these subgroups there is substantial policy or scientific interest in examining their situations – men versus women, for example. The second purpose is to check for seemingly random appearances and disappearances of the pattern, since these would point to unreliable data.

5. An impulse to attribute the pattern shown for women in the chart to an unduly small sample of self-employed women should be balanced against the consideration that women entrepreneurs may tend, much more than their spouses, to follow those spouses into retirement. Disrupting business careers to do so probably is less of a source of financial problems for self-employed than for salaried women whose retirement incomes are more subject to rules governing access to employee pensions.

Focus upon the 55 to 59 and 60 to 64 age groups is warranted. In Canada, opportunities to retire early without major penalties in pension entitlements begin to become available for many employees at age 55 and without penalties after age 60. Thus, across the 45 to 69 age range the propensity to have begun transitions during 1996 to 1997 was at its highest in these age groups, as Appendix A shows. Within each of these age groups the above-mentioned basic pattern of differentials in speed of closure of trajectories between the salaried and the self-employed recurs.

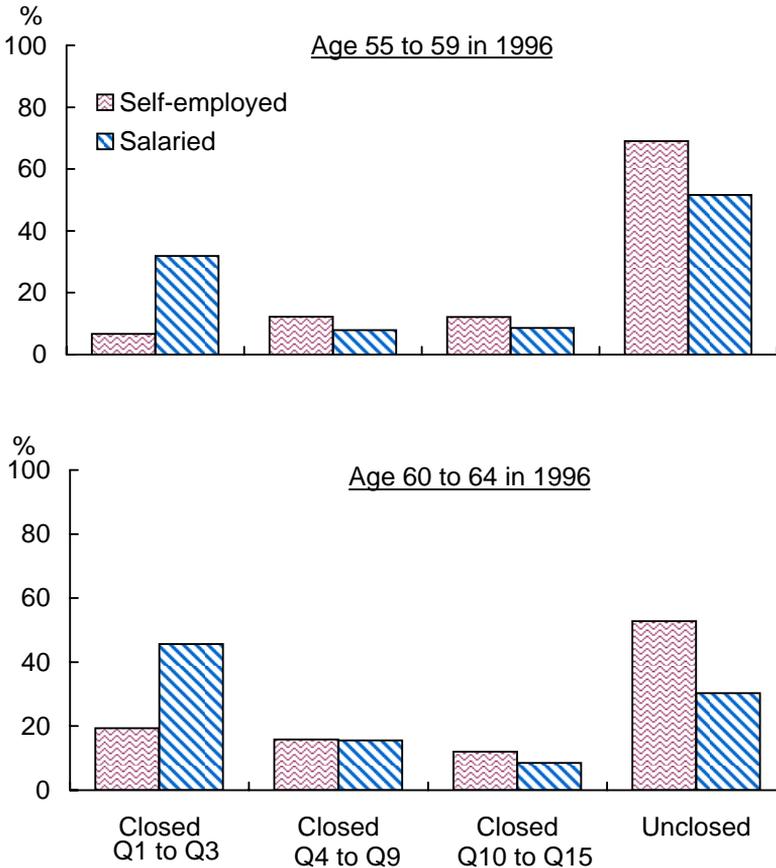
Moreover, the difference in the speed of closure between the self-employed and employees is sharpened, by comparison with what one sees when all the age groups are lumped together into one sample (Chart 15.2). For example, in Chart 15.2 the gap between the self-employed and employees as regards the percentage that began closing their trajectories in or before the third quarter of 1998 is roughly 15 percentage points, with the higher figure belonging to the salaried. However, in Chart 15.3 the corresponding gap jumps to nearly 30 percentage points for those aged 55 to 59 in 1996 and to over 20 percentage points among those aged 60 to 64 in 1996. Because the two groups have very similar percentages at the next two speeds of closure, that gap necessarily sets up a large corresponding gap in the category of unclosed trajectories. This substantial increase in the size of the gap between self-employed and salaried, when one focuses on these two age groups is confirmed with the two larger samples cited above.

In short, the gap between the self-employed and the salaried as regards the delay of retirement is greatest in the age groups where the rate of beginning transitions to retirement is highest.

Wide differences in income do not change the pattern being discussed here. Chart 15.4 allows one to make a comparison between those in the lowest and the highest quartiles of household after-tax income in 1996. Despite this major difference in household income, the pattern of variation in speed of closure of trajectories between the self-employed and employees is very similar to that which we noticed for the whole population aged 45 to 69 in 1996 (Chart 15.2).

**Chart 15.3: Speed of closure of trajectories of transition to retirement by self-employment status, cohorts aged 55 to 59 and 60 to 64 in 1996, Canada, 1998 to 2001<sup>1</sup>**

(Persons who started their transition to retirement during 1996 to 1997)



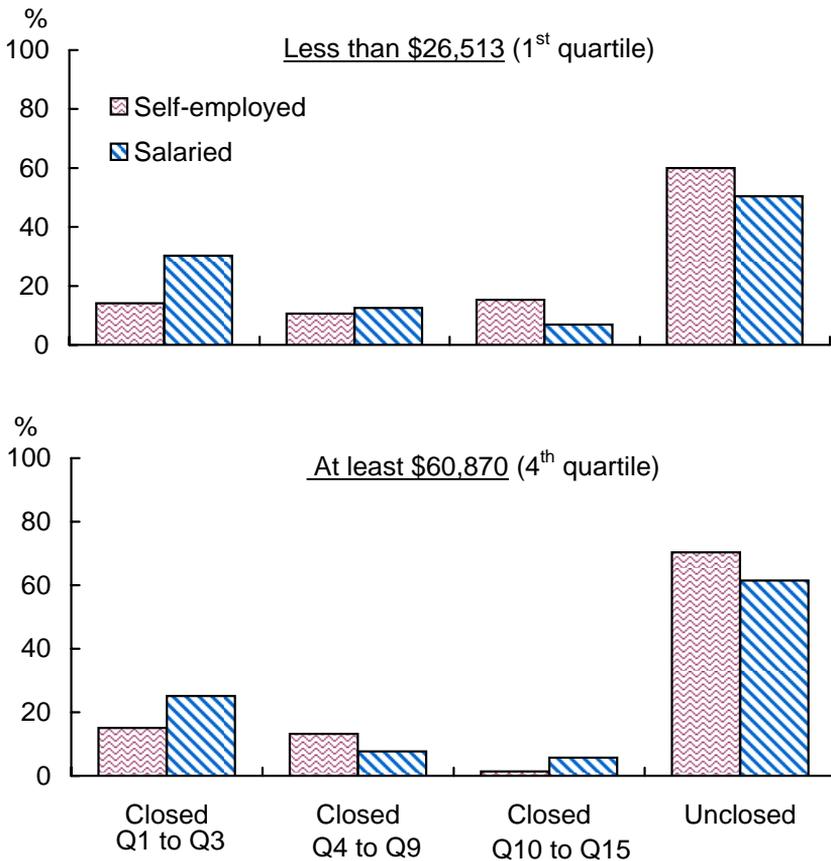
1. See Chart 15.2 for pertinent notes.

Source: Statistics Canada, Survey of Labour and Income Dynamics, longitudinal file.

When workers with less than high school graduation are compared with those that had university degrees, among those who began their transitions during 1996 to 1997, a notable divergence from the patterns for the whole sample emerges (see Chart 15.5). The former group follows the pattern of the whole sample (Chart 15.2), while those with university degrees diverge. The gap between employees and self-employed as regards rapid closure of trajectories nearly disappears (both having close to 20%). The same is true in the category of unclosed trajectories. This divergence is also seen in the larger sample that comprises all persons aged 55 or more in 1996. An analysis designed to confirm

**Chart 15.4: Speed of closure of trajectories of transition to retirement by self-employment status, cohort aged 45 to 69 in 1996, by household income in 1996, Canada, 1998 to 2001<sup>1</sup>**

(Persons who started their transition to retirement during 1996 to 1997)



1. See Chart 15.2 for pertinent notes.

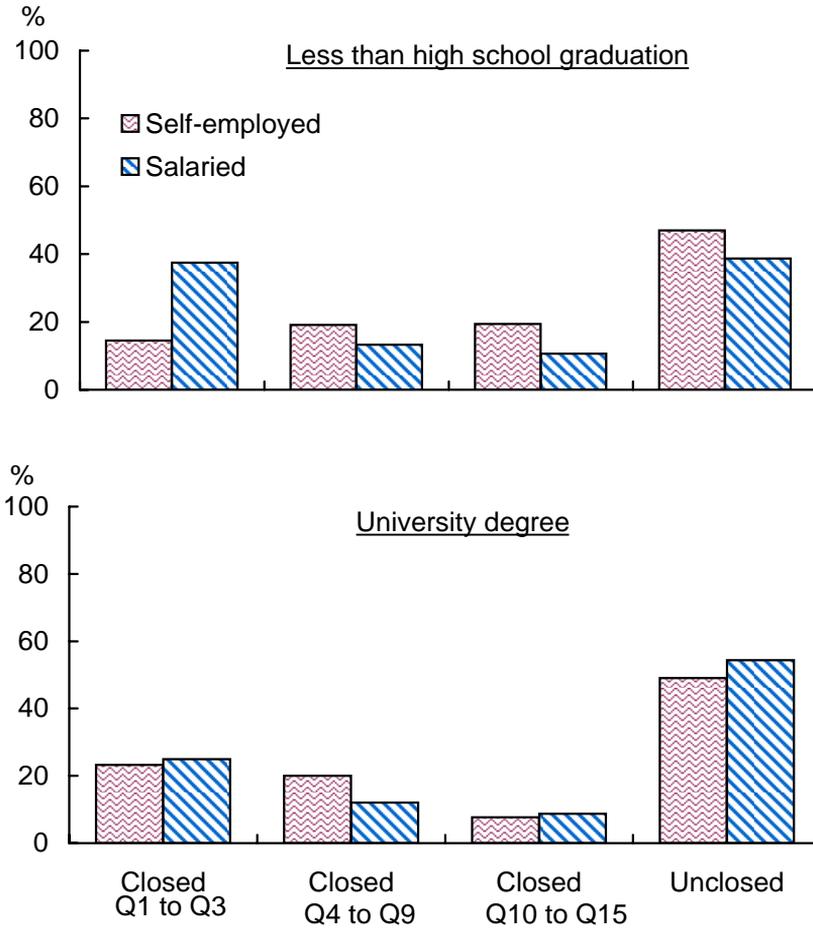
Source: Statistics Canada, Survey of Labour and Income Dynamics, longitudinal file.

and explain this divergence, using another dataset where much larger samples are available, could provide some useful lessons concerning the influence of higher education on the propensity to delay retirement among employees, and the reasons for that influence.<sup>6</sup>

6. In the model used to generate the multivariate analysis results reported below, there was a direct association of the odds ratio in favor of unclosed trajectories with rising education. Also the Wald statistic for the parameter estimates for education is statistically significant at the 5% level. However, this was for a sample that included both employees and the self-employed.

**Chart 15.5: Speed of closure of trajectories of transition to retirement by self-employment status, cohorts aged 45 to 69 in 1996, by education level in 1996, Canada, 1998 to 2001<sup>1</sup>**

(Persons who started their transition to retirement during 1996 to 1997)



1. See Chart 15.2 for pertinent notes.

Source: Statistics Canada, Survey of Labour and Income Dynamics, longitudinal file.

In summary, as regards patterns in speed of closure, among those that started their work-to-retirement transitions between 1996 and 1997, and for key sub-groups as well as the sample as a whole, fast closure of trajectories is much more likely among the salaried than among the self-employed. At slower speeds of closure, the self-employed take the lead. However, by the time the six-year observation ended (in 2001), and unclosed trajectories are tallied, the lead of the self-employed is slight in the whole sample

of persons aged 45 to 69 in 1996. However, in the sub-sample of those aged 55 or more, where the proportions transiting to retirement become high, the gap between the self-employed and the salaried remains marked in the category of unclosed trajectories. In this sub-population with high probability of being in transition to retirement, the gap between the two groups is in the order of 20 percentage points or more (at each end of the spectrum of speeds of closure).

Multivariate analysis. To what extent is this type of pattern supported by data that arise from a multivariate analysis where several pertinent variables are held constant?

To answer the question just posed, the text that follows presents the results of fitting a multivariate model that generates predicted conditional probabilities for the different speeds of closure. The model makes use of several predictor variables, and for each combination of values for these variables a separate probability distribution of speed of closure is predicted. Among them are variables that could have important separate associations with the propensity to be self-employed and the probabilities of specific speeds of closure – this would lead us to regard the association between the latter two as spurious (i.e., lacking in any causal significance, regardless of any indicated statistical significance). To check whether the pattern of association described above is repeated among these distributions, we hold constant at selected values all variables except those that pertain to class-of-worker status (self-employed versus salaried). By examining how the distributions change when we shift analytically from the self-employed to the salaried (this is the so-called “marginal effect”), we test both the direction and the strength of association of class-of-worker status with speed of closure.<sup>7</sup>

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7. The concerns expressed above concerning small sub-sample sizes apply as well to the multivariate analysis. Special care is taken here in making claims about statistical significance. However, it is worth noting that multivariate analyses with small samples are very common in research on inter-individual variations in the social sciences and especially in the health sciences.

The selection of variables to be held constant is based on our theoretical considerations about the processes involved in determining the gradualness of retirement, or on findings from other research projects. The variables held constant statistically include sex, age, cultural background, marital status in 1996, whether marital status changed in the year before closure of trajectory began, an index of whether responsibility for providing family care increased in the year before closure of trajectory began, whether health status declined in the year before closure of trajectory began, education level in 1996, occupation group in 1996, an index for irregularity of work history, whether there was another economic family member who began receiving retirement-related income in the year before closure of the trajectory started, an index of wealth ranking and an index of increase in wealth in the year before commencement of the closure of the trajectory. (Appendix C presents the model, brief definitions of the variables, discussing its overall performance and the contributions of important variables that are not part of the story-line of this chapter. Appendix B presents detailed technical definitions of several complex variables defined specially for this study and included in the model.)

Table 15.2 supports the information provided above based on bivariate analysis. The average predicted conditional probability of closure in or before the first three quarters of 1998 is 0.09 for the self-employed and 0.21 for employees – twice as high for employees as for the self-employed. At each of the other (slower) speeds, the self-employed have higher probabilities; but by the time unclosed trajectories are tallied the gap falls to 0.05 (five percentage points – 0.63 for the self-employed and 0.58 for the salaried).

The marginal effects shown in Table 15.2 are derived from coefficients of the kind shown in the top line of Table 15.3 — the parameter estimates and their associated Wald chi-squares. These data merely repeat, in a different, but more comprehensive, way the message of Table 15.2. (Appendix C provides assistance in interpreting the data presented by Table 15.3.)

The heading above the row descriptions in Table 15.3 does not refer to self-employment in both years because, in the model fitted, the variable used to represent self-employment includes persons self-employed in both years as well as those who switched

**Table 15.2: Marginal effects, on speed of closure of trajectory, of the difference between (a) being self-employed in both 1996 and 1997, and (b) being salaried in both years, Canada, 1998 to 2001**

	Predicted probabilities <sup>1</sup>	Marginal effect == Self-employed minus Salaried
Self-employed		
in 1996 and 1997		
Closure in or before Q3	0.09	-0.12
Closure in Q4 to Q9	0.18	0.04
Closure in Q10 to Q15	0.10	0.03
Unclosed	0.63	0.05
Total	1.00	
Salaried		
in 1996 and 1997		
Closure in or before Q3	0.21	
Closure in Q4 to Q9	0.14	
Closure in Q10 to Q15	0.07	
Unclosed	0.58	
Total	1.00	

1. Average of probabilities associated all combinations of predictor-variable levels that have predicted probability distributions for both self-employed and salaried. Each of these combinations represents a separate reference population that holds constant all predictor-variable values except the one for class of worker, of which self-employed and salaried are two levels.

Source: Survey of Labour and Income Dynamics, longitudinal file for Panel 2.

from being self-employed in 1996 to being employed in 1997. This was done to increase the reliability (from the viewpoint of sampling) of the parameter estimate for self-employment. Having fitted the model, when generating its predicted probabilities (to show marginal effects) we reverted to comparing self-employed in both years with being salaried in both years (Table 15.2).

In interpreting the data in Table 15.3 focus should be placed on the key sub-model – that in column C (the concept of sub-model is introduced in Appendix C). The positive parameter estimate in column C indicates that, relative to the reference category of class of worker (primarily salaried persons), being self-employed tends to increase the probability of having an unclosed trajectory. The odds ratio of 3.4 means that the odds favoring the self-employed, with regard to having unclosed trajectories, far exceed (are three times as high as) those favoring the salaried, under the key sub-model.

**Table 15.3: Adjusted patterns of association of self-employment with speed of closure of trajectory of work-to-retirement transition during 1998 to 2001, for three nested models, Canada**

(Persons who began their transitions to retirement during 1996 to 1997)

	Model One logit = (speedcls is 2)/ (speedcls is 1,3,4) A <sup>1</sup>	Model Two logit = (speedcls is 3)/ (speedcls is 1,4) B <sup>2</sup>	Model Three logit = (speedcls is 1)/ (speedcls is 4) C <sup>3</sup>
Predictor variable: self-employed in 1996			
Parameter estimates	0.3003 (2.3) <sup>4</sup>	0.5441 (5.5)	1.2248 (27.1)
Odds ratios	1.4	1.7	3.4
Percent of the model's Wald chi-square	2%	7%	8%
Index of rank in contributing to the model's goodness of fit	1/16 <sup>5</sup>	5/16	3/16

1. PROC LOGISTIC is modeling the probability that speedcls is 2. The name "speedcls" refers to the four categories of speed of closure shown in Chart 15.2.

2. PROC LOGISTIC is modeling the probability that speedcls is 3.

3. PROC LOGISTIC is modeling the probability that speedcls is 4.

4. Wald chi-squares are shown in parentheses. The standard errors underlying the chi-squares are only approximate; because their underlying estimates are not fully adjusted for the complexity of the survey design. The approximate adjustment involves standardizing the original survey weights so that their average is 1.0. Tests using more appropriate adjustment via bootstrap computations indicate that when the Wald chi-squares are 6.0 or greater, it can be considered that the parameter estimate is statistically significant at the 5% level or better, in the event that bootstrap standard errors were computed. When the Wald chi-squares are between 3.0 and 6.0, they can be considered to be statistically significant at a level between 15% and 5%.

5. The numerator is the rank of self-employment among the variables that contribute to the goodness of fit of the model, and the denominator is the number of predictor variables. The highest rank is assigned the number 1.

Source: Survey of Labour and Income Dynamics, longitudinal file for Panel 2.

Finally, although age is hugely dominant among the predictor variables concerning speed of closure, being self-employed contributes roughly 8% of the model's goodness of fit. The

self-employment variable is also ranked number three (out of 16 variables), third highest, in the set of predictor variables, in terms of relative statistical importance in the model's goodness of fit.<sup>8</sup>

It is worth noting that the results for the first two sub-models (see columns A and B) are subject to much higher variability due to sampling than those of the third sub-model (see the values of the Wald chi-squares, and footnote 4 to the table). However, they too show a broadly similar pattern. Being self-employed boosts the probability of slower speed of closer.

In summary, the bivariate and the multivariate analyses concur as regards the association of class-of-worker status (self-employment versus salaried employment) with speed of closure. In the bivariate analysis, we estimated a minimum 20-percentage-point gap between the two groups in terms of concentration at either end of the spectrum of speed of closure, for those persons aged 55 or more in 1996. In the whole sample aged 45 to 69, when several related covariates are held constant, the gap falls to about 10 percentage points when the speed of closure is fast, and to five percentage points at the opposite extreme of non-closure.

### **Presence of flexibility in the work-to-retirement transition**

With regard to trajectories, flexibility in the transition to retirement involves the presence of changes in position that indirectly point to voluntary actions that reflect the use of available options or choices in how one's retirement process unfolds. (See Appendix A for elaboration of this idea.) The existing literature concerning retirement among the self-employed repeatedly emphasizes the advantage in flexibility that the self-employed enjoy by comparison with the salaried. However, other researchers have rarely devised a measure of this flexibility and used it to gauge the size of the advantage enjoyed by the self-employed.

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8. The data in the last two lines of Table 15.3 are rough approximations, since their computation in the SAS PROC LOGISTIC procedure assumes that the predictor variables are mutually independent.

It is precisely this kind of information that we are offering based on studying the trajectories that were presented in Appendix A. Our focus is not on establishing an already well-repeated finding by other researchers; but upon adding value by measuring the degree of advantage that the self-employed enjoy relative to the salaried.

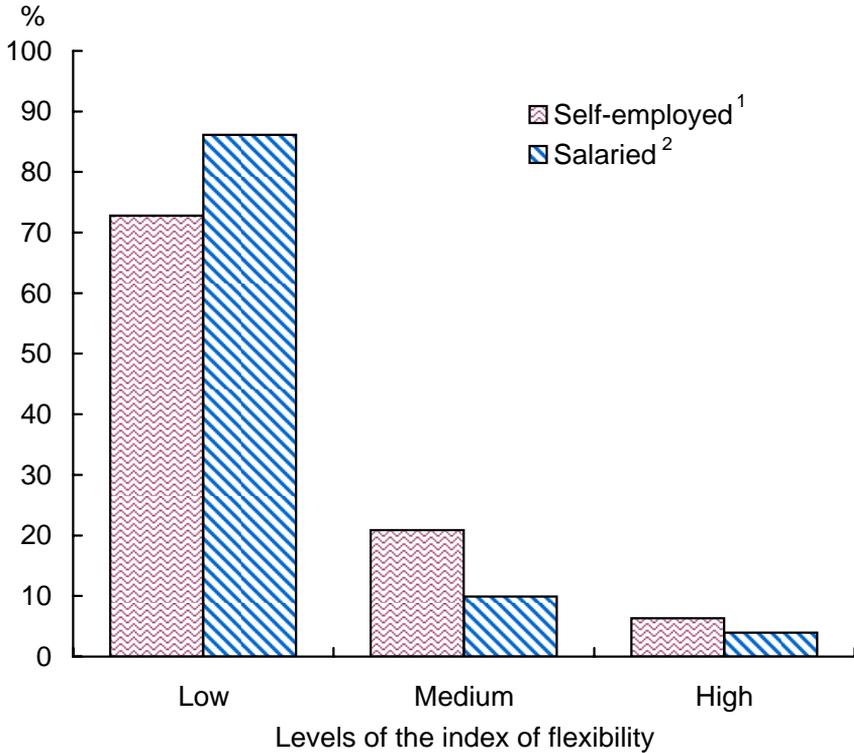
Chart 15.6 confirms the expected substantial difference between self-employed and salaried status as regards flexibility of the work-to-retirement transition. Some 86% of the salaried had trajectories with Low levels on the index (14% with Medium or High levels). The corresponding figure for self-employed is at least 10 percentage points lower. Among the Medium and High levels of the index, the gap is most pronounced at the Medium level.

This prominent difference between the two class-of-worker statuses is seen within categories of other important variables such as sex, age and education, as Chart 15.7 shows. This chart deals with the percentages at Medium or Higher levels of the index of flexibility of the work-to-retirement transition. While the details of Chart 15.6 are missing, the message is the same — within key categories of sex, age and education, the self-employed are much more likely to have trajectories that are rated at Medium or Higher levels of the index of flexibility of the work-to-retirement transition, and the difference is usually in the order of 10 or more percentage points.

Is this pattern seen even when we hold constant several variables that may simultaneously affect both class-of-worker status and level of the index of flexibility of the transition from work to retirement? This question is answered by building a model similar to that just discussed concerning speed of closure. However, in this case we are predicting probabilities for the different levels of the index of flexibility, based on combinations of values of several predictor variables. The variables used are presented in Appendices B and C, and they include self-employment in 1996 as a dummy variable. The reference category for this variable comprises primarily persons who were employees.

**Chart 15.6: Index of flexibility in the work-to-retirement transition, for self-employed and salaried employees, cohort aged 45 to 69 in 1996, Canada, 1998 to 2001**

(Persons who started their transitions to retirement during 1996 to 1997)



1. Employed in this sector in both 1996 and 1997.

2. Not self-employed in either 1996 or 1997.

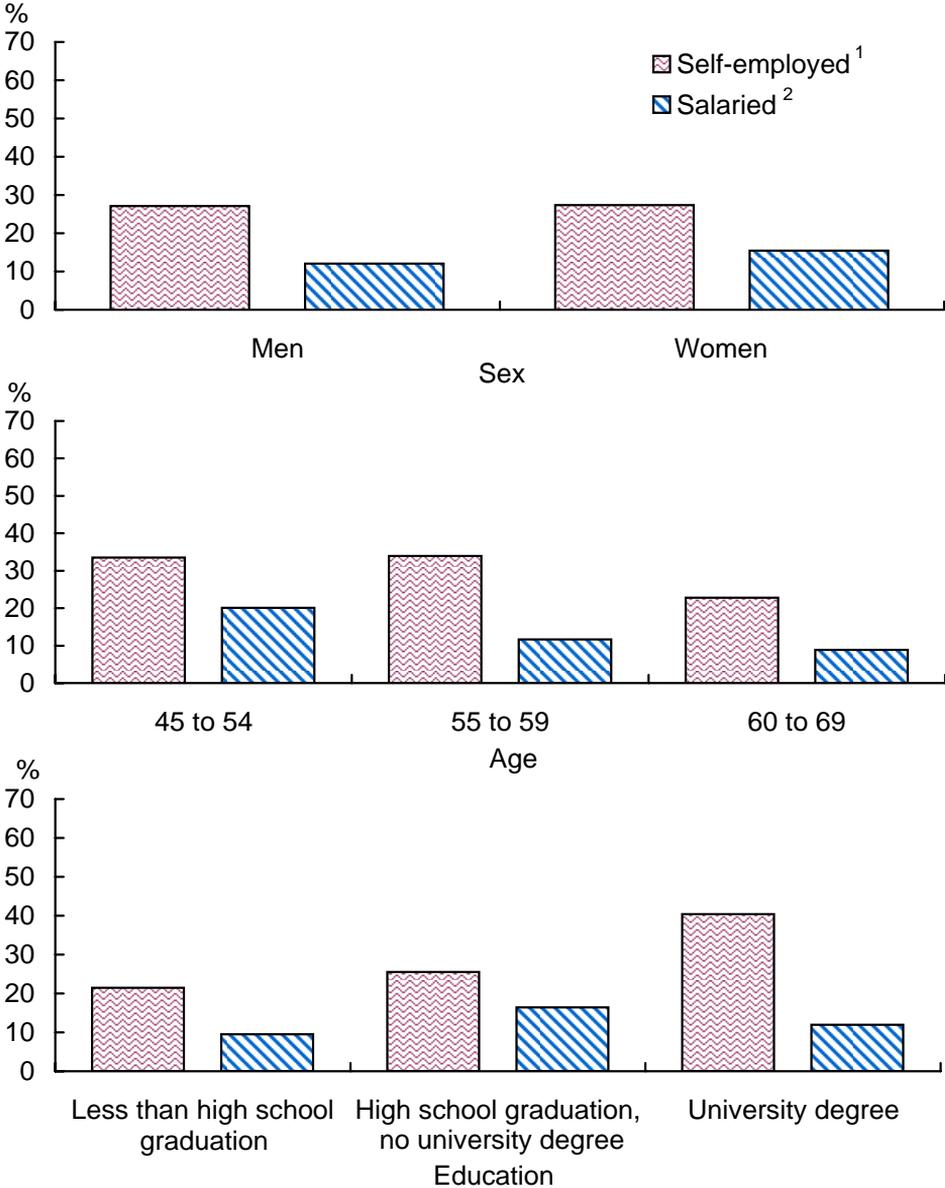
Source: Statistics Canada, Survey of Labour and Income Dynamics, longitudinal file.

The model predicts that self-employment is associated with greater than average levels of flexibility in the work-to-retirement transition. This is shown in the positive parameter value for the key sub-model, the one, shown in column A of Table 15.4. This model predicts the probability that the index value will be at the Medium or High levels.

However, there is no surprise or insight provided by the result just reported; because it is widely discussed in the literature. What we contribute here is a *measure of the degree to which self-employment provides the ‘flexibility advantage’ just cited*. This information is provided by the odds ratio in Table 15.4. The odds

**Chart 15.7: Percentage of persons at Medium or High levels of the index of flexibility in the work-to-retirement transition, for self-employed and salaried employees, for categories of sex, age, and education, cohort aged 45 to 69 in 1996, Canada, 1998 to 2001**

(Persons who started their transition to retirement during 1996 to 1997)



1. Employed in this sector in both 1996 and 1997.

2. Not self-employed in either 1996 or 1997.

Source: Statistics Canada, Survey of Labour and Income Dynamics, longitudinal file.

**Table 15.4: Adjusted patterns of association of self-employment with flexibility of the trajectory of work-to-retirement transition during 1998 to 2001, for two nested models, Canada**

(Sample restricted to persons who closed their trajectories after the 3rd quarter of 1998, and who began their transitions during 1996 to 1997)

Predictor variable: self-employed in 1996	Model One logit = (flexscorg98 = 0)/ (flexscorg98 = 1,2) A <sup>1</sup>	Model Two logit = (flexscorg98 = 1)/ (flexscorg98 = 2) B <sup>2</sup>
Parameter estimates	0.6437 (11.4) <sup>3</sup>	0.2138 (0.3)
Odds ratios	1.9	1.2
Percent of the model's Wald chi-square	20.5%	1.0%
Index of rank in contributing to the model's goodness of fit	1/13 <sup>4</sup>	9/13

1. PROC LOGISTIC is modeling the probability that flexscorg98 is 1,2. The name "flexscorg98" refers to the three categories of the index of flexibility shown in Chart 15.6.

2. PROC LOGISTIC is modeling the probability that flexscorg98 is 2.

3. See Table 15.3, footnote 4.

4. See Table 15.3, footnote 5.

Source: Survey of Labour and Income Dynamics, longitudinal file for Panel 2.

ratio of 1.9 means that, according to the fitted model, the odds of having Medium or High levels on the index of flexibility among the self-employed are roughly twice as high as those of the reference population, which is dominated by wage and salary earners.

The third line in Table 15.4 shows what the percentage contribution of the self-employment dummy variable to the model's overall performance would be if the predictor variables were mutually independent. The notation "1/13" in the fourth line of column A indicates that the self-employment variable is nevertheless the largest contributor to the model's overall goodness of fit. Over 20% of the model's goodness of fit can be attributed to this variable (see the third figure in column A). Unfortunately, however, the predictors are not mutually independent, and as a result these results comprise a rough indicator only.

While the parameter estimate in the key sub-model (column A) is estimated with good reliability (statistically significant at the 5% level), that in column B is estimated with very low reliability — it is not statistically significant even at the 15% level. However, both columns of this table tell the same message — a positive partial association of self-employment with the probability of having Medium or High levels of the index of flexibility in the work-to-retirement transition. Also, the self-employed have much greater odds of having either of these levels than do the salaried — nearly 100% greater odds of being Medium or High in the whole sample, and 20% greater odds of being High in the sub-sample where all members have at least the Medium level. These odds ratios measure the estimated degrees of advantage that self-employment conveys with regard to the index of flexibility in the work-to-retirement transition.

### **Exposure to events that threaten to reduce standard of living in retirement**

Like the index of flexibility in the transition from work to retirement, that which indicates exposure to events that increase risk of reduction in standard of living in retirement (also called “index of vulnerability” below) relies upon counting certain kinds of movement within a trajectory. Whereas the former index deals with movements that suggest voluntary changes undertaken by the SLID respondent, the latter index focuses on job loss or involuntary job change – negative events. This section examines the extent to which there are systematic differences in levels of the index of vulnerability between the self-employed and wage-and-salary earners.

For the properties of trajectories other than the speed of closure and flexibility, there is almost no literature to guide us in developing expectations as regards the directions of systematic differences between the two classes of worker just named. On one hand, it is evident that the self-employed are not subject to being ‘fired by the boss’; but on the other hand they are constantly exposed to the well-known risks of business failure. We proceed, therefore, to display their differences with employees without any strong notion of what those differences will be like.

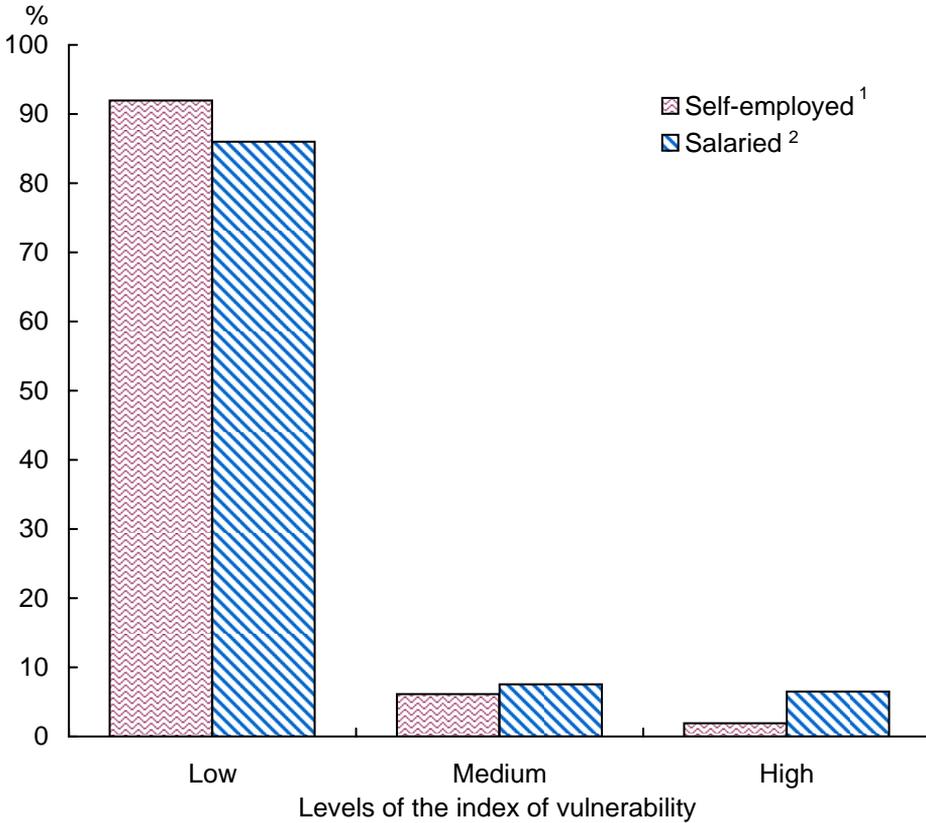
Wage and salary earners are more likely than the self-employed to have trajectories with Medium or High levels on the index of exposure to events that increase risk of reduction in standard of living in retirement (the “index of vulnerability”). More than 10% of the salaried who began their transitions during 1996 to 1997 and who were employed throughout the last quarter of 1997 had trajectories with Medium or High levels on this index. This is in contrast to less than 10% among their counterparts who were self-employed (See Chart 15.8). Although the margin of the difference between the two classes of worker is not large, the pattern just cited is confirmed in the two larger samples (described earlier) where parallel computations were done.

Although key sub-groups of sex, age and education repeat the pattern of variation just cited, the larger sample comprising all persons aged 55 or more (and who were employed throughout the last quarter of 1997) confirms this repetition for separate age groups only. The differential between the self-employed and the salaried is especially marked at ages 55 or more.

To what extent is the pattern just cited repeated when we hold constant statistically several variables that may simultaneously explain both class-of-worker status and level of the index of exposure to events that increase risk of reduction in standard of living in retirement? Once again, to answer this question, we have created a model that predicts probabilities for the different levels of the index, based on combinations of values of several predictor variables. The model and variables used are presented in Appendices B and C, and they include self-employed in 1996 as a dummy variable. The reference category for this variable would very largely comprise persons who were employees in 1996 (other class-of-worker statuses are possible; but this one would be the largest share of the sub-sample’s reference category.)

The data in Table 15.5 are consistent with the above-mentioned pattern of association of self-employment with the index of vulnerability. Being self-employed tends to lower the probability of at least Medium values on the index, relative to that for the reference group (which is dominated by employees). This is shown by the negative parameter in the first column and

**Chart 15.8: Index of exposure to events that increase risk of reduced standard of living in retirement, for self-employed and salaried employees, cohort aged 45 to 69 in 1996, Canada, 1998 to 2001**  
 (Persons who were employed in the last quarter of 1997, and who started their transition to retirement during 1996 to 1997)



1. Employed in this sector in both 1996 and 1997.

2. Not self-employed in either 1996 or 1997.

Source: Statistics Canada, Survey of Labour and Income Dynamics, longitudinal file.

the first line of Table 15.5 (the first column of this table is that for the key sub-model, which deals with the odds of having at least Medium levels relative to those of having a Low level of the index – see Appendix B for related details). Moreover, the odds for the self-employed are just over one-half as great as those for the reference group.

**Table 15.5: Adjusted patterns of association of self-employment with the index of vulnerability arising from the trajectory of work-to-retirement transition during 1998 to 2001, for two nested models, Canada**

(Sample restricted to persons who closed their trajectories after the 3rd quarter of 1998, and who began their transitions during 1996 to 1997)

Predictor variable:	Model One logit = (vulev98 = 0)/ (vulev98 = 1,2) A <sup>1</sup>	Model Two logit = (vulev98 = 1)/ (vulev98 = 2) B <sup>2</sup>
self-employed in 1996		
Parameter estimates	-0.5817 (4.4) <sup>3</sup>	0.2262 (0.1)
Odds ratios	0.6	1.3
Percent of the model's Wald chi-square	7%	0%
Index of rank in contributing to the model's goodness of fit	6/14 <sup>4</sup>	14/14

1. PROC LOGISTIC is modeling the probability that vulev98 is 1 or 2. The name "vulev98" refers to the three categories of the index of vulnerability shown in chart 15.8.
2. PROC LOGISTIC is modeling the probability that vulev98 is 2.
3. See Table 15.3, footnote 4.
4. See Table 15.3, footnote 5.

However, class-of-worker is not a major driver in the goodness of fit of the model. Among the 13 predictor variables, it ranks sixth in terms of contribution to the goodness of fit of the model. It is notable that none of the parameters in Table 15.5 is estimated with a high level of reliability, probably due to small sample size. However, inter-correlations among the predictor variables are also a factor.

### Propensity to return to the labor market after departure

Whether the self-employed, who leave the labor market, during the stage of transition to retirement, are more likely to return

than their counterparts who are wage earners is an issue that has notable policy implications. The final property of the trajectory to be considered here was designed to allow this issue to be addressed.

Return to the labor market may be a high probability for those who find their incomes in retirement otherwise unacceptable, and who have marketable skills. Since uncertainties in the flow of income in retirement may be unusually high among the self-employed, compared to the salaried, it is expected that they will be more likely to return to the labor market after leaving it.

This is precisely what Chart 15.9 shows for those who stated their transitions between 1996 and 1997, and who left the labor market at some time during those years. However, when the computation was done again for all persons aged 55 or more who left the labor market at some time during 1996 to 1997, the pattern is confirmed only if the scale values are grouped so that they have only two levels – zero and non-zero. Since sample size is a serious issue with this chart, the data for the larger sample are also shown. The larger sample indicates a much smaller difference between the two classes of worker than does the sample of “transiters”.

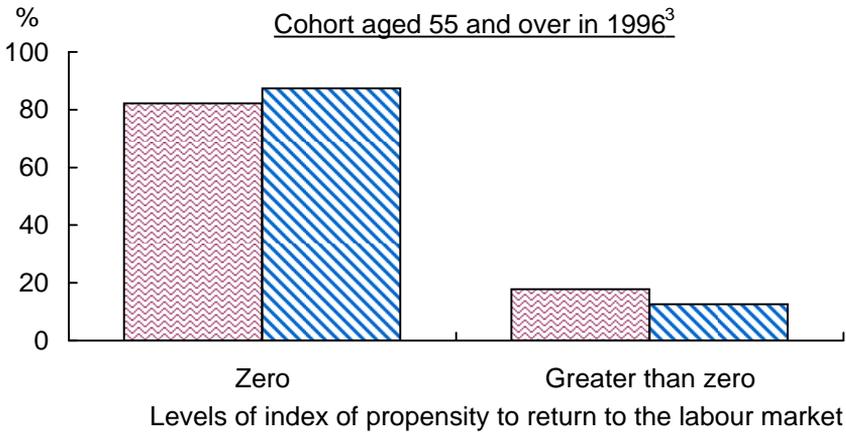
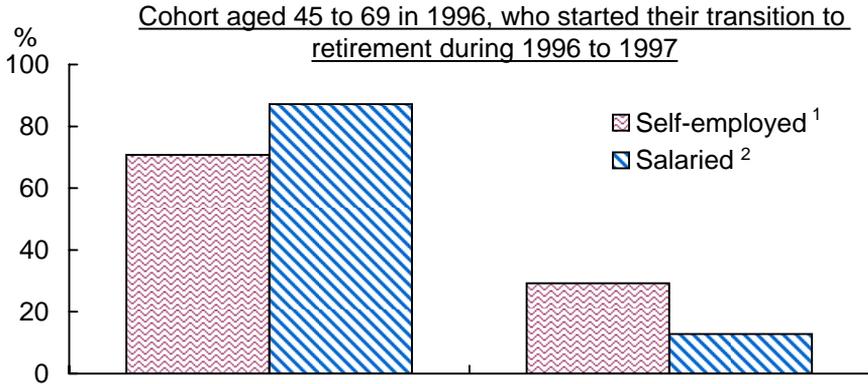
Unfortunately, the underlying sample size is too small to allow the display of charts that show breakdowns into categories of variables such as sex, age and education. So we used the multivariate analysis in search of results that may help in clarifying how the gap between the two classes of worker came about. While the results of this analysis confirm that being self-employed tends to boost the probability of return to the labor market, again data are not shown due to unduly small sample sizes. Also the multivariate analysis suggests that the difference between being self-employed and being salaried is a negligible factor in predicting the probability of return to the labor market after leaving it.

### **General summary and policy relevance**

Opportunities for self-employment form an important dimension of efforts to achieve greater prevalence for gradual and flexible work-to-retirement transitions. In recent years, the gap between the average retirement age of the self-employed and that

**Chart 15.9: Index of propensity to return to the labour market after leaving it during 1996 to 1997, for self-employed and salaried employees, Canada, 1998 to 2001**

(Persons who were employed in 1996, who were outside the labour force at some time during 1997)



1. Employed in this sector in both 1996 and 1997.
2. "Salaried" in both 1996 and 1997.
3. At all levels of TRANSCOR.

Source: Statistics Canada, Survey of Labour and Income Dynamics, longitudinal file.

of wage and salary earners has widened in Canada. It was about two years in the late 1970s, and now it is close to four years — the average for the former has fluctuated around a flat trend while that of the latter declined steadily up to 2001. This difference suggests that a substantial rise in the trend toward more gradual retirement could be stimulated if there is a resumption of growth in the rate of self-employment. However, the labor supply decisions of the self-employed and their related patterns of transition to retirement are an area in which few research studies have been published.

As regards patterns in speed of closure, among those that started their work-to-retirement transitions between 1996 and 1997, and for key sub-groups as well as the sample as a whole, fast closure of trajectories is much more likely among the salaried than among the self-employed. At slower speeds of closure, the self-employed take the lead. In the bivariate analysis, we estimated a minimum 20-percentage-point gap between the two groups in terms of concentration at either end of the spectrum of speed of closure, where one limits observations to persons aged 55 to 69 in 1996. In the whole sample aged 45 to 69, when several related covariates are held constant statistically, the gap falls to near 10 percentage points at the extreme of fast closure and to five percentage points at the opposite extreme of non-closure.

Thus, while the general tendency of the self-employed to retire later is well known, we have provided for Canada a measure of the degree of difference between the self-employed and the salaried in connection with the probabilities of closing trajectories soon after beginning the transition to retirement, and another concerning the probability of having unclosed trajectories four years after the transition began.

Flexibility in the transition to retirement is measured here in terms of changes in position (a trajectory is a sequence of positions occupied) that indirectly point to voluntary actions that reflect the use of available options or choices in how one's retirement process unfolds. We confirm a main finding of the existing literature — the self-employed seem to have an advantage in flexibility by comparison with the salaried. However, other researchers have rarely devised a measure of this flexibility and used it to gauge the size of the advantage enjoyed by the self-employed.

The present study offers this kind of information based on studying the trajectories of transition from work to retirement. While close to 75% of the self-employed had trajectories with Low levels on the index, the figure for employees is in the neighborhood of 85%. This wide margin of difference is confirmed in the larger sample that comprises all persons aged 55 or more in 1996. The pattern of differences between the two classes of workers recurs in the multivariate analysis.

The index of vulnerability focuses on job loss or involuntary job change. Wage and salary earners are more likely than the self-employed to have trajectories with Medium or High levels on the index of exposure to events that increase risk of reduction in standard of living in retirement (the "index of vulnerability"). The margin of the difference is substantial. However, key sub-groups of sex, age and education repeat the pattern of difference just cited, and the pattern is seen again in the context of multivariate analysis. However, class-of-worker is not a major driver in the goodness of fit of the model; because only 7% of the measure of model performance can be attributed to this variable.

Since uncertainties in the flow of income in retirement may be unusually high among the self-employed, compared to the salaried, it is expected that they will be more likely to return to the labor market after leaving it. This is precisely what our data show. However, the sub-sample of those that left the labor market at some time during 1996 and 1997 is too small to provide a reliable measure of the magnitude of the difference between the two classes of worker.

Due to an expected slowing of overall labor force growth along with an increasing percentage for its older members in future years, labor supply from older workers will be a matter of growing importance in connection with national economic output and competitiveness. In this context, the tendency for the self-employed to show distinctly greater flexibility in work-to-retirement transitions, compared to employees, suggests that special attention to policy issues concerning the environment for older entrepreneurs is warranted. ILO (1990:28) highlights the relevance of policy interest in this topic as follows: "The overall policy framework and institutions in an economy exert a decisive influence on the extent of self-employment and its prospects for growth."

Blau (1987:464) also finds evidence of the influence of the policy environment on the stimulation of growth in self-employment. A key aspect of this influence is whether the policy environment facilitates older workers' access to venture capital, according to Bruce, Holtz-Eakin and Quinn (2000).

Morris and Mallier (2003:15) point out that the evolving labor market environment extends opportunities to choose between alternative types of employment, including self-employment. In this connection, ILO (1990) cites an expansion of demand for labor inputs provided by self-employed persons among large organizations in some OECD countries, including Canada and the USA, and credits this expansion to new "information technology which gives the home-based self-employed worker immediate access to materials needed and allows outputs to be transmitted instantaneously". (See also Taylor 2002.)

Parker and Rougier (2004) suggest that schemes to promote self-employment among older workers might have two objectives: (1) increasing overall Labor Force Participation Rates (LFPRs), and (2) promoting a more competitive and entrepreneurial economy. Indirect support for this assertion concerning labor force participation rates is provided by Taylor (2002:6), who cites a key finding from research concerning the comparatively high LFPR found among older persons in Japan. A high proportion of self-employed or "family workers" is one factor that helps to explain their relatively high LFPR. A general review of the relevant field of policy concerns and of policy options pertaining to self-employment is provided by ILO (1990).

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# **Chapter 16. Patterns of work-to-retirement transition among Canadian public-sector employees<sup>1</sup>**

by

Leroy O. Stone and Hasheem Nouroz  
with special assistance from Harpreet Randhawa

## **Introduction**

In 2004, the Institute of Public Administration of Canada conducted a survey of very senior public servants: federal and provincial Deputy Ministers, and municipal Chief Administrative Officers. They were asked to identify the top ten issues facing public sector managers. Number one, by a wide margin, was called “retirement, recruitment, retention and succession planning (cited 75 times)” (Marson and Ross 2005). This finding means that many public sector managers are focusing upon the consequences of the major wave of retirements that Baby Boomers will unleash during the next 10 years.

Long ago analysts used to think that the baby boomers’ retirement wave would begin about the time when their youngest members reached age 65, about 2011. But the wave will become substantial well before that time; because the average age of retirement has fallen below 62 in recent years, as Chart 16.1 shows.

To help those leaders prepare for the said retirement wave, the existing body of basic knowledge about patterns in work-to-retirement transitions should be substantially improved. Part of that improvement should focus upon the public sector and this for two reasons. The public sector is perhaps the venue of the most advanced planning concerning gradual retirement in Canada.

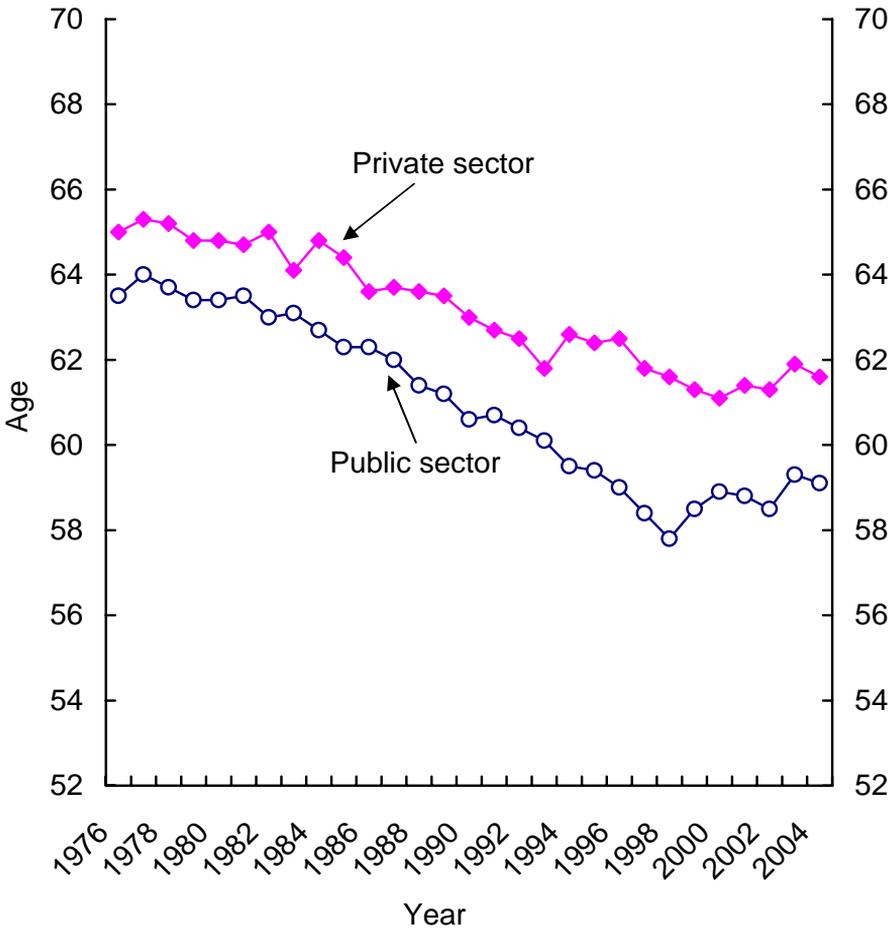
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1. The authors thank the peer reviewers for their contributions to improving earlier drafts of this chapter. The comments of Bob Baldwin, Kevin Cahill, Hervé Gauthier and Bruno Rainville were especially helpful. Assistance from Harpreet Kaur Randhawa is gratefully acknowledged. All opinions and errors herein are our sole responsibility.

Yet, what is available as information about retirement patterns in the public sector has been limited largely to brief commentary about the trends shown in the following Chart 16.1.

What are the persistent and important differences in patterns of transition from work to retirement between public-sector employees and those in the private sector? To what extent can these differences be explained by variation between these two sectors in aspects of employee attributes that greatly influence

**Chart 16.1: Average age of retirement for public and private sector employees, Canada, 1976 to 2004**



Source: Labour Force Survey (retrieved from Statistics Canada's CANSIM database).

patterns of work-to-retirement transitions? What major variations in patterns of work-to-retirement transitions exist among key occupational or “employer” subgroups within the public sector? These are the key research questions that have guided the work in this chapter. The answers to these questions will contribute to the foundation of basic knowledge that human resource policy makers and managers of all sectors will find useful as they begin to confront the baby boomers’ coming retirement wave.

Answers to the questions will also help to advance fundamental social-science-based knowledge that is needed in teaching about and understanding a major aspect of life courses in Canadian society. Definitive answers require much more research than that done for this book, and that research needs to be based on data that provide more adequate samples for key population subgroups than the ones now available. This chapter is, therefore, a small contribution toward the needed answers.

To make this contribution, we have drawn upon the data for Panel Two of the Survey of Labour and Income Dynamics (SLID). The target population for SLID is all persons living in Canada, excluding people in the Yukon or Northwest Territories, residents of institutions, persons living on reserves, and full-time members of the Canadian Armed Forces living in barracks. The exclusions constitute about 3% of the population.

The members of Panel Two of SLID were repeatedly interviewed, about 12 times, from 1996 to 2001. The data for the first two years have been used to determine which panel members had begun their transitions to retirement during 1996-1997. Focusing on these members, we then mapped transitional patterns from 1998 to 2001. (Additional information about SLID is given in Appendix A.) See also Statistics Canada 2004.

### **Key concepts**

To benefit from reading this chapter, the reader will need to absorb several new concepts. This section presents meanings for these concepts using plain language as much as feasible (the more technical definitions have been placed in Appendices A and B).

Central to what follows are the terms “public sector employee” and “private sector employee”. These are widely used concepts and it seems sufficient to note here that in Canada “public sector employee” generally refers to someone employed in a government agency, or in a government-financed hospital or school. All levels of government are included.

“Private sector employee” generally means someone who is employed by a non-government organization, and excludes the self-employed. In Canada such an organization is most likely to be a profit-making entity.

In classifying a person to the category named “public sector employee” or that of “private sector employee”, we have required that she be employed in the same sector in each of the years 1996 and 1997. Moreover, we excluded those who had any self-employment in those years.

To compare patterns of transition to retirement between public sector employees and those of the private sector, one must define the phrase “transition to retirement”, and devise a scale to identify who began their transitions to retirement with a specified time period. The scale, named TRANSCOR, is presented in Appendix A.

In this chapter, “transition to retirement” refers to a process that often involves multiple movements among designated positions toward the state of being retired. (“Retirement” here means the state of being retired, which is often marked by a long-term departure from the labor market, accompanied by the receipt of some kind of retirement-related income.) The specific sequence of positions that comprises one person’s transition to retirement is called her “trajectory of transition to retirement”. (See Appendix A for more details.)

Trajectories have properties that we can define and measure. And we compare patterns of transition to retirement between public and private sector employees in terms of these properties of trajectories of transition to retirement.

This chapter deals with three properties of trajectories of transition to retirement. These properties are speed of closure, presence of flexibility in the work-to-retirement transition and exposure to events that threaten to reduce standard of living in retirement. The following paragraphs will offer brief remarks about each of these properties, to allow the reader to understand the research findings that follow without having to spend a lot of time studying the more detailed information given in Appendix A.

A person (identified as being in transition during 1996 to 1997) is said to have closed her trajectory when (a) she has left the labor market and has been in receipt of some form of retirement-related income for at least six consecutive months, and (b) following those six months she did not return to the labor market up to the end of 2001. The sooner the person begins this period of uninterrupted departure from the labor force (while receiving some form of retirement-related income) the faster is her speed of closure.

Closure can begin in any quarter of the 15 quarters from the first of 1998 to the third of 2001. A sixteenth category holds those whose trajectories were unclosed as of the end of December 2001 (for details see Appendix A). Although this implies 16 levels of speed of closure, based on the quarter as the unit of time, they are grouped into four broad speeds, when comparing the patterns of public sector employees with those of their private sector counterparts.

In this chapter, flexibility in the transition to retirement is measured by means of counting certain movements that form part of a person's trajectory of transition to retirement. The movements in question are those that indirectly point to certain voluntary actions — those that reflect the use of available options or choices in how one's retirement process unfolds.

Whereas the index of flexibility deals with movements that suggest voluntary changes undertaken by the SLID respondent, the index of vulnerability focuses on job loss and involuntary job change. In this text "vulnerability" means risk of loss or setback. Here we are referring to risk of setback to whatever plans or arrangements the person has made concerning standard of living in retirement.

## **Systematic inter-sector variations in patterns of transitions to retirement**

This section describes the results of our research aimed at finding persistent and important differences in patterns of transition from work to retirement between public-sector employees and those in the private sector.

The plan of the exposition that follows is to first highlight the overall pattern of inter-sector difference between the public and private sectors. Then follows a review of how much this pattern varies among key segments of the target population, in the mode of bivariate analysis. Finally, the text addresses the issue of whether the patterns shown in bivariate analysis are maintained in multivariate analysis where many relevant variables are held constant statistically.

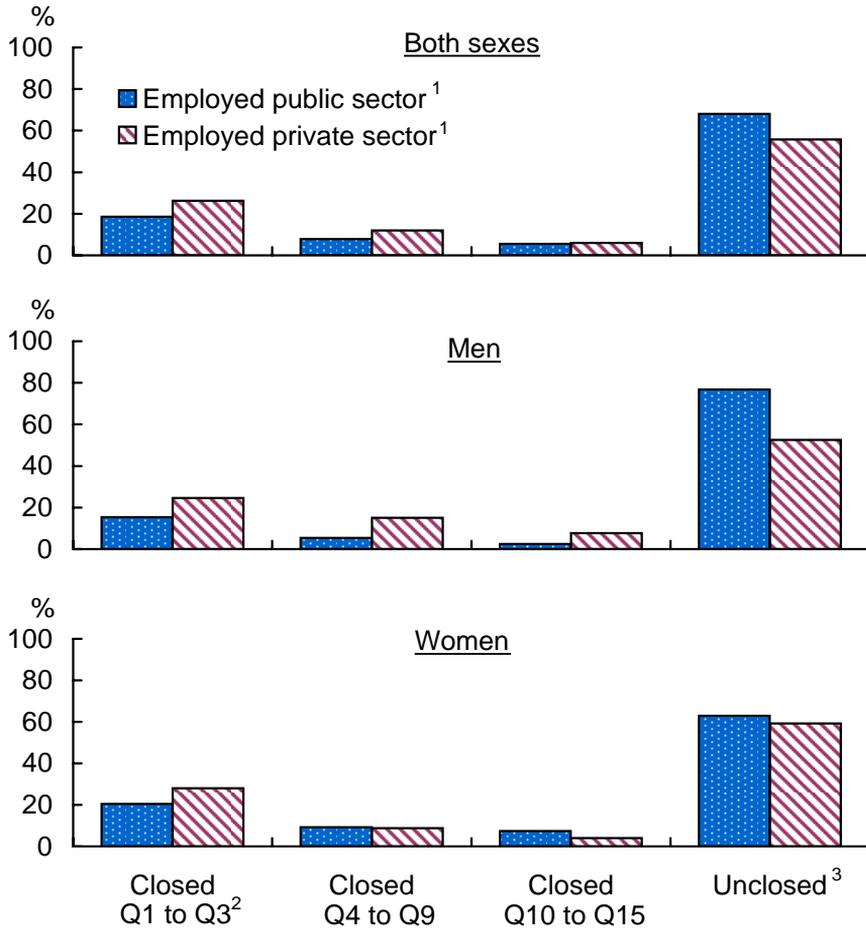
### **Speed of closure of trajectories**

Bivariate Analysis. On average, private sector employees, aged 45 to 69 in 1996 and beginning their work-to-retirement transitions during 1996-1997, closed their trajectories more rapidly than their public sector counterparts (Chart 16.2). Just over 25% of the former group had closed their trajectories by the third quarter of 1998, in contrast to nearly 20% of public sector employees. At the next category of speed of closure (closing between the fourth and ninth quarters), the trajectories of private sector employees again closed at a markedly higher rate than those of public sector employees.

Thus, in the last quarter of 2001, the public sector employees were more likely to have unclosed trajectories. (That is, they had not left the labor market for six consecutive months ending in December 2001.) Close to 70% of public sector employees had unclosed trajectories, which was more than 10 percentage points greater than the figure for private sector employees. These figures

**Chart 16.2: Distributions according to speed of closure of trajectories for public-sector and private-sector employees, by sex, cohort aged 45 to 69 in 1996, Canada, 1998 to 2001**

(Persons who started their transitions to retirement during 1996 to 1997)



1. Employed in this sector in both 1996 and 1997. Persons self-employed in either year are excluded.

2. The trajectory was closed before the end of Quarter 3.  
 Quarter 1 is January to March, 1998

... ..

Quarter 15 is July to Sept., 2001.

3. Unclosed = unclosed trajectories. A person (identified as being in transition during 1996 to 1997) is said to have closed her trajectory when (a) she has left the labour market and has been in receipt of some form of retirement-related income for at least six consecutive months, and (b) following those six months she did not return to the labour market up to the end of 2001.

Source: Statistics Canada, Survey of Labour and Income Dynamics, longitudinal file

apply to those who were in the labor market in the first quarter of 1996, and who were judged to have begun their transitions to retirement during 1996 to 1997.<sup>2</sup>

The overall pattern, then, is that, *among those that had begun their transitions to retirement during 1996-1997*, the private sector employees were more likely than their public-sector counterparts to have closed their trajectories within the first two of the four years that are covered by the trajectories. Thus at the end of 2001 the public sector employees who began their transitions during 1996-1997 were more likely to be still in the labor market.

However, among age groups this overall pattern is shown only for those aged 60 or more in 1996. Below that age, employees in the two sectors had similar percentages with unclosed trajectories at the end of 2001 (see Chart 16.3).

Because the population aged 45 to 54 is normally a high proportion of those aged 45 to 69, the pattern of variation by age just cited may be surprising. However, it is explained by the fact that the data refer only to those that had begun their transitions to retirement during 1996-1997. Within this sub-population the percentage of those aged 45 to 54 is much lower than the corresponding percentage in the whole population aged 45 to 69.

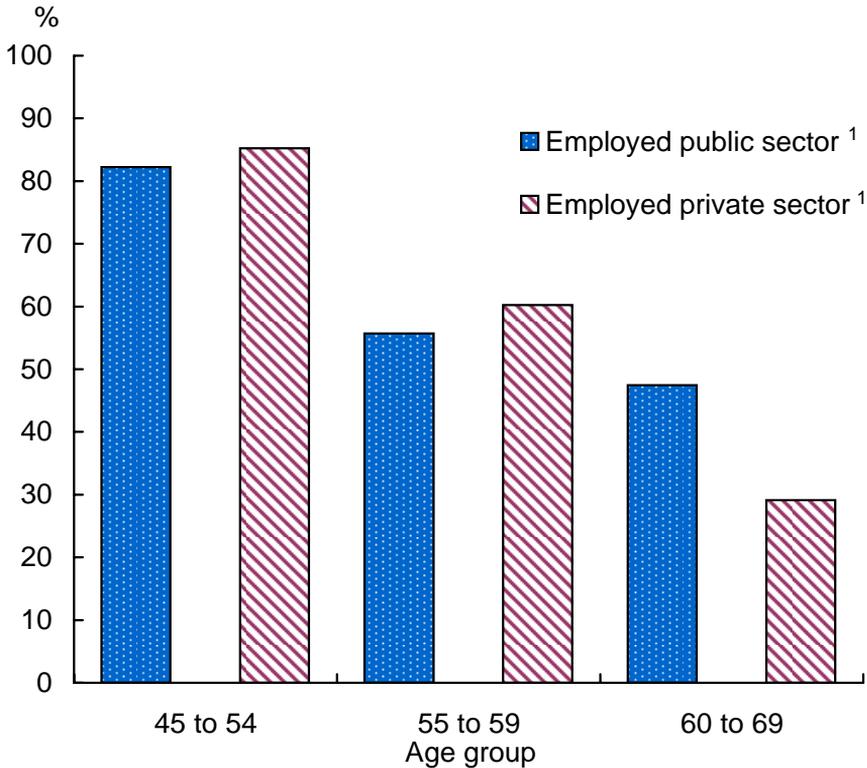
Since the overall pattern cited above is being heavily weighted by those aged 60 or more in 1996, a key question arises. Have we estimated the pattern for the 60-plus-year-olds reliably? For example, is the sample too small for great confidence in this result?

A standard test of statistical significance is the usual way of addressing this question; but taking this route places undue emphasis on the precision of the estimate of one single percentage.

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2. In the much larger sub-samples obtained when all persons aged 50 or more in 1996 are considered, this pattern is reversed. The percentage with unclosed trajectories is just below 75% for private-sector employees, and this is well above the figure of above 65% for public-sector employees. The reason for this reversal is given in the text that follows.

**Chart 16.3: Percentages with unclosed trajectories, for public-sector and private sector employees, by age in 1996, Canada, 1998 to 2001**  
(Persons who started their transitions to retirement during 1996 to 1997)



1. Employed in this sector in both 1996 and 1997. Persons self-employed in either year are excluded.

Source: Statistics Canada, Survey of Labour and Income Dynamics, longitudinal file.

This is not appropriate when our focus is in fact on a pattern of variation formed by a series of numbers, without particular attention to their actual values. Given this focus, the statistical significance issue becomes the following: how easily would this *pattern* arise by chance?

This question can be answered by a computation that uses bootstrap principles, where *patterns*, rather than single numbers, are examined; but there are also rough and ready tests that are useful. First, the analyst can sub-divide the sample into various meaningful sub-groups, and recompute the pattern within each one.

Second, the analyst can step back to larger samples by relaxing some of the restrictions used in arriving at the original finding, and once again recompute the pattern. If the same pattern tends to recur across all those recomputations, it is probably a pattern that would not arise easily by chance. The next few paragraphs provide some of the results of the various recomputations done. (A further recomputation will be done within the context of multivariate analysis presented below.)

Both Charts 16.2 and 16.3 are for persons we judge to have started their transitions to retirement during 1996 to 1997. To make that judgment we devised a special scale, named "TRANSCOR". We adopted a threshold value of 3.0 for TRANSCOR. SLID panel members were judged to have started their transitions to retirement if their ratings on TRANSCOR were at or above this threshold. (For details see Appendix A.)

An initial step in the said recomputations is to lower the threshold. We lowered the TRANSCOR threshold to 2.1, and found no change in the pattern. There were changes in individual numbers but none in the pattern of variation.

The second step was to ignore TRANSCOR altogether. Taking all people aged 50 or more in 1996, we recomputed the pattern. Once again, there was confirmation of the basic pattern. Among those aged 60 or more, rapid closure of trajectories was more prominent among private sector employees.

Next we took the sample of those we judged to have started their transitions between 1996 and 1997, and broke it down into meaningful subgroups. The said computations were repeated within each subgroup.

Subgroups defined in terms of gender, education and income show a strong tendency toward repetition of the overall pattern cited above. This pattern described above is repeated in each of three separate levels of education (less than high school graduation, high school graduation with no university degree, and university degree),

as well as in the first and fourth quartiles of household income in 1996.<sup>3</sup> Chart 16.2 shows the patterns for men and women separately.

Chart 16.2 shows that the pattern is much more noticeable for men than for women. At the end of 2001 the percentage with unclosed trajectories is substantially higher for public sector male employees than for their private sector counterparts. This divergence is much smaller among women employees (although the direction of the intersector difference remains the same for males).

In summary, as regards patterns in speed of closure, among those that started their work-to-retirement transitions between 1996 and 1997, there is a divide between those aged less than 60 in 1996, and those aged 60 or more. Among the former, public-sector employees were more likely, than their private sector counterparts, to have closed their trajectories before the end of 2001. However, this pattern is reversed among those aged 60 or more in 1996. In this group, speed of closure was slower for the public sector employees — they tended to stay longer in the labor market.

Multivariate Analysis. Does the just highlighted intersector difference in pattern of speed of closure of trajectory arise because of factors that explain both the probability of being employed in one of the two sectors (public versus private) and the speed of closure? If the answer is “yes” it would mean that the association of sector of employment with speed of closure is the result of their separate associations with a third variable. If this third variable is an aspect of the composition of the employee populations, then the speed-of-closure variations just cited cannot be attributed to differences between the work environments of public and private employees.

To address this issue, we have devised a multivariate model that generates predicted probabilities for the different speeds of closure, based on combinations of values of several predictor

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3. To save space and in some cases when the sub-samples are too small to permit publication of specific numbers, data patterns for sub-groups are cited without display of supporting tables or charts in this book. The reader may request unpublished tables or charts where inadequate sample size is not an issue to release the data.

variables. Among these variables is sector of employment, as well as several others that should be taken into account in attempting to explain speed of closure of the trajectory of work-to-retirement transition. The selection of these variables is based on our theoretical considerations about the processes involved in determining the gradualness of retirement processes, or on findings from other research projects.

Appendix C presents the model and the variables, and discusses the overall performance of the model as well as the contributions of important variables that are not part of the story line of this chapter. A few key variables should be noted here, however. Among them are several measures of change, all of them having as their reference date the year before closure of when the trajectory began. They include marital status change, whether there was an increase in responsibility for providing family care, health status decline, a proxy for increase in wealth, and whether another economic family member began receiving retirement-related income. There is also a measure of irregularity in the person's work history.

Table 16.1 shows that the odds favoring a particular speed of closure are very similar between the two sectors. However, there is a slight tendency for public-sector employees to close trajectories more rapidly than those of the private sector, when all other predictors are held constant simultaneously.

The first two positive values in column C indicate that, relative to the reference category of class of worker (category number five), being an employee of either sector tends to increase the probability of having an unclosed trajectory. However, the tendency is slightly greater for private sector employees (see the odds ratios of 5.5 and 5.2 in column C).<sup>4</sup>

Moreover, although the results in the first two sub-models (see columns A and B) are subject to great variability due to sampling (see the values of the Wald chi-squares and footnote 4

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4. Readers who need help with interpreting the parameters and odds ratios shown in this table should review the short text designed to offer this help in Appendix C.

to the table), they too show a slight advantage for private sector employees as regards probabilities for the slower speeds of closure.

**Table 16.1: Adjusted patterns of association of public and private sector employment with speed of closure of trajectory of work-to-retirement transition during 1998 to 2001, for three nested models, Canada**  
(Persons who began their transitions to retirement during 1996 to 1997)

Categories of the two-year class-of-worker variable	Degrees of Freedom	Model One logit = (speedcls is 2)/ Freedom (speedcls is 1,3,4) A <sup>1</sup>	Model Two logit = (speedcls is 3)/ (speedcls is 1,4) B <sup>2</sup>	Model Three logit = (speedcls is 1)/ (speedcls is 4) C <sup>3</sup>
Parameter estimates and Wald chi-squares <sup>4</sup>				
Employed public sector in 96 & 97.....1	1	0.1843 (0.4)	-0.3859 (1.3)	0.4732 (3.4)
Employed private sector in 96 & 97 .....2	1	0.2337 (1.9)	-0.3356 (2.6)	0.5235 (9.4)
Self-employed in 96 & 97.....3	1	0.2217 (1.6)	0.5458 (7.2)	0.8392 (16.2)
Changed sector from 96 to 97 .....4	1	-0.2764 (1.8)	-0.3045 (1.7)	-0.6626 (14.0)
Other .....5	0	ref.	ref.	ref.
Odds ratios				
1 vs 5		1.729	0.421	5.189
2 vs 5		1.816	0.442	5.456
3 vs 5		1.795	1.068	7.482
4 vs 5		1.091	0.456	1.666

1. PROC LOGISTIC is modeling the probability that speedcls is 2. The name "speedcls" refers to the four categories of speed of closure shown in Chart 16.2.

2. PROC LOGISTIC is modeling the probability that speedcls is 3.

3. PROC LOGISTIC is modeling the probability that speedcls is 4.

4. Wald chi-squares are shown in parentheses. The standard errors underlying the chi-squares are only approximate; because their underlying estimates are not fully adjusted for the complexity of the survey design. The approximate adjustment involves standardizing the original survey weights so that their average is 1.0. Tests using more appropriate adjustment via bootstrap computations indicate that when the Wald chi-squares are 6.0 or greater, it can be considered that the parameter estimate is statistically significant at the 5% level or better, in the event that bootstrap standard errors were computed. When the Wald chi-squares are between 3.0 and 6.0, they can be considered to be statistically significant at a level between 15% and 5%.

Source: Survey of Labour and Income Dynamics, longitudinal file for Panel 2.

However, if we held age constant in the 60 to 69 range, we would see a different pattern than that shown in Table 16.1. Table 16.2 holds age constant in that range, and, in contrast to Table 16.1, it supports the observation that speed of closure of trajectory of work-to-retirement transition was slower for public sector employees than for their private sector counterparts. In contrast to the very close odds ratios found for the two sectors in Table 16.1, the corresponding ones in Table 16.2 are 5.5 for the public sector and 2.9 for private sector employees. The odds in question are those favoring an unclosed trajectory relative to a trajectory that closes rapidly.

There is a caution to be sounded here. The Wald chi-squares in Table 16.2 tell us that these estimates are very fragile, relative to sampling variability — the culprit is probably small sub-sample size. Yet, the very high odds ratio for the self-employed aged 60 or more, which is expected (see the preceding chapter for details), suggests that this pattern is reasonable, even though it is statistically unstable.

In summary, both the bivariate associations presented earlier and the multivariate analysis just reported concur as regards systematic differences between the two sectors of employees concerning speed of closure of the trajectory of transition from work to the state of being retired.

Holding constant other key variables such as gender, marital status, cultural group, education, occupation and household income does not have a substantial impact on the pattern of association of sector of employment with speed of closure of trajectory of transition from work to retirement. (Patterns of association involving these variables are presented in Appendix C.)

## **Presence of flexibility in the work-to-retirement transition**

With regard to trajectories, flexibility in the transition to retirement is indicated by changes of position that indirectly point to voluntary actions that reflect the use of available options or choices in how one's retirement process unfolds. (See Appendix A for elaboration of this idea.)

**Table 16.2: Adjusted patterns of association of public and private sector employment with speed of closure of trajectory of work-to-retirement transition during 1998 to 2001, for three nested models, Canada**

(Persons aged 60 to 69 in 1996)

Categories of the two-year class-of-worker variable	Degrees of Freedom	Model One logit = (speedcls is 2)/ Freedom (speedcls is 1,3,4) A <sup>1</sup>	Model Two logit = (speedcls is 3)/ (speedcls is 1,4) B <sup>2</sup>	Model Three logit = (speedcls is 1)/ (speedcls is 4) C <sup>3</sup>
Parameter estimates and Wald chi-squares <sup>4</sup>				
Employed public sector in 96 & 97.....1	1	0.3765 (1.1)	0.5645 (1.9)	0.6098 (1.7)
Employed private sector in 96 & 97 .....2	1	0.643 (9.6)	-0.2186 (0.8)	-0.0383 (0.0)
Self-employed in 96 & 97.....3	1	0.326 (2.4)	0.146 (0.4)	1.2154 (17.6)
Changed sector from 96 to 97.....4	1	-0.0847 (0.1)	-0.3037 (1.2)	-0.7004 (6.3)
Other .....5	0	ref.	ref.	ref.
Odds ratios				
1 vs 5		5.142	2.123	5.454
2 vs 5		6.711	0.97	2.853
3 vs 5		4.888	1.397	9.994
4 vs 5		3.242	0.891	1.471

1. PROC LOGISTIC is modeling the probability that speedcls is 2. The name "speedcls" refers to the four categories of speed of closure shown in Chart 16.2.

2. PROC LOGISTIC is modeling the probability that speedcls is 3.

3. PROC LOGISTIC is modeling the probability that speedcls is 4.

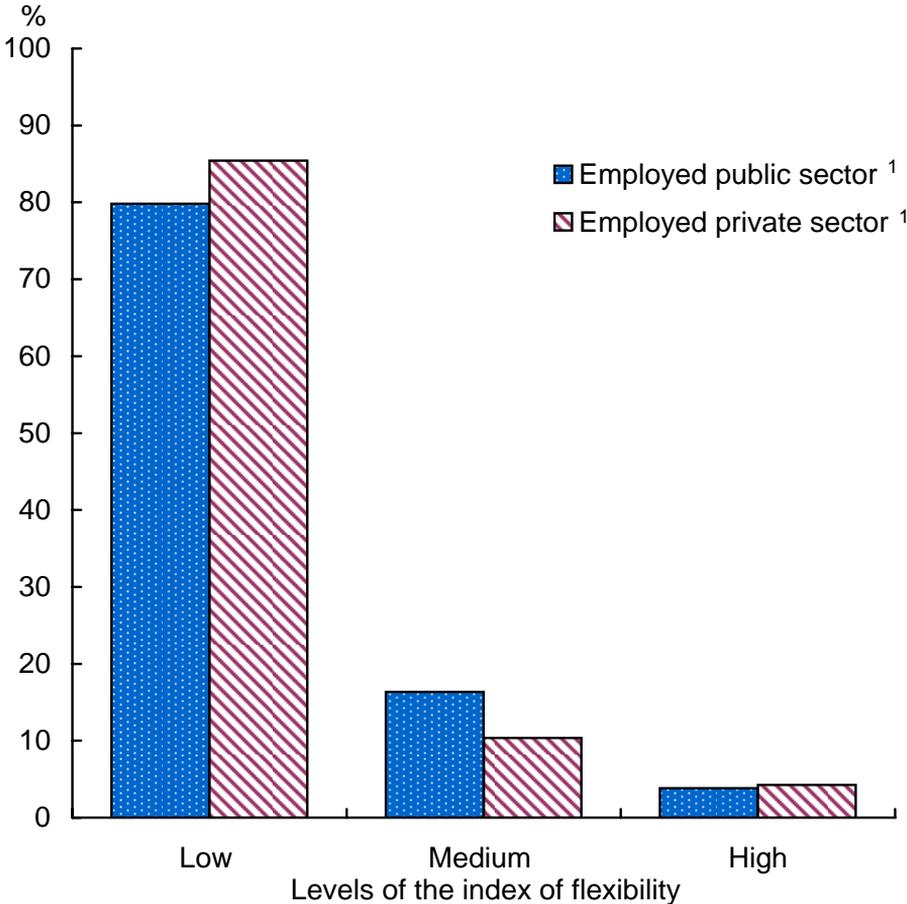
4. Wald chi-squares are shown in parentheses. The standard errors underlying the chi-squares are only approximate; because their underlying estimates are not fully adjusted for the complexity of the survey design. The approximate adjustment involves standardizing the original survey weights so that their average is 1.0. Tests using more appropriate adjustment via bootstrap computations indicate that when the Wald chi-squares are 6.0 or greater, it can be considered that the parameter estimate is statistically significant at the 5% level or better, in the event that bootstrap standard errors were computed. When the Wald chi-squares are between 3.0 and 6.0, they can be considered to be statistically significant at a level between 15% and 5%.

Source: Survey of Labour and Income Dynamics, longitudinal file for Panel 2.

Public sector employees are more likely, than their private sector counterparts, to have either Medium or High levels of the index of flexibility in the transition process. However, the advantage for public-sector employees is concentrated at moderate values of the index; because at the high values both sectors' trajectories tend to have similar percentages (see Chart 16.4). Slightly more than

**Chart 16.4: Index of flexibility in the work-to-retirement transition, for employees in the public and private sectors, cohort aged 45 to 69 in 1996, Canada, 1998 to 2001**

(Persons who started their transitions to retirement during 1996 to 1997)



1. See chart 16.2, footnote 1.

Source: Statistics Canada, Survey of Labour and Income Dynamics, longitudinal file.

20% of public sector employees had trajectories with Medium or High levels on the scale of flexibility of the transition to retirement, and this was about six percentage points higher than the figure for their private sector counterparts. However, close to 5% of each group is found at the High level on the scale.

The overall pattern<sup>5</sup> of intersector variation just described tends to recur among the broad age groups being studied (unlike the case of speed of closure) and within various levels of gender, education, income and occupation. The pattern is confirmed when the TRANSCOR threshold is lowered to 2.1; but is not supported consistently when TRANSCOR is disregarded and the sample comprises all persons aged 55 or more in 1996.

Among those with a university degree, the “lead” of the public sector, as regards the index of flexibility of work-to-retirement transitions, is especially notable. At this level of education, the difference between the two sectors in terms of the percentage of trajectories with Medium or High values on the scale of flexibility is distinctly greater than is the case for the whole sample. And this observation is made even in the population of persons aged 50 or more in 1996.

To what extent does this pattern recur after we hold constant several variables that may simultaneously explain both (a) sector of employment and (b) level of the index of flexibility? To answer this question, we have devised a multivariate model that generates predicted probabilities for the different levels of the index of flexibility, based on combinations of values of several predictor variables. Among these variables is sector of employment, as well as several others that should be held constant in attempting to explain flexibility of the work-to-retirement transition.

The variables held constant include sex, age, an index for irregularity of work history, marital status in 1996, whether there was another economic family member who began receiving retirement-related income in the year before closure of the trajectory started, health status in 1996, education level in 1996 and occupation group in 1996. When all of these were held constant, the parameter estimates and odds ratios were so similar between the two sectors that they cannot be said to be substantively different (see Table 16.3).

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5. References to an “overall pattern” in this text do not include specific numbers cited; but rather they point to the relative magnitudes of numbers, directions of differences or change, etc. The focus is on a pattern of variation formed by a series of numbers, rather than to the numbers’ specific values.

**Table 16.3: Adjusted patterns of association of public and private sector employment with flexibility of the trajectory of work-to-retirement transition during 1998 to 2001, for two nested models, Canada**

(Sample restricted to persons with unclosed trajectories, who were employed throughout the third quarter of 1997, and who began their transitions during 1996 to 1997)

Categories of the two-year class-of-worker variable	Degrees of Freedom	Model One logit = (flexscorg98 = 0)/ (flexscorg98 = 1,2) A <sup>1</sup>	Model Two logit = (flexscorg98 = 1)/ (flexscorg98 = 2) B <sup>2</sup>
Parameter estimates and Wald chi-squares <sup>3</sup>			
Employed public sector in 96 & 97.....1	1	-0.9866 (9.6)	-0.9762 (2.1)
Employed private sector in 96 & 97 .....2	1	-0.6021 (5.9)	-0.6350 (1.6)
Self-employed in 96 & 97.....3	1	0.3540 (1.8)	-0.2943 (0.4)
Changed sector from 96 to 97.....4	1	0.1239 (0.2)	0.1907 (0.1)
Other .....5	0	ref.	ref.
Odds ratios			
1 vs 5		0.123	0.068
2 vs 5		0.180	0.095
3 vs 5		0.469	0.134
4 vs 5		0.373	0.218

1. PROC LOGISTIC is modeling the probability that flexscorg98 is 1,2. The name "flexscorg98" refers to the three categories of the index of flexibility shown in chart 16.4.

2. PROC LOGISTIC is modeling the probability that flexscorg98 is 2.

3. Wald chi-squares are shown in parentheses. The standard errors underlying the chi-squares are only approximate; because their underlying estimates are not fully adjusted for the complexity of the survey design. The approximate adjustment involves standardizing the original survey weights so that their average is 1.0. Tests using more appropriate adjustment via bootstrap computations indicate that when the Wald chi-squares are 6.0 or greater, it can be considered that the parameter estimate is statistically significant at the 5% level or better, in the event that bootstrap standard errors were computed. When the Wald chi-squares are between 3.0 and 6.0, they can be considered to be statistically significant at a level between 15% and 5%.

Source: Survey of Labour and Income Dynamics, longitudinal file for Panel 2.

The model also fits the data poorly in the sense that it does little better than the null hypothesis model, which asserts that all the predictor variables have parameter estimates valued at zero. The error of prediction of the latter model is reduced by only 10% (the tau-a measure of goodness of fit is 0.13,  $n = 525$ ).

In short, we do not have large enough sub-samples from each sector to conclude that the multivariate analysis conveys any message about whether the intersectoral differences are substantial after taking into account potentially confounding variables. The model does suggest, however, that these differences are not large, as did the bivariate analysis. It is important to add that the most useful predictor variables may be absent from the model, due to their absence from the SLID file.

### **Exposure to events that threaten to reduce standard of living in retirement**

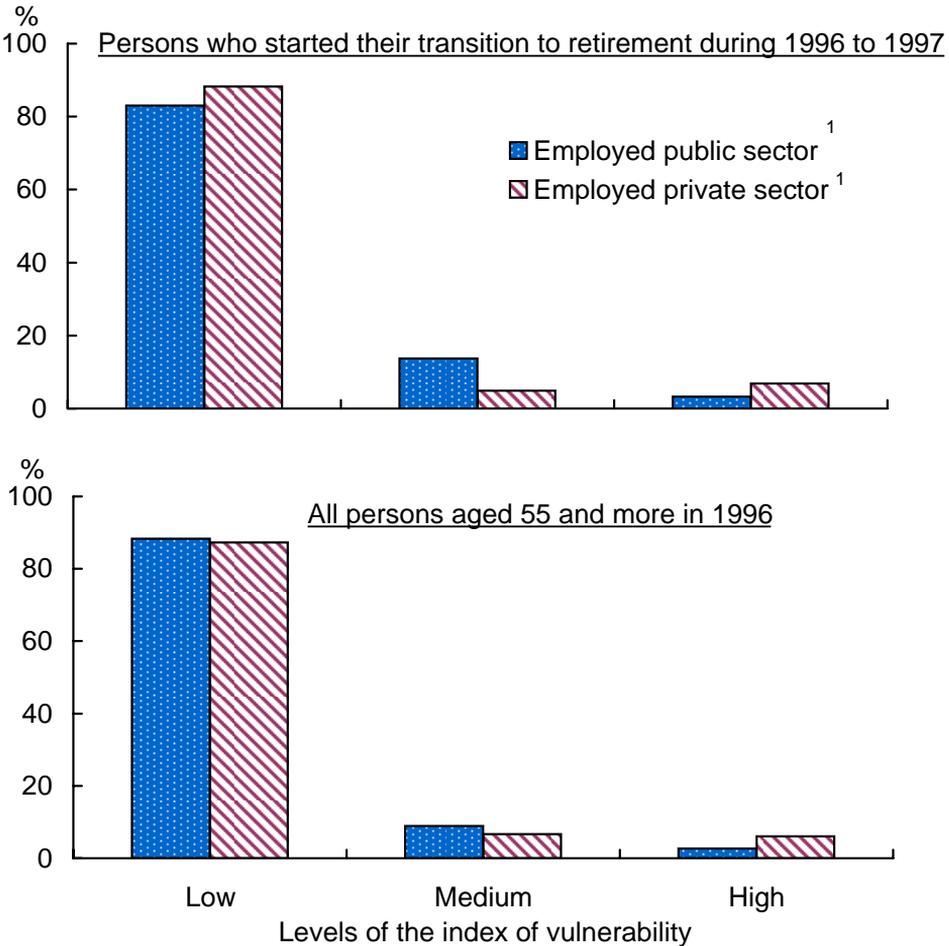
The index of flexibility deals with movements that suggest voluntary changes undertaken by the SLID respondent while the index of vulnerability focuses on job loss and involuntary job change.

The index of exposure to events that increase risk of reduction in standard of living shows the two sectors with very similar levels of concentration at the Low level, both being in the vicinity of 85% (Chart 16.5). The public sector employees have a slightly higher concentration at the Medium or High levels (taken together). However, this slight divergence disappears when we resort to the much larger sample of all persons aged 50 or more in 1996.

Both samples (that with TRANSCOR of 3.0 or more, and that comprising all persons aged 50 or more in 1996) show the following pattern: public sector employees whose trajectories are rated at Medium or higher levels on the index were heavily concentrated at the Medium level. At the High level of the scale, the percentage of private sector employees was greater than that for public sector employees (substantially above 5% for the former, versus well under 5% for the latter, and that in both samples). Thus, public sector employees were less likely to be found with trajectories that had High scores on the vulnerability scale.

The different levels of education show broadly similar variation between public sector employees and their private sector counterparts. Chart 16.6 shows a systematic pattern. As one shifts from those with less than high school education toward those

**Chart 16.5: Index of exposure to events that increase risk of reduced standard of living in retirement, for employees in the public and private sectors, cohort aged 45 to 69 in 1996, Canada, 1998 to 2001**  
 (Persons who were employed in the last quarter of 1997)

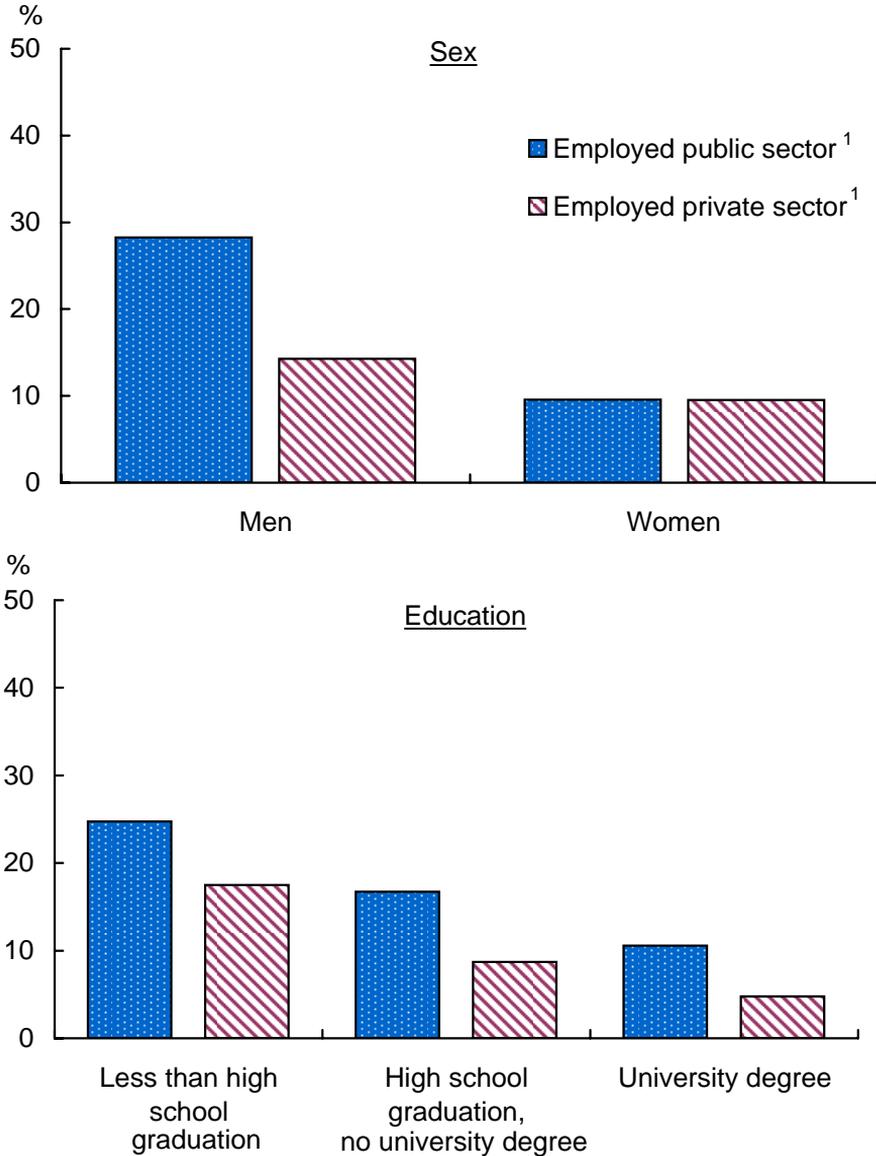


1. See chart 16.2, footnote 1.

Source: Statistics Canada, Survey of Labour and Income Dynamics, longitudinal file.

with university degrees, the overall level on the vulnerability scale falls, and the gap between public sector employees and their counterparts from the private sector has the same direction as that reported above.

**Chart 16.6: Percentage of persons at Medium or High levels of the index of exposure to events that increase risk of reduced standard of living in retirement, for employees in the public and private sectors, cohort aged 45 to 69 in 1996, by sex and education, Canada, 1998 to 2001**  
 (Persons who were employed in the last quarter of 1997, and who started their transition to retirement during 1996 to 1997)



1. See chart 16.2, footnote 1.

Source: Statistics Canada, Survey of Labour and Income Dynamics, longitudinal file.

Such persistence across subgroups of the population would be difficult to dislodge in multivariate analysis of the association of employment sector with the index of vulnerability, unless there is a strong variable that simultaneously affects both. No such variable has been found in our analysis; only one parameter estimate, among the levels of the class-of-worker variable, is statistically significant at the 15% level, and none at the 5% level (all Wald chi-squares are below the value of six). This problem is not resolved by using the sample of all persons aged 50 or more; because in this sample we have selected only those that were employed throughout the last quarter of 1997. Thus, once again, small sub-sample sizes are preventing the multivariate analysis from conveying useful information to validate the patterns shown from the bivariate analysis above.

### **Major variations in patterns of transitions to retirement among key sub-groups of public sector employees**

In beginning this chapter, we advocated that human resources managers in all sectors will benefit from a focus of analysis upon the public sector, where the governmental labor-market environments have much in common, and where there is a relatively advanced state of deliberations concerning retirement-related policies and programs among a small number of employers. The benefits of this focus are enhanced by considering variations among key “employer” and occupational groups within the public sector.

The phrase “employer group” is a shorthand reference to a subdivision of the public sector that is based partly upon the different levels of government (federal, provincial, municipal) as well as on major blocks of services such as those pertaining to education and health. In attempting to define meaningful “employer groups”, we are limited by very small sub-samples in SLID for this sector and we make use of properties of the industrial classification system as it is used by SLID (the North-American Industrial Classification System — NAICS).

The closest approach to usable (but often inadequate) sub-sample sizes is achieved with the following three categories:

- 1 federal government administration (the phrase used in the listing of NAICS classes)
- 2 provincial and municipal administration
- 3 schools (all levels) and hospitals.

It is possible that some elements of the public sector are missed in these three groups. Also, the third category may include some private schools. In any event, those are the three “employer groups” to be used below, and they will be called “federal government”, “other governments”, and “schools and hospitals”.

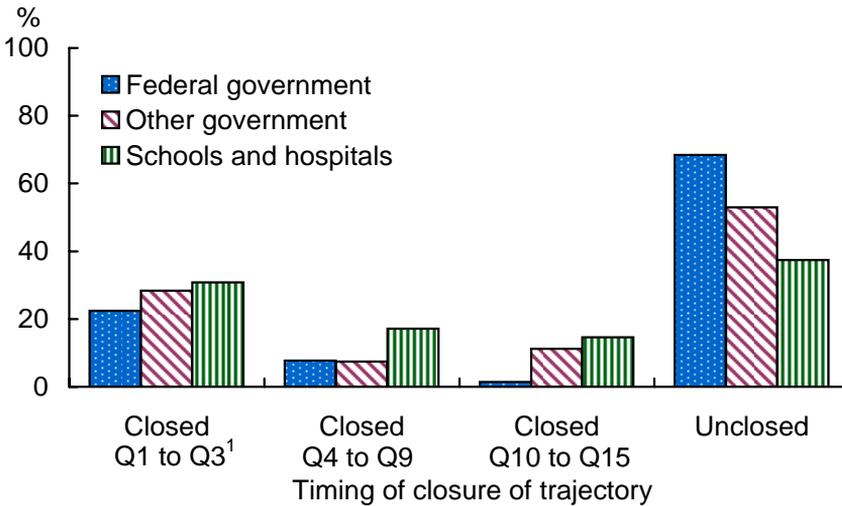
An occupational breakdown of the sample has three classes that deserve attention in this study: managers, Professionals Type A (generally, professionals excluding those in the arts, sports, food preparation and personal care), and a collection of clerical and technical workers. There is a residual class of “other occupations”.

The remainder of this section presents variations among the stated categories of public sector employees with regard to patterns formed by their trajectories. The properties of trajectories that will be examined are speed of closure and flexibility. The sub-samples are too small to permit presentations concerning either the vulnerability index (where the sub-sample is limited to those who had a job in the last quarter of 1997), or the propensity to return to the labor market after departure (which deals with those that had left the labor market between 1996 and 1997).

Among the “employer groups”, the federal employees show the slowest speed of closure of trajectories (or the most gradual transitions to retirement — see Chart 16.7). Their level on the flexibility index is second to that of employees in schools and hospitals (Chart 16.8). The margins of difference among the three employer groups are not large, however.

Another notable pattern is that for school and hospital employees. Their speed of closure is fastest. Also, as noted above, they have the highest score on the scale of flexibility of their trajectories.

**Chart 16.7: Distributions according to speed of closure of trajectories for employees in three public-sector 'employer groups', cohort aged 55 to 69 in 1996, Canada, 1998 to 2001**



1. See chart 16.2, footnote 2.

Source: Statistics Canada, Survey of Labour and Income Dynamics, longitudinal file.

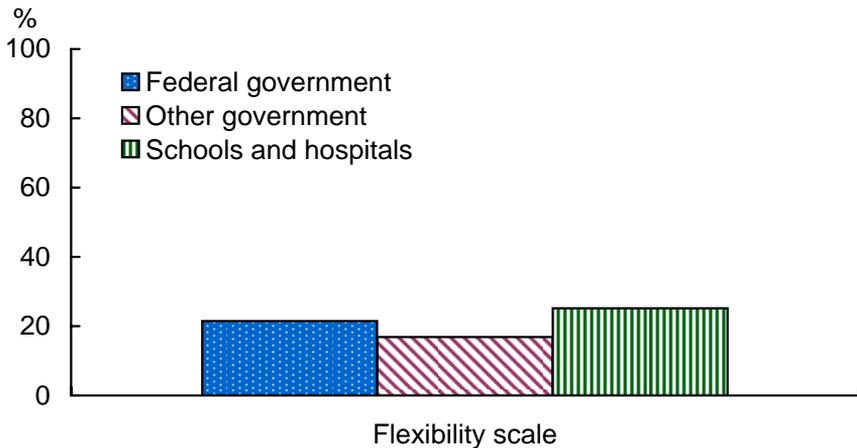
Among the occupational groups, that called “Professionals Type A” (defined above) has slower than average speed of closure (the greater than average prevalence of gradual retirement), and higher than average levels of flexibility. However, the inter-occupational variations are very modest.

In sum, the federal government, among the “employer groups”, and professionals, among occupation groups, seem to exhibit the greater than average tendencies towards gradual and more flexible transitions to retirement.

Whether these patterns can be explained away by reference to the attributes of employees is the question to which we now turn via multivariate analysis. To the extent that these attributes are insufficient to account for the variations, there would be an indirect indication that some study of the groups’ institutional environments may be needed, in the effort to understand their differences in patterns of work-to-retirement transition.<sup>6</sup>

6. Unfortunately, the exercise that follows cannot provide a definitive answer on this issue because it is not demonstrable that all pertinent employee attributes have been taken into account in the model.

**Chart 16.8: Percentage of public-sector employees at Medium or High levels of the index of flexibility in the work-to-retirement transition, cohort aged 55 to 69 in 1996, for three 'employer groups', Canada, 1998 to 2001**



Source: Statistics Canada, Survey of Labour and Income Dynamics, longitudinal file.

Given the small sample size involved in studying the public sector employees only, the multivariate analysis is limited to the association that is most striking in the data shown above — that between “employer group” and speed of closure.

For this association, the overall pattern described above is confirmed in the multivariate analysis; but none of the parameter estimates is reliable (the Wald chi-squares all indicate levels of significance below 15%).

In summary, the bivariate and multivariate analyses concur that the federal government, among the “employer groups” of the public service, seems to exhibit the greatest tendency towards gradual transitions to retirement. The bivariate associations also indicate that flexibility in the transitions is greater for federal government employees than for other government employees; but less than that of employees of schools and hospitals.

## Discussion

Information that public-sector employees retire at an earlier age, on average, than those in the private sector has been in the public domain for some time, based on questions asked in the Labour Force Survey (Chart 16.1). At first glance, it seems to run counter to our finding that private sector employees were quicker to close their trajectories of work-to-retirement transitions.

However, there is a route toward reconciling these findings. Consider the way that the LFS-based estimate is produced. Respondents who have left the labor market within the last 12 months are asked why they did so, and among the possible answers is “retired”. The subset who said “retired” included a substantial proportion who would soon return to the labor market. In contrast to the LFS approach, our finding relies upon identifying a group who were in the labor market in the first of 24 quarters during which they were repeatedly interviewed, and whom we identified as having started their transitions during the first eight quarters. Only those who subsequently left the labor market and did not come back (up to the end of the 24 quarters) are said to have closed their trajectories. Hence the two approaches use substantially different measures that offer little theoretical basis for the expectation that their estimates be similar.

Yet both data sources show a similar pattern of intersectoral differences when the SLID sample is restricted to persons below the age of 60 at the starting date. The subset of our panel that was designated as beginning their transitions during 1996-1997 had a relatively large proportion of people aged 60 or more, compared to the general population of older Canadians. And it is this set of 60-plus-year-olds who have generated our finding that public sector employees are more likely to delay retirement.

This result becomes more interesting when we recall that within the public sector, the federal government seems to be the venue most likely to show more gradual and flexible retirements. One may suggest the hypothesis that it is primarily in the federal government where those aged 60 or more are more likely than the average (for that age group) to have gradual retirements. This hypothesis would suggest that the employees of provincial and

municipal governments, and especially of hospitals and schools, account for the widely publicized tendency for public service employees to retire earlier.

This idea brings up a notable question for consideration and analysis in the future. What is it in the public sector environment, and perhaps in the federal government especially, that may be inducing the oldest group of those in transition to retirement (ages 60 to 69 at the start of the transition) to delay retirement to a greater degree than their private sector counterparts?

We find that flexibility in the process of making the transition from work to retirement is more likely to exist among public sector employees than among their private sector counterparts. However, the margin of difference is very slight, although substantive significance is indicated by the recurrence of the pattern among the broad age groups studied and within various categories of gender, education, income and occupation.

The two sectors seem to be on a par as regards their percentages at the Low level of the index of exposure to events that increase the vulnerability of incomes in retirement. Among those above the Low rating on this scale, the public sector has a higher profile at the Moderate level while the private sector has a higher profile at the High level of the scale. Once again, however, the difference is small.

Why aren't the differences between the two sectors, public and private, more dramatic? As regards the indexes of flexibility and vulnerability in the transition to retirement, to answer this question we need to start with an underlying theory about the determinants of flexibility or vulnerability in the transition to retirement. We have not had time to try and produce such theoretical work.

As regards speed of closure, our theoretical work offers some grounds for discussion of the question just posed. The essential ideas are as follows. At the individual level we postulate that the speed of closure is the outcome of three processes:

- (A) making choices to reach goals under certain constraints (see, for example, Parker and Rougier 2004),

- (B) negotiating in response to behaviour changes made by significant others in the social network (see Rasmusen 1995, Lin 2003),
- (C) coping with major intrusive life events and their consequences (see Ma and Zhang 2004, Clark et al. 2004).

These processes apply to individuals with probabilities that vary from one person to the next.

The second two forces, B and C, are quite important, evidence suggests, in any effort to understand retirement behavior. Force B is, in fact, a sort of rising star among determinants of retirement behavior. It is causing a depreciation of the value of the large body of theory which assumes that lone persons are timing their retirements in order to optimize personal lifetime consumption utility subject only to a budget constraint (this is covered in force A).

Forces B and C are largely beyond the influences of employer policies, union policies, or the corporate working environment. And force A is not entirely determined by these macro-level factors. Consequently, a substantial proportion of the determinants of speed of closure are not affected by the working environment or by corporate policies. This means that corporate policies and work environments should be expected to have limited influence on speed of closure of the trajectory of transition to retirement.

The following questions arise in the context of related policy deliberations. "How far can policies succeed within the margin of possible influence that is available? And is this much success worth the cost of achieving it?"

New research is needed to validate the findings just discussed, especially in terms of using more comprehensive measures of flexibility and vulnerability in the work-to-retirement transition process. Given that validation, explanatory theory and hypotheses should be developed and tested.

Finally, there is an implication for policy-relevant statistical analyses. Statisticians and other researchers should look beyond the global figures (which indicate public sector employees retiring earlier), and break down the data to show trends for different age groups and for major segments within the public sector.

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# **Chapter 17. The relationship between career instability and health condition in older workers: A longitudinal analysis<sup>1</sup>**

by

Yaohua H. He, A. Colantonio and Victor W. Marshall

## **Introduction**

This study addresses the association between career instability and long-term health conditions in older workers. The literature has identified that the nature of the transition from employment to retirement has been changing dramatically in industrialized societies such as Canada in the past few decades, with a decreasing proportion of one's working life being spent in stable career progression. Many individuals who 'retire' from long-service career jobs continue to seek paid employment in sporadic (pick-up) work before completely exiting the labor force. Increasingly common are transitions between full employment status, unemployment and withdrawal/expulsion from the full-time labor force prior to permanent retirement: a situation referred to as career instability. The relationship of such career instability in later work life to worker's health was felt to be not wholly elucidated, prompting this study.

## **Literature review**

### **Career instability in later life**

Commencing in the mid-1970s, there has been a significant number of workers aged 45 to 64 experiencing career instability transitioning between such job status situations as early retirement, sporadic work, unemployment and re-employment (Reimers and Honig 1989, Mutchler et al. 1997).

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As an illustration of the early retirement situation, the 1991 Survey on Aging and Independence revealed that the actual Canadian average age of retirement had fallen to 62 years for men and 59 for women (McDonald 1994), notwithstanding the conventional retirement age having remained at 65. From the same 1991 survey, Schellenberg (1994a) found that a significant proportion (25% with an increasing trend) of early retirement was involuntary. Supporting this proposition, the Survey of Persons Not in the Labor Force (November 1992) found that of those persons who had retired earlier than they had expected, 13% attributed their retirement to their companies going out of business (McDonald 1994).

Schellenberg (1994b) reported that the unemployment rate among older Canadian workers (aged 45 to 64) increased during the recessions of the early 1980s and 1990s and that despite the 1986 to 1989 economic recovery, this unemployment rate failed to return to pre-recession levels. Displaced older workers remained jobless for a longer duration: an average of 32 weeks for those aged 45 and over compared to 17 weeks for younger job seekers (age 15 to 24). As well, more older than younger job seekers were found to have become discouraged and to have dropped out of the job market, leading to a possible understatement of the true unemployment rate for older workers (Schellenberg 1994b).

Mutchler et al. (1997) using longitudinal data from the 1984 Survey of Income and Program Participation, found that one-quarter of a sample of men aged 55 to 74 experienced 'blurred transitions' or career instability (repeated exits, entrances, or unemployed spells).

In summary, the literature has indicated that a significant number of older workers experience career instability involving unemployment, repeated job loss, prolonged periods of unemployment, early labor force exit, etc. Career instability can be expected to impact health through increased levels of stress from dealing with career transitions, the associated uncertainty and the necessity of adapting to a new life situation, and/or by creating problematic economic situations. Career instability could thus act as an exogenous stressor influencing endogenous job and life satisfaction variables, posited to then influence health.

## **Career instability and health**

While there has been little research focussing on the health effects of career instability in later working life, limited research on such instability early in working life has shown that instability can be linked to subsequent degraded health.

Iwatsubo, Derriennic and Cassou (1991) conducted a cross-sectional study of 627 subjects living in the Paris area and found that career instability (measured by the number of changes of company and branch of activity during working life) was significantly associated with health impairment after retirement. Pavalko, Elder and Clipp (1993) used career patterns up to the year 1960 of American men born between 1900 and 1920 to predict mortality after 1960. They found that men who experienced several unrelated job changes in early working life had a mortality risk that was 57% higher than for those who did not have such experiences. This relationship is not adequately accounted for by the possible explanatory factors measured in the study: physical health, alcoholism, anxiety and depression measured in 1960, or variability in occupational status in 1959.

The above two studies explored career instability over the entire or early working life span without specifically segregating the later life component. They only sampled men and measured career instability only in terms of job-to-job changes. Consequently, it is suggested that more research be done looking particularly at the health effects of career instability in late working life measured in a more sophisticated way that takes into account frequent changes between employed and unemployed status.

Recently, Marshall, Clarke and Ballantyne (2001) investigated the relationship between health and instability in the move to permanent retirement in a sample of early retirees from a major Canadian telecommunications company. Instability was found to be associated with adverse health effects and with variability by gender and type of health measure. A similar study, using data from the 1994 General Social Survey (GSS) – Cycle 9, found that many aspects of career instability (being not employed/early retired, the experience of job loss/job interruption, etc.) were significantly related to poor self-rated health, after controlling for age, education, body mass index and activity limitation (He, Colantonio and

Marshall 2003). It should be noted that because these studies used cross-sectional data, they were unable to adequately address the issue of direction of causation between career instability and health.

With unemployment being a major aspect of career instability, some useful inferences regarding career instability and health can be drawn from longitudinal studies of health effects of unemployment. A majority of such studies conducted since the 1980s have concluded that unemployment is associated with deterioration in health (Martikainen and Valkonen 1996). Mathers and Schofield's (1998) review of recent studies in different countries has suggested a strong, positive association between unemployment and many adverse health outcomes. From the many longitudinal studies using a range of designs, they concluded that there is reasonably good evidence that unemployment itself is detrimental to health, as shown by its impact on such health outcomes as increased mortality rates, increased physical and mental ill-health and greater use of health services.

Iversen et al. (1987), in their 10-year follow-up of a large cohort of unemployed Danish men and women, reported that both gender groups exhibited elevated mortality rates compared to a control sample of employed individuals. Moser et al. (1987), using longitudinal data covering a 1% sample of the population of England and Wales, found that the standardized mortality ratio in 1971 to 1981 of the 5,861 unemployed men was 136. The ratio was increased for all age groups and was over 200 in those aged 35 to 44. Many other studies have revealed similar findings (Morris, Cook and Shaper 1994).

In view of the fact that career instability is a more comprehensive condition than unemployment per se, the health impact of related career transitions among older workers bears further study.

The objective of this study was to exploit the longitudinal features of SLID data to assess the extent to which different career instability patterns lead to changes in health condition over time. More specifically, it was proposed to test the research hypothesis that career instability would be associated with long-term health conditions and indeed would be one cause of such conditions.

## **Methodology**

### **Data file**

This study employed a secondary analysis of a large national longitudinal data file, SLID, over four waves (1994, 1995, 1996 and 1997). This data file provided rich data on labor force transitions. While the health measurement in SLID is quite crude, it was felt that the ability to explore different labor force transition patterns compensated for this limitation.

The SLID was designed to capture changes in the economic well-being of individuals and families over time and to identify determinants of their well-being. Individuals originally selected for the survey were interviewed once or twice per year for six years to collect information on their labor market experiences, income and family circumstances. The target population of SLID was all persons living in Canada, excluding those living in the Yukon and Northwest Territories, residents of institutions, persons living on reserves, and full-time members of the Canadian Armed Forces living in barracks.

For this study, a sample consisting of 8,567 subjects, aged 45 to 64 in 1994, was selected from the SLID data file. Approximately 80% of subjects from 1994 to 1997 were successfully tracked throughout the three-year period under study.

### **Measures used in the analysis**

The predictive variable, career instability, was comprehensively measured by the number of jobless spells, number of weeks unemployed and number of weeks not in the labor force. All the career instability variables were defined on the basis of number of weeks during the current year.

Being unemployed was defined as not being employed during the week and looking for work at some time during the week or being absent from a job due to layoff. A greater number of weeks unemployed was thought to reflect a higher degree of career instability.

A jobless spell was defined as a period in which the subject had no attachment to any employer during that week, though having an attachment at the start and end of the spell. The duration of the spell was derived from the start and end dates of jobs held during the year, that is, they corresponded to the 'gaps' between employment dates. Seasonal layoff or any other type of layoff where there was expectation of return to work with the employer was treated as unemployed. The jobless state is therefore distinct from being unemployed: jobless spells cannot be linked in any way to specific jobs. A higher number of jobless spells was regarded as a higher degree of career instability.

Not in the labor force was defined as being neither employed nor unemployed during the week. The number of weeks not in the labor force could be obtained by subtracting from the full year (52 weeks) the sum of the number of weeks employed, the number of weeks unemployed and the number of weeks spent in jobless spells. Being employed was defined as having worked at any time during the week or being absent from a job for a reason other than layoff.

The outcome variable, health, was measured by long-term (health) condition. This variable indicated whether or not a person suffered from any long-term physical or mental condition or any other health problem during the reference year.

Measurement of career instability and long-term condition in this study were based on self-reporting, raising a concern as to validity and reliability. Several studies investigating links between work environment exposure and disease have shown self-reporting of employment status, jobless spells, etc. to be valid (Bourbonnais, Meyer and Theriault 1988, Brisson et al. 1991) and reliable (Brower and Attfield 1998, Rosenberg 1993). However, no literature was found on validity and reliability of self-reported long-term condition.

Five socio-demographic factors with potential to complicate any possible associations were identified: age, sex, marital status, income and education. With respect to income, the adjusted family income (per capita income) was derived by dividing family income by family size. There is evidence showing that income is strongly associated with health (Kingson 1982).

Education has also been shown to be strongly associated with health. Educational level begins to affect health early in life and continues to affect health in adulthood through its effect on health habits, the use of health care and exposure to health-affecting life situations (Crimmins, Reynolds and Saito 1998).

It is well established that with increasing age, workers are more prone to negative health conditions, such as cardiovascular disease, pulmonary problems and deterioration of the musculoskeletal system.

In the broad perspective, women's work situations are different from men's. Women have tended to be concentrated in industries where pension benefits are rare and are overly represented in part-time employment. Moreover, women have tended to experience an inordinate degree of interruption in their paid working lives due primarily to family responsibilities (Marshall and Clarke 1998).

Some research suggests that marital status is significantly associated with health, with married individuals having a lower risk of poor health (Smith, Shelley and Dennerstein 1994). Literature indicates that family (marriage), in the role of a non-employment source of social support, is among the most important of social networks in assisting older workers cope with stress (Betancourt 1991). Marital status is a simple measure of social support and for this reason was included in the analysis as a control variable.

### **Analytic approach used**

The Cox proportional hazards model was used to investigate whether or not career instability increases the likelihood of developing a long-term condition over time. This model is well suited to investigating the time dependent relationship for the probability of an event using multiple explanatory covariates (Kalbfleisch and Prentice 1980). In this analysis, we model a newly developed long-term condition over a three-year investigation period. Subjects who already had a long-term condition by the beginning of the study were excluded. Time was measured in years, 1, 2, or 3. Though this discrete measurement may be considered crude, it is the only data available. The event was defined as first occurrence of a long-term condition during the

study period. The covariates of career instability change at multiple and regularly-spaced points in time. Therefore, our data sets were discrete-time data with time-dependent covariates, making Cox proportional regression model the best choice for the analysis (Allison 1995).

The possibility exists that a long-term condition affects career rather than vice versa: if someone had a long-term condition near the beginning of a particular year, the probability of having career instability is likely to increase during that year. In order to reduce ambiguity in the causal ordering, lagging of the predictive variable values was created. Besides predicting a long-term condition in a given year by career instability in that same year, career instability in the preceding year was also used. Another possibility is that the hazard of a long-term condition may depend on the cumulative career instability experience with a one-year lag rather than the single experience of career instability in the preceding year. In order to address this possibility, a cumulative variable for career instability was created to predict long-term conditions (Allison 1995).

Since 1,269 subjects who initially had a long-term condition were excluded from the survival analysis, 'biased sampling' is a limitation for this approach. To compensate for this limitation, we used the Generalized Estimating Equation (GEE) model, which is able to include all subjects in the model, as an alternative analysis.

The GEE model is an extension of Generalized Linear Model (GLM). A GLM consists of the following components:

1. Link function: a monotonic differentiable link function describes how the expected value of response variable is related to the linear predictor variables.
2. Variance function: the response variables are independent for different subjects and have a probability distribution from an exponential family. This implies that the variance of the response depends on the mean through a variance function.

In addition to specifying a link function and a variance function as in GLM, the GEE model requires a working correlation matrix for the observations from each subject for repeated measurement data when the responses are discrete and correlated.

In this study, the categorical response variable and the explanatory variables were measured at year 1994, 1995, 1996 and 1997. This scenario of longitudinal data with repeated categorical response variable fits the GEE model very well. The SAS GENMOD procedure was used to implement the GEE method. The GEE approach provides consistent estimators of the regression coefficients and of their variance under weak assumptions about the actual correlation among observations of a single subject (Diggle, Liang and Zegar 1994).

Separate and distinct Cox proportional hazards models and GEE models (including terms for the career instability variable, and for age, sex, marital status, education and income control variables) were fitted for each career instability variable in turn.

## Results

In the sample under study, men and women were almost evenly distributed (49.7% male vs. 50.3% female). The age distribution was skewed toward the younger groups (32.4% between 45 and 49 years old compared to 20.5% between 60 and 64). In terms of education, it was found that approximately 12% had achieved bachelor's level or above, 39.6% had some post-secondary education, 14.5% had obtained a high school diploma, 15.5% had some high school and 16.9% had some or no elementary school (Table 17.1). In terms of income, the median annual after-tax family, personal and per capita incomes were \$38,503, \$17,757 and \$14,927, respectively. In view of the skewed distribution of income, log transformation of the per capita income was used in later survival analysis.

In 1994, 14.8% (1,269) of subjects had a long-term health condition and in 1997 a total of 18.9% (1,623) of subjects had a long-term condition. During the years 1995, 1996 and 1997, there were 374, 355 and 276 subjects, respectively, who developed a new long-term condition, a total of 1,005 individuals during the three years of the study (Table 17.2). The 1997 total (1,623) was less than the 1994 to 1997 sum, 1,269 + 1,005, indicating that a certain

**Table 17.1: Frequency of some baseline control variables, Canada, 1994**

	Frequency	%
<b>Age</b>		
45 to 49	2778	32.4
50 to 54	2217	25.9
55 to 59	1811	21.1
60 to 64	1760	20.5
<b>Education</b>		
Elementary school or less	1432	16.9
Some high school	1313	15.5
High school diploma	1230	14.5
Some postsecondary	3365	39.6
Bachelor's degree or above	1025	12.0
<b>Sex</b>		
Male	4258	49.7
Female	4308	50.3
<b>Marital status</b>		
Married/Common-law	6551	76.4
Other	1933	22.6

Source: Statistics Canada, Survey of Labour and Income Dynamics, longitudinal file.

percentage of subjects who developed a long-term condition in a particular year had recovered sufficiently to subsequently rejoin the group without a long-term condition.

As shown in Table 17.2, over the study period, approximately 40% of subjects experienced at least one jobless spell, the majority of them experiencing only a single such spell. The incidence of jobless spells increased from 38.4% in 1994 to 45% in 1997. With respect to the number of weeks unemployed, more than 15% were unemployed for more than a week in each year of the study, with no significant trend over the study period. However, an increasing trend for number of weeks not in the labor force was observed.

**Table 17.2: Frequency of the outcome and predictive variables over four years, Canada, 1994 to 1997**

	Long-term health condition		
	Yes	No	Missing
1994	1269 (14.8%)	6710 (78.3%)	588
1995	1310 (15.3%)	6700 (78.2%)	557
1996	1544 (18.0%)	6480 (75.6%)	562
1997	1623 (18.9%)	6317 (73.7%)	627

	Number of jobless spells		
	At least 1		Missing
	0	jobless spell	
1994	4703 (54.9%)	3293 (38.4%)	570 (6.6%)
1995	4638 (54.1%)	3384 (39.5%)	544 (6.4%)
1996	4380 (51.1%)	3637 (42.5%)	550 (6.4%)
1997	4102 (47.9%)	3859 (45.0%)	606 (7.1%)

	Number of weeks not in labor force		
	0	1 to 50	51 to 52
1994	5281 (61.6%)	564 (13.3%)	2152 (25.1%)
1995	5158 (60.2%)	521 (12.4%)	2344 (27.4%)
1996	4884 (57.0%)	572 (13.1%)	2561 (29.9%)
1997	4481 (52.3%)	631 (14.5%)	2848 (33.2%)

	Number of weeks unemployed		
	0	1 to 50	51 to 52
1994	7004 (81.8%)	757	236 (2.8%)
1995	7164 (83.6%)	657	201 (2.3%)
1996	7153 (83.5%)	631	233 (2.7%)
1997	7199 (84.0%)	595	168 (2.0%)

Source: Statistics Canada, Survey of Labour and Income Dynamics, longitudinal file.

Bivariate analysis showed several factors to be associated with a long-term condition. These factors were: being female, being not married/common law, being older, having lower education, having a lower income, having a greater number of jobless spells and having a greater number of weeks unemployed or not in the labor force.

Using the number of jobless spells to predict the development of a long-term condition among those without such condition at baseline (1994), the Cox regression model showed

that the hazard for those with a high number of jobless spells was significantly higher than for those with a lower number, even after controlling for age, sex, marital status, income and education. The hazard of a long-term condition was increased 21.3% for each increase of one jobless period ( $RR = 1.213$ ,  $p = 0.0005$ ). This model also showed that age, education and marital status were significantly associated with a long-term condition, while sex and income was not (Table 17.3).

The GEE, examining the determinants of change in a long-term condition over time, showed the number of jobless spells to be a significant predictor of a long-term condition after controlling for baseline long-term condition, age, sex, marital status, income and education. The GEE model showed there were significant effects of the number of jobless spells, baseline long-term condition, sex and education. The adjusted odds of having a long-term condition were  $EXP(0.2094) = 1.233$  times higher for each increase of jobless spell ( $p = 0.0001$ ). The adjusted odds ratios for baseline long-term conditions were approximately equal to  $EXP(3.1184) = 22.6$ . This implies that the odds of having a long-term condition were 22.6 times higher for those with a long-term condition at baseline than for those without a long-term condition (Table 17.6). The GEE and survival models yielded relatively consistent results in terms of a relationship of number of jobless spells and long-term conditions.

Lagging the predictive variable by one year was used to reduce causal ordering ambiguity. It was found that the hazard for those with a high number of jobless spells in the preceding year was significantly higher than for those with a lower number. The hazard of a long-term condition was increased 22% for each increase of jobless spell in the preceding year ( $p = 0.0006$ ). Similar results were obtained for the cumulative count of the number of jobless spells. However, after controlling for age, sex, marital status, income and education, the number of jobless spells and cumulative number of jobless spells in the preceding year were no longer significantly related to a long-term condition ( $p = 0.2811$ ,  $p = 0.3502$ , respectively) (Table 17.3).

Similar patterns of association were found for the other career instability variables: number of weeks not in the labor force (Table 17.4) and number of weeks unemployed (Table 17.5).

**Table 17.3: Results of survival analysis of long-term condition and number of jobless spells, Canada, 1994 to 1997**

	Parameter estimate	Standard error	Risk ratio	p
Analysis of the number of jobless spells				
Bivariate survival analysis	0.3383	0.0485	1.403	0.0001
Multivariate survival analysis				
Number of jobless spells	0.1935	0.0559	1.213	0.0005
Age	0.0414	0.0059	1.042	0.0001
Sex	0.0682	0.0673	1.071	0.3105
Income	-0.0679	0.0468	0.934	0.1466
Education	-0.0739	0.0264	0.929	0.0052
Marital status	-0.1766	0.0786	0.838	0.0246
Analysis of the number of jobless spells in the preceding year				
Bivariate survival analysis with one year lag	0.2199	0.0639	1.246	0.0006
Multivariate survival analysis				
Number of jobless spells in the preceding year	0.0794	0.0737	1.083	0.2811
Age	0.0423	0.0074	1.043	0.0001
Sex	-0.0234	0.0848	0.977	0.7829
Income	-0.0271	0.0625	0.973	0.6647
Education	-0.0588	0.0336	0.943	0.0799
Marital status	-0.1374	0.1001	0.873	0.1702
Analysis of the <i>cumulative</i> number of jobless spells in the preceding year				
Bivariate survival analysis with one year lag	0.1448	0.0444	1.156	0.0011
Multivariate survival analysis				
Cumulative Number of jobless spells in the preceding year	0.0476	0.051	1.049	0.3502
Age	0.0429	0.0075	1.043	0.0001
Sex	-0.0302	0.0854	0.97	0.7231
Income	-0.0426	0.0621	0.958	0.4934
Education	-0.0568	0.0337	0.945	0.0922
Marital status	-0.1306	0.1009	0.878	0.1956

Source: Statistics Canada, Survey of Labour and Income Dynamics, longitudinal file.

**Table 17.4: Results of survival analysis of long-term condition and number of weeks not in the labor force, Canada, 1994 to 1997**

	Parameter Estimate	Standard Error	Risk Ratio	p
Analysis of the number of weeks not in the labor force				
Bivariate survival analysis	0.0099	0.0013	1.0100	0.0001
Multivariate survival analysis				
Number of weeks not in the labor force	0.0051	0.0016	1.0050	0.0018
Age	0.0374	0.0064	1.0380	0.0001
Sex	0.1068	0.0706	1.1130	0.1303
Income	-0.0673	0.0468	0.9350	0.1496
Education	-0.0781	0.0264	0.9250	0.0030
Marital status	-0.1907	0.0787	0.8260	0.0154
Analysis of the number of weeks not in the labor force in the preceding year				
Bivariate survival analysis with one year lag	0.0076	0.0017	1.0080	0.0001
Multivariate survival analysis				
Number of weeks not in the labor force in the preceding year	0.0026	0.0021	1.0030	0.2186
Age	0.0400	0.0080	1.0410	0.0001
Sex	-0.0023	0.0886	0.9980	0.9789
Income	-0.0244	0.0626	0.9760	0.6956
Education	-0.0600	0.0334	0.9420	0.0729
Marital status	-0.1440	0.1003	0.8660	0.1512
Analysis of the <i>cumulative</i> number of weeks not in the labor force in the preceding year				
Bivariate survival analysis with one year lag	0.0078	0.0018	1.0080	0.0001
Multivariate survival analysis				
Cumulative number of weeks not in the labor force in the preceding year	0.0027	0.0022	1.0030	0.2081
Age	0.0393	0.0080	1.0400	0.0001
Sex	-0.0056	0.0894	0.9940	0.9502
Income	-0.0373	0.0624	0.9630	0.5495
Education	-0.0573	0.0336	0.9440	0.0885
Marital status	-0.1375	0.1011	0.8710	0.1736

Source: Statistics Canada, Survey of Labour and Income Dynamics, longitudinal file.

**Table 17.5: Results of survival analysis of long term condition and number of weeks unemployed, Canada, 1994 to 1997**

	Parameter Estimate	Standard Error	Risk Ratio	p
Analysis of the number of weeks unemployed				
Bivariate survival analysis	0.0096	0.0027	1.0100	0.0003
Multivariate survival analysis				
Number of weeks unemployed	0.0088	0.0028	1.0090	0.0014
Age	0.0479	0.0058	1.0490	0.0001
Sex	0.0272	0.0670	1.0280	0.6840
Income	-0.0761	0.0464	0.9270	0.1008
Education	-0.0786	0.0263	0.9240	0.0028
Marital status	-0.1607	0.0789	0.8520	0.0415
Analysis of the number of weeks unemployed in the preceding year				
Bivariate survival analysis				
with one year lag	0.0052	0.0037	1.0050	0.1578
Multivariate survival analysis				
Number of weeks unemployed in preceding year	0.0040	0.0039	1.0040	0.3003
Age	0.0448	0.0072	1.0460	0.0001
Sex	-0.0403	0.0842	0.9600	0.6317
Income	-0.0317	0.0619	0.9690	0.6086
Education	-0.0607	0.0334	0.9410	0.0691
Marital status	-0.1304	0.1004	0.8780	0.1937
Analysis of the <i>cumulative</i> number of weeks unemployed in the preceding year				
Bivariate survival analysis				
with one year lag	0.0016	0.0028	1.0020	0.5575
Multivariate survival analysis				
Cumulative number of weeks unemployed in preceding year	0.0026	0.0041	1.0030	0.5199
Age	0.0439	0.0073	1.0450	0.0001
Sex	-0.0440	0.0847	0.9570	0.6033
Income	-0.0478	0.0616	0.9530	0.4378
Education	-0.0591	0.0336	0.9430	0.0786
Marital status	-0.1260	0.1011	0.8820	0.2128

Source: Statistics Canada, Survey of Labour and Income Dynamics, longitudinal file.

**Table 17.6: Results from GEE modeling of long-term condition, Canada, 1994 to 1997**

Explanatory variable	Parameter estimate	Empirical standard error	95% Confidence limits		Z	Pr> Z
			Lower	Upper		
Analysis of the number of jobless spells						
Jobless spells <sup>1</sup>	0.2094	0.0253	0.1597	0.2591	8.2608	0.0001
Baseline	3.1184	0.1068	2.9090	3.3278	29.1880	0.0001
Age	0.0113	0.0087	-0.0057	0.0283	1.3073	0.1911
Sex	-0.3406	0.0975	-0.5318	-0.1495	-3.4920	0.0005
Marital	0.0572	0.1107	-0.1598	0.2742	0.5167	0.6054
Education	-0.0812	0.0375	-0.1546	-0.0077	-2.1650	0.0304
Income	-0.1271	0.0680	-0.2605	0.0062	-1.8690	0.0616
Analysis of the number of weeks not in the labor force						
Not in labor force	0.0053	0.0006	0.0041	0.0065	8.5749	0.0001
Baseline	3.0296	0.1079	2.8181	3.2411	28.0720	0.0001
Age	-0.0042	0.0095	-0.0228	0.0144	-0.4445	0.6567
Sex	-0.4555	0.1042	-0.6597	-0.2514	-4.3740	0.0000
Marital	0.1019	0.1099	-0.1135	0.3173	0.9270	0.3539
Education	-0.0782	0.0374	-0.1515	-0.0049	-2.0910	0.0365
Income	-0.1272	0.0687	-0.2618	0.0073	-1.8530	0.0639
Analysis of the number of weeks unemployed						
Unemployed	0.0042	0.0016	0.0012	0.0073	2.7377	0.0062
Baseline	3.2707	0.1090	3.0571	3.4844	30.0080	0.0001
Age	0.0350	0.0085	0.0183	0.0516	4.1222	0.0001
Sex	-0.1799	0.0977	-0.3713	0.0115	-1.8420	0.0655
Marital	0.0345	0.1110	-0.1831	0.2520	0.3108	0.7560
Education	-0.1214	0.0373	-0.1945	-0.0484	-3.2600	0.0011
Income	-0.1947	0.0659	-0.3239	-0.0656	-2.9550	0.0031

1. This GEE model showed there were significant relationship between long-term condition and number of jobless spells, even after controlling baseline long-term condition, age, sex, marital status, education and income. The adjusted odds of having a long-term condition were  $EXP(0.2094) = 1.233$  times higher for each increase of jobless spell ( $p=0.0001$ ).

Source: Statistics Canada, Survey of Labour and Income Dynamics, longitudinal file.

For example, it was found that the hazard of a long-term condition was increased 0.99% for each increase of one week of not in the labor force ( $p = 0.0001$ ). The GEE model showed there were significant effects of the number of weeks not in the labor force, after controlling for baseline long-term condition, age, sex, marital status, income and education. The adjusted odds of having a long-term condition were  $EXP(0.0053) = 1.005$  times higher for each increase of one week not in the labor force ( $p = 0.0001$ ).

The hazard of long-term conditions was increased 0.76% for each week increase of not being in the labor force in the preceding year ( $p = 0.0001$ ). Similar results were obtained for the cumulative count of number of weeks not in the labor force. However, after controlling for age, sex, marital status, income and education, the number of weeks not in the labor force and the cumulative number of weeks not in the labor force in the preceding year were no longer significantly related to long-term condition ( $p = 0.2186$ ,  $p = 0.2081$ , respectively).

## Discussion

This study has confirmed that many older Canadian workers have experienced career instability, as previously observed for Canada by He, Colantonio and Marshall (2003) and Marshall, Clarke and Ballantyne (2001); and for the U.S. by other investigators (Reimers and Honig 1989, Ruhm 1990, Mutchler et al. 1997). Furthermore, over the study period, there was a trend of increasing career instability, evidenced by increased frequency of subjects with at least one jobless spell. There was also an increased frequency of subjects having a higher number of weeks not in the labor force, which may be due to some subjects in this cohort (aged 45 to 64) having attained the conventional retirement age at or before the end of the study and having withdrawn from the labor force permanently.

Both the survival and the GEE models showed that career instability was significantly associated with a long-term condition, even after controlling for age, sex, marital status, income and

education. These findings are consistent with the results of three studies based on different data files, conducted by Marshall, Clarke and Ballantyne (2001), He, Colantonio and Marshall (2003) and Mutchler et al. (1999).

One limitation of our survival model is that the long-term condition is not indeed a terminal status. Some subjects experienced sufficient recovery to rejoin the group without long-term condition. However, our survival analysis was focused on first incidence (event occurrence) of long-term condition during the study period, which justified the use of Cox proportional hazards model. Further, by comparing the results from the GEE models to those from the survival models, we could determine if the recurrent subjects confounded the results. In this study, we have obtained consistent results from both the GEE and the survival models.

If career instability was lagged by one year to predict long-term conditions, without controlling for previously noted socio-demographic factors, it was found that those who experienced career instability in the preceding year were significantly more likely to have a long-term condition. However, after controlling for the socio-demographic factors, the relationship became not significant. These results suggest that the health impact of career instability may be partially determined by other characteristics, such as marital status, education, income, etc. From this study, there is insufficient evidence to conclude that career instability can cause a long-term condition. It is more likely that poor health causes career instability or that poor health and career instability are closely intertwined: at any given time, both health status and work status being embedded within a series of interlocking transitions.

Although our hypothesized causal relationship between career instability and long-term conditions was not substantiated by this data, the possibility that career instability causes long-term conditions cannot be dismissed due to the following limitations of this study. First, the only available health and well-being measure for the four waves of the SLID is a binary variable, long-term condition, which may not be sensitive enough to detect change in health status over time, therefore yielding results of no significance. Second, as a long-term condition tends to be chronic, long-term

conditions caused by career instability is probably not an instant effect: the health effect of career instability may take time to develop and become manifest. In this study career instability was used only in the preceding one year to predict a long-term condition in a given year because of the fact that only four years of data was available. Third, the SLID sample is a subset of the sample used for the Labor Force Survey (LFS). The LFS sample is a probability sample drawn from an area frame and is based on a stratified multi-stage design. In short, SLID is a complex survey and design effects are present. Design effects represent the extent to which the sampling design has deviated from simple random sampling. While the sample weights provided by Statistics Canada were employed in the analysis and popular statistical software packages such as SAS can handle weighted data and can produce accurate estimates, the standard errors associated with these estimates are typically underestimated due to design effects.

In future, further waves of SLID data will become available for longitudinal analysis. Moreover, starting in 1997, the SLID has collected more variables on health and well-being, providing a richer data source for future study of the relationship between career instability and health.

Nevertheless, this research documents an important and very relevant trend of career instability and its relationship with long-term disability in the industrial world.

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# *Theme Four*

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## **Chapter 18. New vulnerable groups and living standards in the retirement years**

by  
Monica Townson

As the leading edge of the baby boom generation reaches its late fifties, it is perhaps not surprising that retirement has become a major preoccupation. But uncertainty about retirement also seems to be increasing. Statistics Canada's General Social Survey, conducted in 2002, looked at "near-retirees" — people aged 45 to 59 — and found almost one-third of individuals in this age group felt they had not made adequate financial preparations to maintain their standard of living after they leave their jobs. Although no definition of "adequate" was provided to respondents, these findings were very similar to those of an earlier Statistics Canada survey that concluded about one-third of near-retirees may not be saving enough for retirement, because their post-retirement income would not be enough to replace 70% of their preretirement earnings, or to generate an income that is likely to be above the low-income cut-off.

In the early years of the new century, volatile stock markets pushed pension plans into deficit position and undermined the value of individual retirement savings. Increasingly, employers who sponsored defined benefit pensions plans, guaranteeing a pension related to earnings and length of service, have converted their programs to defined contribution plans or group RRSPs where the eventual pension depends on stock market returns and interest rates prevailing when the employee retires.

Amid growing uncertainty about their future financial security, many people are no longer sure about when they will be able to withdraw from paid employment. Individuals who took early retirement are going back to work — some for financial reasons, others because they prefer to keep active. Almost one-fifth of those surveyed in the 2002 General Social Survey said they did not intend to retire at all. Many of these people had lower household incomes, they did not own their own homes and they had lower levels of education. Saying they have no intention of retiring probably reflected their concern about their financial ability to leave the labour force.

Whether or not financial preparations for retirement were considered adequate was strongly associated with demographic characteristics and labour market experiences. For instance, women surveyed in 2002 were slightly more likely than men to say they expect their retirement income to be inadequate or barely adequate to maintain their standard of living. Recent immigrants were also more likely than persons born in Canada to believe they would not have enough to live on. In fact, other studies have found that declining earnings among recent immigrants will make it much more difficult for them to make ends meet and make them much more vulnerable to setbacks such as job loss or unexpected expenditures.

Individuals in poor health were almost twice as likely to view their retirement preparations as inadequate as were those who said their health was excellent. And people who were widowed, separated or divorced were far more likely to feel financial preparations were inadequate compared with those who were married or living in a common law relationship. In fact, unattached individuals — and particularly women — in the older age groups may be particularly vulnerable as they approach the retirement transition.

Developments in labour markets, particularly the growing incidence of non-standard work arrangements, have helped create groups who will become vulnerable to inadequate levels of living in their older years. Women and immigrants are particularly at risk. Even workers who have full-time permanent employment may become vulnerable as defined benefit pension plans face funding problems and employers try to renege on their pension promises. Sixty per cent of all paid workers do not have an occupational pension plan at work. Public pension programs such as the Canada/Quebec Pension Plan and Old Age Security are designed to provide only a basic income, leaving many individuals to provide for their own retirement security through personal saving. Financial insecurity may have a profound impact on retirement transitions. In the fourth section of this book, we will examine some of those issues more closely.

It is important to note that the nature of paid employment for many of today's workers is now very different from that of previous generations. A full-time permanent job, once considered "standard", is no longer the norm. Increasing numbers of workers now find themselves in other kinds of work arrangements. Some are short-term, temporary jobs; others are contract work, part-time and casual jobs. Many workers hold multiple jobs as a way of making ends meet. Others have become self-employed, working for their own account without employees. These "non-standard" work arrangements now account for more than one-third of all jobs in Canada.

Although there are exceptions, non-standard work arrangements generally tend to be poorly paid. Working conditions are often uncertain and there may be little or no job security. Workers may be expected to work at home or to be on call when an employer needs them. Employment standards legislation may not apply and workers in these jobs are generally not eligible for pensions and other benefits. For obvious reasons, researchers now describe these jobs as "precarious employment."

In the first chapter of this section, Monica Townson looks at the characteristics of precarious employment in Canada and considers the implications for the future financial security of those employed in this type of work when they reach retirement age.

In terms of preparing for financial security in retirement, these workers are clearly among the most vulnerable in the labour market. Because they generally do not have an ongoing relationship with a particular employer, they are not covered by workplace pension plans. But financial security in retirement depends on more than simply belonging to a workplace pension plan. Many workers in "standard employment" are not covered by these plans either. However, workers in precarious jobs face additional challenges. Their uncertain and fluctuating earnings may make it difficult for them to save for their own retirement. Although they are covered by the Canada/Quebec Pension Plan, these plans provide only a basic pension in relation to the contributor's earnings, and high contribution levels may be burdensome for workers with low or intermittent earnings.

Women are more likely than men to be employed in non-standard work arrangements. That will have an important bearing on their plans for retirement, their ability to save, the likelihood of their belonging to a workplace pension plan, and their financial security as they grow old. In 2004, for example, when women accounted for 47% of total employment of people aged 15 to 64 in Canada, they were 55% of total non-standard employment. Forty percent of women's compared with about 29% of men's jobs in 2004 were considered "non-standard."

Some researchers have suggested that low earnings of workers in non-standard work arrangements may not indicate financial vulnerability, since many of these workers may be in family situations where a higher-earning spouse or partner is able to support them. However, there is no guarantee that a higher-earning spouse will provide for the retirement income of the lower-earning spouse. In addition, given the increasing instability of spousal relationships, the higher-earning spouse or partner may not even be present to support the lower-earning spouse in old age. Since it is most often women who are employed in lower-paying non-standard work arrangements, such arguments undermine women's equality and the push towards economic autonomy for women. They imply women must continue to depend on a spouse or partner for financial support in retirement.

The duration of non-standard working arrangements is an important element in assessing the vulnerability of these workers as they enter their retirement transition. Where such work arrangements continue for long periods of time, the vulnerability of the individual in old age is likely to be increased. Townson emphasizes that for some workers, a non-standard work arrangement may represent a short-term situation. For example, students may work part-time while completing their education; older workers may ease into retirement by accepting casual work or becoming own-account self-employed; women may work part-time while their children are young.

Longitudinal data that would shed some light on this aspect of precarious employment are unfortunately limited. However, one recent study indicates that for some groups, non-standard

work arrangements persist for significant periods of time. In fact, according to the authors of this study, “some individuals find themselves involuntarily working in some form of non-standard employment for years.”

Pension coverage is particularly problematic for contingent workers. Participation in a workplace pension plan is generally restricted to paid workers having an employer-employee relationship. By definition, most contingent workers are therefore excluded. Temporary or contract workers, for example, do not have the opportunity to join the employer’s pension plan. Setting up a workplace pension plan is not an option for self-employed workers who work for their own account.

Part-time workers who have an ongoing relationship with a particular employer have a better chance of coverage under a workplace pension plan, and pension standards legislation in all Canadian jurisdictions now requires an employer having a workplace pension plan for full-time workers to give part-time employees the option of joining the plan. But low earnings mean that many part-time workers, given the choice, choose not to join. Others may opt for cash in lieu of benefits, using the additional income to finance day-to-day expenses rather than setting it aside for retirement. In addition, the majority of employers do not offer workplace pension plans to their employees and the legislative requirement to include part-time workers in the pension plan only applies where the employer has a pension plan for full-time employees.

Registered Retirement Savings Plans (RRSPs) were specifically designed to allow those without occupational pensions to set aside their own funds for retirement, deferring tax until the funds are withdrawn. But low wages and uncertain working conditions may make it very difficult for workers in precarious jobs to provide for their financial security in retirement in this way. In effect, contingent workers who may have no occupational pension plan through their employment are often unable to compensate for the fact by setting aside their own savings for retirement. While some may manage to set aside funds in an RRSP, contingent workers may use RRSPs as a way of providing a financial cushion

to tide them over when they are between jobs. Savings in an RRSP may be cashed in at any time and used for any purpose as long as the amount withdrawn is declared as income in the year of the withdrawal. While the amount would then be subject to tax, a contingent worker with low earnings in a particular year may find her tax liability for the RRSP withdrawal will be minimal. In fact, many people do withdraw funds from RRSPs prior to retirement, particularly in years of poor economic conditions.

Given the lack of coverage of workplace pension plans and the difficulty of accumulating private savings for retirement, Townson notes that public pension programs are particularly important for those who spend periods of their paid employment in non-standard work arrangements. Virtually all contingent workers will eventually receive benefits from the earnings-related Canada Pension Plan (or Quebec Pension Plan in Quebec). But the monthly benefit they eventually receive may reflect periods of low earnings experienced during their years of paid employment. While Old Age Security (OAS) and the Guaranteed Income Supplement (GIS) provide a basic guaranteed income for seniors and are important for those whose paid employment included long periods in precarious jobs, OAS and GIS combined provide only a poverty-level income.

Townson concludes there still is little information about the impact of periods of precarious employment on financial security in retirement. To a large extent, the key questions can only be answered by longitudinal data, which unfortunately is still relatively limited.

Whether the elderly have and will continue to have adequate incomes receives minimal consideration in current public policy discourse, in the view of Bob Baldwin. To date, the decision to create a pension system that relies heavily on the third pillar as a source of income appears to have worked reasonably well, he suggests. Tax-assisted private retirement savings, including workplace pension plans and Registered Retirement Savings Plans (RRSPs), that constitute the third pillar of the retirement income system, have contributed to an improvement in living standards for elderly households.

Workplace pension plans include both defined benefit (DB) plans where a pension relating to earnings and years of service is guaranteed and defined contribution (DC) plans where no particular pension is guaranteed but contributions, generally expressed as a percentage of salary, are accumulated in a fund and used to buy an annuity when the individual retires. An RRSP effectively has the same characteristics as a DC plan, with the notable exception that RRSPs — and group RRSPs that an employer may establish for employees — are not regulated by pension regulatory authorities.

As the purchasing power of older people has increased, there has been a tendency to assume that income adequacy was a problem that has now been solved. But Baldwin's chapter, *A Shaky Third Pillar: The Vulnerability of Retirement Incomes* asks whether there might be a broader issue of vulnerability to inadequate incomes than is suggested in mainstream policy discourse.

While much of the commentary on the improved income situation of Canadians aged 65 and over attributes the improvement to the strength of the Canadian retirement income system, what is often overlooked is the way in which the third pillar has interacted with a very specific set of economic circumstances to produce both the positive absolute and relative situation of the elderly. High rates of return on financial assets during the 1980s and 1990s benefited all parts of the third pillar. Investment returns of defined benefit plans easily exceeded the rate assumed by plan actuaries when calculating plan liabilities. Pension surpluses became common and were used in some cases to finance benefit improvements for plan members or to make *ad hoc* adjustments to pensions in pay, as well as to facilitate special early retirement packages in downsizing situations.

Higher investment returns also made a direct contribution to individual savings arrangements, such as RRSPs. What is clear, says Baldwin, is that the circumstances of the 1980s and 1990s made it easier to achieve retirement income objectives through the third pillar. But rates of return on financial assets declined precipitously from mid-year 2000 to the early part of 2003. The particular features of the economic environment — low inflation, low real wage growth and high returns on financial assets — gave a strong boost to the absolute and relative incomes of older

Canadians in the latter part of the twentieth century. But the same institutional arrangements cannot be expected to produce the same results in different circumstances.

Workplace pension plans now face financing difficulties — a situation that has at least sparked a thorough debate on the issue. But far less attention has focused on the reality that the change in financial markets that produced the defined benefit crisis was affecting defined contribution plans as well. The difference, however, is that individual plan members rather than employers have borne the brunt of the impact on DC plans. While poor performance here may result in lower monthly benefits for plan members, the impact could also be manifested in delayed retirement.

Along with these developments, there has also been a shift in coverage from DB to DC plans and to group RRSPs. As a result, a larger share of the future elderly will have their workplace pension incomes more directly exposed to investment risks at or around the date of retirement.

Given the role that workplace pensions play in the retirement income system, their overall contraction is less likely to manifest itself in more older Canadians with incomes below low income measures than in fewer people stating that their standard of living is as good as it was during their employment. It will also be reflected in fewer people being able to retire comfortably before age 65.

Baldwin concludes that the third pillar has clearly been weakened and there is a more broadly based vulnerability of retirement income in Canada than one would assume from policy discourse.

Today's older Canadians have a much wider range of income sources than previous generations. Long Mo, Jacques Légaré and Leroy Stone say that the composition of income of the elderly has changed considerably since the 1980s. They point out that the OECD considers that diversifying the income sources of retirees will present a major challenge in dealing with the pressures of aging populations. Individuals with the least number of sources of income in retirement are also likely to be those with the lowest

incomes. In fact, progress in reducing poverty among the elderly may be attributed to the diversification of income sources. To the extent that public pension programs come under pressure as a result of population aging, it will be important to emphasize other sources of retirement income to protect the financial security of the elderly, these authors say. Diversification of income sources of the elderly provides greater financial security in retirement.

Past studies of diversification have often been limited to theoretical or qualitative research. In their chapter on the diversification and privatization of the sources of retirement income in Canada, these authors develop an index of diversification of retirement income in Canada to serve as the basis for a quantitative analysis of the years between 1980 and 2002. They present an examination of recent trends in the sources of income, with particular emphasis on unattached older women and older immigrants, both groups which are known to have unusually high vulnerability to inadequate standard of living in retirement.

Older Canadians have five possible sources of income, according to these authors: (1) net government transfers, consisting of benefits from Old Age Security (OAS) and the Guaranteed Income Supplement (GIS). (2) Benefits from the CPP/QPP. (3) Income from private pension plans, including both registered pension plans and RRSPs. (4) Returns on investment, including dividends, interest and rents. (5) Employment income. Since the 1980s, the composition of income sources of the elderly has changed considerably. Dependence on government transfers has declined, while income from the CPP/QPP has increased considerably as an important income source.

Over the years, work, family, the state and the market have all played a role in retirement security. But the relative importance of the contribution of these various elements has changed. Older women living alone, for example, used to depend mainly on government transfers and investment income; now they depend more on pension income, according to these authors. This group within the population benefited from the maturation of both the public and private pension systems during the period under review. But while diversification of the income sources of older women living alone has improved, it is still much lower than that of the general population of elderly Canadians.

Among older immigrants, on the other hand, the diversification of income sources is close to that of the general population of older people. Income from employment was the major source of income for older immigrants throughout the period from 1980 to 2002. This group has not benefited as much from the maturation of public and private pension systems.

These authors also argue that, as well as being more diversified, the income sources of seniors have become more privatized. In fact, they find that increased privatization is a remarkable feature of the way in which the composition of elderly incomes changed during the period from 1980 to 2002. But it is important to note that they consider income from the Canada and Quebec Pension Plans to be a “private” source of income. In relation to the two groups on which their study focuses, the authors find that income sources of older women living alone became more privatized than those of older immigrants during the period under review.

Changes in the balance between the different elements of retirement income sources could expose some groups of the elderly population to risk. Reforms that concentrate on reducing the role of the state in retirement income risk increasing the vulnerability of certain groups within the population, the authors say. But the possibility of creating new categories of vulnerable people is not the only problem. Among the elderly population, some groups are always in a precarious situation. For example, very old people — particularly women living alone — remain vulnerable, these authors say. The number of persons aged 80 and over will increase significantly over the next few decades and the percentage of women who have never married or who will live out their old age as divorcees will also increase considerably, they note. These trends may exacerbate the difficulties faced.

It will be essential to ensure that any effort to reform the retirement income system takes a long-term perspective to reduce the risk of putting in place policies that will be unsustainable financially or politically insupportable.

## **Chapter 19. The impact of precarious employment on financial security in retirement**

by  
Monica Townson

Labor markets in many industrialized countries have experienced dramatic changes over the past couple of decades. Under the pressure of globalization, technological developments, policy changes and other forces, the nature of paid employment for many of today's workers is now very different from that of previous generations. For many people, the expectation is no longer that of finding full-time work with a single employer and spending a lifetime in that job until being able to retire with a good pension. Those kinds of jobs were once considered "standard." Most people in the paid work force were employed in such jobs. Since the late 1970s, however, more and more jobs no longer fit that pattern. Some are short-term, temporary jobs, others are contract work, part-time and casual jobs. Many workers hold multiple jobs as a way of making ends meet. Others have become self-employed, working for their own account without employees.

Because they do not fit the pattern of "standard" jobs, these different work arrangements are often referred to as "non-standard" jobs. Non-standard work arrangements tend to be poorly paid. Working conditions are often uncertain and there may be little or no job security. Workers may be expected to work at home or to be on call when an employer needs them. Employment standards legislation may not apply and workers in these jobs are generally not eligible for pensions and other benefits. For obvious reasons, researchers now describe these jobs as "precarious employment." Workers in precarious jobs are also referred to as "contingent workers" whose employment is contingent upon the fluctuating demands of employers in the market economy. All told, about 35% of all employment in Canada in 2003 consisted of these "non-standard" work arrangements (Table 19.1).

Of course, not all workers in non-standard employment have "precarious" jobs. Some temporary workers may have high earnings for brief periods of time. Some permanent part-time workers may have relatively secure jobs, perhaps with benefits.

**Table 19.1 Non-standard employment in Canada, ages 15 and over, 1999 to 2003**

	1999	2000	2001	2002	2003
Both sexes					
Total employment (thousands)	14531.2	14909.7	15076.8	15411.9	15746.0
Total non-standard employment (thousands)	5070.1	5135.3	5147.2	5355.2	5473.0
Non-standard employment as % of total employment	34.9	34.4	34.1	34.6	34.8
Part-time* (thousands)	2681.9	2701.6	2731.6	2883.7	2964.8
Full-time temporary	836.8	893.1	919.1	951.0	938.3
Full-time multiple job-holders	468.5	465.1	457.5	494.9	494.7
Own-account self-employed	1082.8	1075.6	1039.0	1025.7	1075.1
Men					
Total employment (thousands)	7865.8	8049.2	8109.7	8262.0	8406.7
Total non-standard employment (thousands)	2331.7	2354.7	2353.8	2451.0	2505.3
Non-standard employment as % of total employment	29.6	29.2	29.0	29.7	29.8
Part-time (thousands)	813.6	829.7	844.0	900.0	921.8
Full-time temporary	483.0	504.5	511.4	546.4	537.9
Full-time multiple job-holders	277.8	267.2	257.0	282.0	276.9
Own-account self-employed	757.3	753.3	738.3	722.6	768.8

**Table 19.1 continued: Non-standard employment in Canada, ages 15 and over, 1999 to 2003**

	1999	2000	2001	2002	2003
	Women				
Total employment (thousands)	6665.3	6860.4	6967.1	7149.8	7339.3
Total non-standard employment (thousands)	2,738.4	2780.6	2793.4	2904.2	2967.7
Non-standard employment as % of total employment	41.1	40.5	40.1	40.6	40.4
Part-time (thousands)	1868.3	1871.8	1887.6	1983.7	2043.1
Full-time temporary	353.8	388.6	404.6	404.6	400.5
Full-time multiple job-holders	190.7	197.8	200.6	212.9	217.8
Own-account self-employed	325.6	322.3	300.7	303.1	306.4

\* Note: The part-time category includes temporary, casual, multiple jobholders and others all of whom worked less than 30 hours a week at their main job.

Source: Statistics Canada Labour Force Survey, special tabulations.

Some high-income professionals are counted among the self-employed, although they are likely to be the exception and are not typical of this group (Statistics Canada 1997).

In terms of preparing for financial security in retirement, workers in precarious jobs are clearly among the most vulnerable in the labor market. Because they generally do not have an ongoing relationship with a particular employer, they usually are not covered by workplace pension plans.<sup>1</sup> But financial security in retirement depends on more than simply belonging to a workplace pension plan. Many workers in “standard employment” are not covered by these plans either — although they may have access to other

1. Also referred to in this paper as occupational pension plans.

types of employer-sponsored retirement saving programs such as group RRSPs. However, workers in precarious jobs face additional challenges. Their uncertain and fluctuating earnings may make it difficult for them to save for their own retirement. Although they are covered by the Canada/Quebec Pension Plan, these plans provide only a basic pension in relation to the contributor's earnings, and high mandatory contribution levels may be burdensome for workers with low or intermittent earnings. Workers in some types of non-standard jobs must pay double contributions, described below, to obtain coverage. Immigrants who are members of visible minority groups may be particularly disadvantaged. They may be more likely to be in precarious jobs as well as having fewer years in Canada in which to build up pension entitlements and retirement savings.

Recent studies have documented the economic vulnerability of workers in non-standard jobs. Both part-time and self-employed workers have, on average, a greater incidence of low earnings. They may also be at risk because they are less likely to be unionized. Individuals who work only part-year tend to have a greater incidence of low earnings. Young workers and workers with low levels of education are also subject to low pay (Chaykowski 2005).

In this chapter, we will look at the characteristics of precarious employment in Canada and consider the implications for the future financial security of those employed in this type of work when they reach retirement age.

### **Problems with the definition of non-standard employment**

While non-standard work arrangements have often been defined as any kind of job that differs from the norm of a full-time, full-year permanent job, it is clear that categories of non-standard work may overlap. For example, a temporary worker may be employed full-time; a part-time worker may be a permanent employee working for a full year for the same employer; a person holding multiple jobs may have some part-time, some full-time and some temporary work. Measuring the extent of non-standard employment then becomes problematic, unless overlapping categories can be eliminated.

The most common measure used in Canada consists of four categories: part-time employment (less than 30 hours a week at the person's main job); temporary employment — including term or contract work, seasonal, casual, temporary agency jobs and all other jobs with a specific pre-determined end date; self-employment without employees (own-account self-employment); and multiple jobholding (Cranford, Vosko and Zukewich 2003). Self-employed workers who employ paid help are generally excluded from the definition.

A simplified way of estimating the number of workers in non-standard jobs is to add together all part-time workers, full-time temporary, full-time multiple jobholders and own-account self-employed. The part-time category includes temporary, casual, multiple jobholders and others all of whom worked less than 30 hours a week at their main job. On this basis 35% of employment in Canada in 2003 could be considered non-standard (see Table 19.1). However, researchers have argued that this rather broad definition of non-standard work does not provide a clear picture of the insecurity associated with certain types of non-standard work arrangements (Cranford, Vosko and Zukewich 2003).

In their extensive work on precarious employment, Cranford, Vosko, and Zukewich develop a new typology of mutually exclusive forms of employment as a way of better understanding the heterogeneity inherent in the broad definition of non-standard employment. The result is six categories of employment that do not overlap. Employees are divided into full-time permanent, full-time temporary, part-time permanent and part-time temporary. The self-employed are divided into those who are employers and those who work for their own account (Cranford, Vosko and Zukewich 2003). These authors argue that a better understanding of the nature and extent of precarious jobs necessitates moving away from grouping situations that are united only by their difference from the standard employment relationship.

## **Recent trends in non-standard employment in Canada**

The percentage of Canadian workers employed in non-standard work arrangements increased quite significantly during the early 1990s. Between 1989 and 1994, the percentage of the workforce aged 15 and over engaged in at least one of part-time work, temporary work, own-account self-employment, or multiple job-holding grew from 28% to 34% (Cranford, Vosko and Zukewich 2003). In the past few years, the percentage of those employed in non-standard work has remained fairly constant, hovering around 34% to 35% (Table 19.1).

However, stabilization of non-standard work arrangements over the latter half of the 1990s may mask growing insecurity for some groups of workers in certain types of non-standard jobs. Cranford, Vosko and Zukewich note that the relatively more precarious forms of non-standard work — temporary jobs (Table 19.2) and own-account self-employment — became more prevalent during this time. In fact, they also argue there is income and occupational polarization among permanent full-time employees, suggesting this form of employment is also becoming more precarious in the context of broader labor market restructuring (Luxton and Corman 2001, Cranford, Vosko and Zukewich 2003, Saunders 2003).

### **Low earnings in precarious jobs**

Many workers in precarious jobs have low earnings, making it difficult for them to save for their own retirement through such vehicles as RRSPs. Total average earnings of part-time workers, of course, will be lower than those of people who work full-time. But average hourly earnings of part-time workers are also lower than those of full-time workers. For example, women who worked part-time in the private sector in 2003 earned an average \$11.10 an hour, compared with an average of \$15.40 an hour for women who worked full-time in the private sector (Jackson 2004a).

**Table 19.2 Temporary and permanent employees, Canada, 1997 to 2003**

	1997		2003		Growth 1997 to 2003	Contribution to growth 1997 to 2003
	'000	%	'000	%	%	%
Total						
employees	11,421	100.0	13,333	100.0	16.7	100.0
Permanent	10,125	88.6	11,673	87.5	15.3	81.0
Temporary	1,296	11.4	1,660	12.5	28.1	19.0
Contract	592	5.2	797	6.0	34.6	10.7
Seasonal	328	2.9	392	2.9	19.4	3.3
Casual	339	3.0	437	3.3	29.1	5.1
Agency	28	0.2	27	0.2	-0.6	0.0
Others	11	0.1	8	0.1	-27.8	-0.2

Source: Labour Force Survey (Galarneau 2005:6).

Temporary jobs are also generally less well paid than permanent ones and offer fewer employee benefits. In 2003, temporary workers earned 16% less per hour than their permanent counterparts, or \$16.69 versus \$19.98. Of the four types of temporary employees, contract employees showed the smallest gap, earning an average of 8% less than their permanent counterparts in 2003. Seasonal, casual and others, and those using employment agencies earned 28%, 24% and 40% less respectively (Galarneau 2005). (It should be noted that these data refer to temporary employees aged 25 to 54 and do not include own-account self-employed individuals.)

Data from the Survey of Labor and Income Dynamics for 2001 show average hourly earnings of standard jobs at \$18.89, while non-standard jobs averaged \$13.17 an hour.<sup>2</sup> Own-account self-employed earned an average of \$16.99 an hour, full-time temporary workers averaged \$13.65 an hour, part-time temporary workers averaged \$11.58 an hour, and permanent part-time workers averaged \$13.20 an hour (Kapsalis and Tourigny 2004).

2. Non-standard jobs in this data source are all forms of self-employment (with or without paid help), part-time jobs (less than 30 hours a week), and temporary jobs. All other jobs are considered "standard."

Of course, not all self-employed individuals have low earnings. Some highly paid professionals, such as physicians and management consultants, are included in this category. However, a greater percentage of the self-employed work in lower-paying service and artistic occupations, — for example as child care workers, barbers and hairdressers (Statistics Canada 1997). Detailed studies indicate a high degree of polarization in the earnings of the self-employed, who tend to make either small or large amounts of money. As well, the wage gap between women and men who are self-employed is greater than that between women and men who are employees. Average earnings of own-account self-employed men in 1995 were \$27,200 — almost double the \$14,800 average earnings of own-account self-employed women. Because so many self-employed earn relatively low amounts, their median earnings are much lower than their average earnings. In 1995, the median earnings of the self-employed were 68.5% of those of paid workers (Statistics Canada 1997). Overall, the incidence of low earnings among the self-employed is much greater than among employees. For example the proportion of full-year full-time self-employed workers with low earnings in 2000 was 42% compared with 11% for full-year full-time employees (Chaykowski 2005).

It is sometimes suggested that it is difficult to consider permanent low-earnings employment as more attractive than temporary high-earnings employment. However, from the point of view of financial security in retirement, high earnings from temporary employment offer no guarantee of future financial security — particularly if the temporary employment is intermittent, part-time or part-year. For example, temporary workers will not have the opportunity of joining a workplace pension plan if the employer where they work temporarily has one. They are generally not eligible for other types of benefit coverage either. Permanent full-time workers, or even permanent part-time workers with low earnings, may be able to join a pension plan if the employer has one. They may also be eligible for other benefits, such as extended health and disability coverage. Perhaps more important, permanent workers will be covered by the Canada Pension Plan, even if they have low earnings — unless they earn less than the Year's Basic Exemption, currently set at \$3,500. While employers hiring

temporary workers generally must contribute to the CPP on their behalf, workers who have periods of temporary earnings, even if these were brief high-earning periods, may be disadvantaged at retirement because CPP retirement pensions are based on average annual earnings over the individual's contributory period.<sup>3</sup>

Some researchers have suggested that low earnings of workers in non-standard work arrangements may not indicate financial vulnerability, since many of these workers may be in family situations where a higher-earning spouse or partner is able to support them. However, there is no guarantee that a higher-earning spouse will provide for the retirement income of the lower-earning spouse. In addition, given the increasing instability of spousal relationships, the higher-earning spouse or partner may not even be around to support the lower-earning spouse in old age. Since it is most often women who are employed in lower-paying non-standard work arrangements, such arguments undermine women's equality and the push towards economic autonomy for women. They imply women must continue to depend on a spouse or partner for financial support in retirement.

The undesirability of such an approach is evident in the fact that once women are left on their own in old age, they are very likely to be poor. Only 6.3% of couples aged 65 or older lived in low-income in 2001, but 45.6% of unattached women aged 65 or older in that year had incomes below Statistics Canada's before-tax Low-Income Cut-Off (LICO) (National Council of Welfare 2004).<sup>4</sup> Even after income taxes, credits and deductions are taken into account, 18% of unattached women aged 65 or older were considered low-income according to the after-tax LICO. By 2002,

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3. The contributory period is from age 18 to the commencement of pension between age 60 and 70. An exclusion for low earnings is permitted for up to 15% of that period. Years when the individual had a child under age seven may also be excluded from the calculation of average earnings on which the pension will be based.

4. The National Council of Welfare and other organizations which track low income regularly generally use the before-tax LICO which includes income from government transfer programs but not credits and deductions given through the income tax system.

that percentage had edged up to 19.5%. In the same year, 14.4% of unattached men aged 65 or older were considered low income (Statistics Canada 2004a).

Other scholars have examined the economic vulnerability of workers in non-standard jobs independent of their economic family. For example, Richard Chaykowski argues that economic vulnerability, generated in the labor market, ought to be evaluated in its own right, independently of whether such vulnerability is compensated for by the economic well-being of others in the same family unit. The relevant issue says Chaykowski, is whether individuals experience economic vulnerability — not families. As well, he notes, since the composition and structure of families is now much more dynamic than it has been in previous decades, policies aimed at alleviating economic vulnerability that attach to families, or that evaluate well-being in a family context, may not adequately account for shifting family circumstances of individuals over time (Chaykowski 2005).

### **The special concerns of women**

Women are much more likely than men to be employed in precarious jobs (Table 19.3 and 19.4). That will have an important bearing on their plans for retirement, their ability to save, the likelihood of their belonging to a workplace pension plan, and their financial security as they grow old. In 2003, for example, when women accounted for 47% of total employment in Canada, they were 55% of total non-standard employment (Table 19.1). More than 40% of women's compared with about 30% of men's jobs in 2003 were considered "non-standard" (Table 19.1). In 1989, 35% of employed women, compared with 22% of employed men, had a non-standard employment relationship (Townson 2003). Researchers have noted that since women comprise a sizeable component of non-standard work, vulnerability in the labor market exhibits significant gender dimensions. Chaykowski points out that vulnerability issues intersect with existing policies in the labor market and in workplaces. He says it is clear that many workers are vulnerable and that "our current policy regimes are inadequate to help them improve their conditions of work." (Chaykowski 2005)

**Table 19.3 Women in non-standard work arrangements, ages 15 and over, Canada, 1999 to 2003**

	1999	2000	2001	2002	2003
Total employment (thousands)	6,665.3	6,860.4	6,967.1	7,149.8	7,339.3
Non-standard employment	%	%	%	%	%
Part-time	28.0	27.3	27.1	27.7	27.8
Full-time					
temporary	5.3	5.6	5.8	5.7	5.4
Full-time multiple job-holders	2.9	2.9	2.9	3.0	3.0
Own-account self-employed	4.9	4.7	4.3	4.2	4.2
Total non-standard employment	41.1	40.5	40.1	40.6	40.4

Source: Author's calculations from Statistics Canada Labour Force Survey, special tabulations.

That such a high percentage of women workers are employed in non-standard work arrangements raises serious concerns about their financial security in retirement. Policy makers have long been concerned about high rates of poverty among older women. When the National Pensions Conference was held in 1981, addressing the poverty of older women was one of only four issues on the agenda for discussion. At that time, 72% of unattached women aged 65 or older had incomes below Statistics Canada's before-tax Low-Income Cut-Off (LICO). Many of these women did not have pensions in their own right because they had not worked outside their homes. Most were widows who were not entitled to a surviving spouse pension from their deceased spouse's workplace pension plan. During the 1980s, a number of measures were introduced in an attempt to address the situation of older women. But observers also suggested that as more and more women entered paid employment, women would be able to accumulate pensions in their own names and poverty rates among older unattached women would decline.

**Table 19.4 Men in non-standard work arrangements, ages 15 and over, Canada, 1999 to 2003**

	1999	2000	2001	2002	2003
Total employment (thousands)	7,865.8	8,049.2	8,109.2	8,262.0	8,406.7
Non-standard employment	%	%	%	%	%
Part-time	10.2	10.3	10.4	10.9	11.0
Full-time temporary	6.1	6.3	6.3	6.6	6.4
Full-time multiple job-holders	3.5	3.3	3.2	3.4	3.3
Own account self-employed	9.6	9.3	9.1	8.7	9.1
Total non-standard employment	29.6	29.2	29.0	29.7	29.8

Source: Author's calculations from Statistics Canada Labour Force Survey, special tabulations.

Poverty rates of this particular demographic group have indeed gone down, largely thanks to the maturing of the CPP/QPP. But a very high percentage of older women on their own still have low incomes, as noted above.

Since the early 1980s, there has been a dramatic increase in women's involvement in paid employment. By 2004, more than 82% of Canadian women in their prime childbearing years (25 to 44) were in the paid work force, and 80% of women aged 45 to 54 were in the paid work force. Although there have been remarkable increases in the percentage of women in paid employment, the financial security of women in old age is still at risk. While women have entered paid employment in ever-increasing numbers, they are now increasingly employed in precarious jobs that offer no benefits and no way of providing for their future financial security. In 1989, for example, 35% of employed women were working

in non-standard jobs.<sup>5</sup> By 1999, that percentage had risen to 41%. In the same period, the percentage of employed men in non-standard work arrangements rose from 22% in 1989 to 29% in 1999 (Statistics Canada 2000). Since 1999, the percentage of both employed women and men in non-standard work arrangements has remained relatively steady (Table 19.1).

While it might be argued that women have always been over-represented in non-standard jobs, a closer examination of the data indicates some significant trends. For example, between 1976 and 2004, women represented a fairly steady 69% to 70% of part-time employment. But during the same period, their representation in self-employment increased from 26.3% to 34.2%, while women as a percentage of multiple jobholders increased from 41.8% in 1987 to 54.8% in 2004 (Statistics Canada 2000, 2004d and 2005).

### **Racialized workers and other groups**

Anecdotal evidence seems to suggest workers from certain groups such as immigrants, visible minorities<sup>6</sup> and Aboriginal persons, are more likely to be employed in non-standard work arrangements than are other workers. Some researchers suggest that racial minority workers and those of low economic class may have limited bargaining power and knowledge of their rights and are easily relegated into insecure, poorly paid jobs with no career mobility (Zeytinoglu 2000).

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5. Refers to those with one or more of part-time, temporary work, own-account self-employment, or multiple job-holding. People in more than one category are counted only once.

6. Statistics Canada is required to collect data on “visible minority” groups so that compliance with the federal Employment Equity Act can be measured. The agency defines “visible minority” as persons other than Aboriginal peoples, who are non-Caucasian in race or non-white in colour. We also use the term “racialized workers” to indicate workers who are in a visible minority.

Unfortunately, employment data from Statistics Canada's Labor Force Survey, which is the main source of data on non-standard work arrangements, do not allow for a detailed breakdown by these demographic groups. Data from the 1996 Census seem to indicate that visible minority and Aboriginal women in paid employment are less likely than other women to be employed in some types of non-standard work arrangements, such as part-time work — although they may be less likely than other women to be in paid work at all (Townson 2003). Aboriginal women, for example, are much less likely than their non-Aboriginal counterparts to be part of the paid workforce. Only 41% of Aboriginal women aged 15 and over were employed in 1996, compared with 53% of non-Aboriginal women. In 1996, about 30% of Aboriginal women with jobs worked part-time — about the same figure as for non-Aboriginal women. However, Aboriginal women are heavily concentrated in low-paying occupations traditionally held by women (Statistics Canada 2000).

More recent data from the Survey of Labor and Income Dynamics (SLID) appear to confirm these findings. Using their four employment categories of part-time temporary, part-time permanent, full-time temporary and full-time permanent, Cranford, Vosko and Zukewich found that in 2000, 72% of visible minority men, compared with 73% of non-visible minority men, who were employed were in permanent full-time jobs. But 63% of visible minority women, compared with 56% of non-visible minority women, in paid employment held permanent full-time jobs in that year — the rest were in some form of non-standard work arrangement. While 17% of employed women from visible minority groups held permanent part-time jobs in 2000, 21% of employed women who were not visible minorities were in permanent part-time employment (Cranford, Vosko and Zukewich 2003).

These researchers note there are considerable differences among people of colour and between people of colour and white employees (those aged 15 to 64). Black and South Asian employees are less likely than white employees to have full-time permanent wage work. However, Chinese and Filipino employees are more likely than white employees to have full-time permanent work, South Asian employees are substantially more likely to be in

full-time temporary wage work than all the other groups, while Black employees are substantially more likely than the other groups to be in part-time permanent wage work. West Asian and North African employees have a greater proportion than all the other groups in part-time temporary wage work and the proportions of South Asian and Filipinos in this most precarious form of wage work are slightly higher than those of white employees (Cranford, Vosko and Zukewich 2003).

### Union membership

Being covered by a workplace pension plan is closely associated with membership of a trade union. In 1999, for example, almost 80% of workers in unionized jobs had pension plan coverage, compared with only 27% in non-unionized jobs. In addition, union density increases with firm size and pension coverage also increases with the size of the firm (Akyeampong 2002). Pension coverage of unionized workers ranged from 70% in firms with less than 20 employees to 85% in firms with 100 or more (Table 19.5).

**Table 19.5 Pension plan coverage by size of firm, Canada, 1999**

	Less than 20 employees		20 to 99 employees		100 or more employees	
	Employees '000	Coverage %	Employees '000	Coverage %	Employees '000	Coverage %
Unionized	541	70.3	1,295	75.8	2,170	85.4
Non-unionized	3,942	12.7	2,732	26.5	2,097	54.3

Source: Survey of Labour and Income Dynamics, 1999 [Akyeampong 2002].

However, only 36% of workers employed in permanent jobs in 2003 belonged to a union<sup>7</sup> (Galarneau 2005). Workers employed in non-standard work arrangements are less likely to be union members than other workers are. Most own-account self-employed workers are almost certainly not union members. As well, many self-employed workers are excluded from coverage under collective bargaining law and employment standards legislation (Fudge, Tucker and Vosko 2000). While some self-employed people working for their own account may be able to ally themselves with other individuals in a similar situation and purchase a private group contract for pensions or other benefits, such arrangements are not common. However, some self-employed workers in certain occupations, such as theatrical and artistic jobs, have been able to form their own unions.

Part-time workers are also unlikely to be union members. Among part-time employees in the private sector, only about 13% belong to a union. About 21% of full-time employees in the private sector are union members. Part-time workers in the public sector are much more likely to be unionized — for example, 73% of women and 56% of men employed part-time are union members (Jackson 2004a). But only 20% of part-time workers are employed in the public sector.

Almost all temporary workers employed through a temporary help agency are non-unionized, as are 74% of seasonal workers. But 41% of contract workers and 45% of casual or other temporary workers are union members (Galarneau 2005).

### **The duration of non-standard employment**

For some workers, a non-standard work arrangement may represent a short-term situation. For example, students may work part-time while completing their education; older workers may ease into retirement by accepting casual work or becoming own-account self-employed. According to recent study, in 2001, 27% of

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7. This calculation excludes the self-employed.

non-standard workers were aged 16 to 24 and 15% were 55 to 69. The corresponding estimates for workers holding standard jobs were 10% and 9% (Kapsalis and Tourigny 2004).

Women may work part-time while their children are young. For example, in 2003, about 38% of women aged 25 to 44 — which might be considered the main childbearing years — who were employed part-time said they were working part-time because they were caring for children or had other personal or family responsibilities. It is perhaps an indication of the current state of the labor market, however, that almost 33% of women aged 25 to 44 who were employed part-time in 2003 said they were working part-time because they could not find full-time work (Statistics Canada 2004d). In fact, the incidence of involuntary part-time work for women in this age group has increased in recent years from 29.8% of total part-time work in 1999 to 32.7% in 2003 (Townson 2004).

Where people hold a precarious job for a relatively short period, there may be little impact on their eventual financial security in retirement. For example, part-time employment while a student may eventually lead to full-time employment once education is finished, where membership of a workplace pension plan or ability to accumulate retirement savings is more likely. Older workers who switch to some form of non-standard work as part of their retirement transition may use additional earnings to supplement a pension. But workers who spend long periods of paid employment in precarious jobs with low wages and no benefits may find their financial security in retirement is seriously compromised.

While the extent of non-standard work arrangements at any particular point in time has been reasonably well documented, there is little information about the duration of non-standard employment. However, one recent study indicates that for some groups, non-standard work arrangements persist for significant periods of time. In fact, according to the authors of this study, “some individuals find themselves involuntarily working in some form of non-standard employment for years.” Based on data from the Survey of Labor and Income Dynamics (SLID) from 1999 to 2001, Kapsalis and Tourigny (2004) suggest that once engaged in non-standard employment, the majority of workers remain in such jobs for an extended period of time. More than half (54%) of the five million people in non-standard jobs in 1999 maintained this form of

employment throughout the following two years. An additional 9% were non-standard workers in 1999 and 2001, but not in the interim year.

In contrast, only 17% of those in non-standard jobs in 1999 were engaged in standard employment the following year, while 12% were not working at all. However by 2001, 23% of those who were non-standard workers two years earlier had obtained standard employment, while 14% were not working (Kapsalis and Tourigny 2004).

### **Pension coverage for contingent workers**

Pension coverage is particularly problematic for contingent workers. Participation in a workplace pension plan is generally restricted to paid workers having an employer–employee relationship. By definition, most contingent workers are therefore excluded. Temporary or contract workers, for example, do not have the opportunity to join the employer’s pension plan. Setting up a workplace pension plan is not an option for self-employed workers who work for their own account — although in some cases a number of individual self-employed people may be able to form a group and arrange some kind of pension coverage.

In the past, employers have often used pension plans as an essential part of the employee compensation package and a way to attract and retain permanent and long-term full-time employees. However, those objectives do not apply to contingent workers. Few non-standard workers have a pension plan at work. According to data from Statistics Canada’s General Social Survey, only 24% of those in non-standard jobs in 1994 had a pension plan, compared with 27% in 1989. Comparable figures for employees in “standard” jobs were 56% in 1994 and 60% in 1989 (Townson 2000).

Part-time workers who have an ongoing relationship with a particular employer have a better chance of coverage under a workplace pension plan. Policy makers have made efforts to improve pension coverage for this group of contingent workers

and pension standards legislation in all Canadian jurisdictions now requires an employer having a workplace pension plan for full-time workers to give part-time employees the option of joining the plan. But in many cases, it is up to the part-time worker to make the decision — even in situations where membership of the pension plan is mandatory for full-time employees. Part-time workers are often offered cash in lieu of benefits and it is hardly surprising, given their low earnings that many prefer to take the cash instead of contributing to the pension plan. The additional income may then simply be used to finance day-to-day expenses rather than set aside for retirement.

As well, the legislative requirement to include part-time workers in the pension plan only applies where the employer has a pension plan for full-time employees. There is no legislative requirement that employers establish workplace pension plans for their employees, whether full-time or part-time. Many women employed in part-time jobs work in service occupations and retail trade where pension coverage is likely to be the exception (Townson 2000).

Eligibility criteria for part-time workers to join a pension plan are established by provincial and federal pension regulators and are generally determined by earnings over a period of time. In British Columbia, for example, employees who have earned at least 35% of the Canada Pension Plan Year's Maximum Pensionable Earnings (YMPE) for at least two years must be allowed to join the pension plan if there is one. (The YMPE changes each year in relation to the average wage. For 2005, it is set at \$41,100.) In some jurisdictions, hours of work are also taken into account in determining if a part-time employee must be allowed to join the pension plan. These requirements may screen out many part-time workers from pension coverage. For example, 35% of the YMPE in 2005 would be \$14,385, but many part-time workers earn far less than this.

Unfortunately, there is no information about what percentage of part-time workers are covered by an occupational pension plan,<sup>8</sup> but pension coverage of workers generally has been declining over

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8. Also referred to in this paper as a "workplace pension plan."

the past decade or so. In 2002, for example, only 39.2% of women in paid employment were members of a workplace pension plan, compared with 41.9% who had such coverage in 1993 (Statistics Canada 2004c).

### **The difficulty of saving for retirement**

Registered Retirement Savings Plans (RRSPs) were specifically designed to allow those without occupational pensions to set aside their own funds for retirement, deferring tax until the funds are withdrawn. But low wages and uncertain working conditions may make it very difficult for workers in precarious jobs to provide for their financial security in retirement in this way. A temporary worker, for example, may not have continuous employment during the year; a worker on contract may be uncertain when she will next find further work when a particular contract ends. Earnings of part-time workers may be too low to allow for personal retirement savings at all.

In effect, contingent workers who may have no occupational pension plan through their employment are often unable to compensate for the fact by setting aside their own savings for retirement. While some may manage to set aside funds in an RRSP, contingent workers may use RRSPs as a way of providing a financial cushion to tide them over when they are between jobs. Savings in an RRSP may be cashed in at any time and used for any purpose as long as the amount withdrawn is declared as income in the year of the withdrawal. While the amount would then be subject to tax, a contingent worker with low earnings in a particular year may find her tax liability for the RRSP withdrawal will be minimal. In fact, many people do withdraw funds from RRSPs prior to retirement, particularly in years of poor economic conditions (Frenken 2003).

Only a very small percentage of workers with earnings of less than \$20,000 a year contribute to RRSPs. For example, in the six-year period from 1993 to 1999, almost 69% of women aged 25 to 64 who filed a tax return each year and who had annual incomes of less than \$20,000 (in constant 1999 dollars) had not contributed to an RRSP in any of the six years (Statistics Canada 2001).

## **Public pension programs and contingent workers**

Given the lack of coverage of workplace pension plans and the difficulty of accumulating private savings for retirement, public pension programs are particularly important for those who spend periods of their paid employment in non-standard work arrangements.

Public pension programs cover almost all contingent workers, but the benefits are relatively low. Old Age Security (OAS) provides a flat-rate benefit at age 65 to all Canadians who meet the residency requirements and does not depend on a history of paid employment. But the maximum monthly benefit in early 2005 was about \$470. (Pro-rated benefits are available for those who have not lived in Canada long enough to qualify for the maximum). Income-tested Guaranteed Income Supplement (GIS) benefits are payable to low-income seniors, with a maximum monthly benefit in early 2005 of \$560 for a single individual and \$365 for each spouse of a senior couple. (For married couples and common law partners, the amount of GIS benefits depends on the joint income of the couple).

These two programs provide a basic guaranteed income for seniors and are intended mainly as an anti-poverty program for those who have few other sources of income in retirement. While they would be important for those whose paid employment included long periods in precarious jobs, OAS and GIS combined provide only a poverty-level income.

### **Contingent workers and the Canada pension plan**

Virtually all contingent workers will eventually receive benefits from the earnings-related Canada Pension Plan (or Quebec Pension Plan in Quebec).<sup>9</sup> As long as they earn more than \$3,500 a year, contingent workers are included in the

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9. For convenience we will refer only to the CPP in this section.

Canada Pension Plan. This amount, known as the Year's Basic Exemption (YBE) is exempt from CPP contributions. Workers who earn more than this do not have to contribute on the first \$3,500 of earnings, although their retirement pension will be based on all earnings from the first dollar up to the established maximum. Self-employed workers must pay both the employer and employee CPP contributions amounting to 9.9% of covered earnings. Multiple jobholders with low earnings may be able to obtain CPP coverage, but only if they pay both employer and employee contributions themselves.

The CPP is an income replacement program. Retirement pensions are designed to replace 25% of a worker's average annual lifetime earnings (after adjustment for inflation) up to the specified maximum. To the extent that workers who have spent time in non-standard jobs had low earnings, their CPP benefits will reflect this — although special provisions allow them to exclude a number of years of low earnings as well as years when they had a child under the age of seven from the average earnings calculation on which the pension is based.

Everyone in the paid work force — whether part-time or full-time, employee or self-employed — must contribute to the CPP. For 2005, employees contribute 4.95% of earnings between the YBE and the YMPE (that is between \$3,500 and \$41,100 at 2005 rates) which is matched by an employer contribution of the same amount. Self-employed persons must contribute both the employer and employee share, or 9.9% of covered earnings. (Covered earnings are equal to \$37,600, or \$41,100 - \$3,500.) In recognition that having to make double contributions may be onerous for self-employed people, special provisions permit a self-employed person to claim the employer share as a business expense. In addition, individuals may claim a tax credit for the amounts they contribute to the CPP.

Contract workers and some temporary workers would generally have to contribute to the CPP as if they were self-employed. In some cases, employers contribute to the CPP on behalf of temporary workers they hire. Most part-time workers — assuming they earn more than \$3,500 a year — are also covered

by the plan. However, multiple jobholders may find they earn less than the YBE in any particular job, while total earnings from all jobs may exceed that limit. In this case, they are allowed to make up the contributions, based on total earnings, when they file their tax returns. But they are required to contribute at the self-employed rate. In other words, while their various employers would not have to contribute to the CPP on their behalf, multiple jobholders are faced with making double contributions at tax time if they want to be included in the plan.

Benefits from the CPP are based on average earnings over the contributor's working life, defined as the years between age 18 and age 65 or the point between age 60 and 70 at which the pension is claimed. But all contributors may exclude up to 15% of that time when they may have had little or no earnings. In addition, a parent may exclude years when she or he had a child under the age of seven. These features are known as "drop-out" provisions because they allow people to drop out these years from the calculation of average earnings on which their pension will be based. The 15% general drop-out provision may be helpful to contingent workers who spent relatively short periods in non-standard work arrangements during a lifetime of paid employment. As well, women who had to accept non-standard work arrangements while their children were young may be able to exclude those years of lower earnings under the child rearing drop out, thus minimizing the impact on their CPP retirement pension.

But there is no comparable dropout provision for those workers — mainly women — who withdraw from paid employment to care for older family members or adult family members with disabilities. In such cases, these years of little or no earnings would have to be included in the average earnings on which the retirement pension would be based, resulting in a lower pension than would otherwise be payable. There is not much information about the percentage of women whose paid work is affected by these unpaid family responsibilities. Nor do we have much information about how paid employment may be affected or for how long. We do know, however, that attending to family responsibilities is a key reason why women tend to retire from paid employment earlier than men do (Monette 1996).

In 2005, the maximum CPP retirement pension was \$828.75 a month. But the average monthly CPP retirement pension being paid to women who were new retirees in June 2005 was only \$333.76, compared with an average \$527.04 being paid to newly retired men. Low benefits being paid to women retirees, of course, reflect both low earnings over a lifetime of paid employment and also the fact that many women probably did not have continuous paid employment throughout their adult lives. Long periods spent in precarious jobs may also have been a factor.

### **Further research**

A number of researchers are now working in the field of precarious employment and vulnerable workers, but much more work is needed. According to Ron Saunders, director of the Canadian Policy Research Network's (CPRN) Work Network,

“we need to understand to what extent low paid work is concentrated among recent immigrants, Aboriginals, and disabled people. How strongly is it associated with low educational attainment, or with long-term unemployment? To what extent do adult workers remain in low paid jobs for long periods? Can we find ways to help vulnerable workers reduce the economic risks facing them, while also promoting productivity and competitiveness?” (Saunders 2003).

CPRN has launched a series of studies to help fill these knowledge gaps. Other researchers are also tackling some of these questions.

From the point of view of financial security in retirement, however, there still is little information about the impact of periods of precarious employment. To a large extent, the key questions can only be answered by longitudinal data, which unfortunately is still relatively limited.

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## **Chapter 20. A shaky third pillar: The vulnerability of retirement incomes**

by  
Bob Baldwin

### **Introduction**

In the mid-1960s, when the Canada Pension Plan (CPP) was being introduced and the broad contours of Canada's current pension system took shape, the government of the day made it clear that the modest size of the CPP was designed to leave plenty of room for the voluntary private retirement savings schemes to flourish (LaMarsh 1968). Again, in the mid-1980s, at the conclusion of a prolonged debate on pension reform, the government rejected a more substantial role for the CPP in order to give room to private arrangements (Department of Finance 1984).

The private arrangements to which space was to be given were of two basic types: workplace pension plans, often referred to as 'Registered Pension Plans,' and tax-supported, individual savings accounts known as 'Registered Retirement Savings Plans' (RRSPs).<sup>1</sup> Both types of scheme are privately administered and are financed in significant measure by investment returns in addition to contributions based on employment earnings. Participation in workplace pensions is voluntary for employers but, in most cases, participation is not voluntary for employee plan members. Moreover, both types of scheme rely on supportive tax measures. Taken together, these two types of arrangement are referred to as

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1. The term workplace pension plan is used throughout the text to refer to pension plans established by individual employers in both the public and private sectors for their employees, and it also refers to plans established for employees of particular groups of employers (e.g., municipal employee plans or plans for carpenters in a particular region). The term does not include group RRSPs, nor does it include Supplementary Executive Retirement Plans. It is, in effect, a synonym for the term Registered Pension Plan.

the 'third pillar' in the three pillars approach to providing retirement income that has been employed by the World Bank (World Bank 1994).<sup>2</sup>

Dividing the third pillar into workplace pension and RRSP components reflects distinctions in Canadian tax law. But, it is worth noting that workplace pensions can be categorized as either 'defined benefit' (DB) or 'defined contribution' (DC) plans. The former type of plan includes a formula according to which the amount of pension benefits payable at retirement age will be calculated. A typical formula might be:

$$\text{Benefits} = 1.75\% \times \text{years of service} \\ \times \text{the average of a plan member's best five years earnings} \dots \dots \dots (1)$$

Contributions to a defined benefit pension plan are calculated intermittently based on past experience and future estimated experience.

A defined contribution (or money purchase) plan provides that contributions will be made to a plan at a specified rate. Contributions and investment returns accumulate over the course of working life. At retirement age, the accumulated assets are used to buy an annuity. The amount of the retirement benefit is unknown until retirement age and will depend on the amount of accumulated assets and the interest rates that underlie annuity prices at the date of retirement.<sup>3</sup>

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2. In the World Bank typology, the first pillar is made of pensions financed from general government revenues that may be offered on a universal flat rate basis or on an income or means-tested basis. Canada's Old Age Security and Guaranteed Income Supplement are first-pillar programs in the World Bank typology. The second pillar is mandatory programs designed to replace pre-retirement earnings, and may take the form of mandatory defined benefit plans like the Canada and Quebec Pension Plans, or mandatory individual savings accounts. The Bank has become well known for promoting mandatory individual savings accounts in recent years. The third pillar is made up of group or individual arrangements that are not required by law, and may be initiated by employers, unions or individuals.

3. In recent years, regulatory law has permitted some alternatives to monthly annuity payments for both DB and DC plans as have been available for payouts from RRSPs for some years.

Defined contribution pension plans function very much like RRSPs that include employer contributions and a prescribed rate of saving. Indeed, the distinction between DC pension plans and RRSPs has become blurred in recent years as many employers have chosen to put in place group RRSPs as opposed to DC pension plans. One distinct feature of group RRSPs as opposed to DC pension plans is that pension regulatory law does not apply to them.

To date, the decision to create a pension system that relies heavily on the third pillar as a source of income appears to have worked reasonably well. Over the period from the 1970s to the end of the twentieth century, poverty rates among the elderly declined substantially, although this was largely attributable to the first two pillars. The average purchasing power of all elderly household incomes increased by roughly 40%, from 1973 to 2000, when the average incomes of all elderly households reached approximately \$35,000. The income gap between the elderly and the non-elderly narrowed from just over 20% in 1973 to just over 10% in the mid-1990s (after adjusting for differences in household size), and then increased to about 20% in 2000.<sup>4</sup>

The improvement in living standards was even stronger for the elderly households who are fully retired and have no earnings from employment. Their purchasing power came close to doubling over the period from 1973 to 2000 (from roughly \$15,000 to \$30,000) and the income gap in relation to younger households declined from nearly 50% to about 30% in the mid-1990s, and increased slightly by 2000. Thus, in 2002, a clear majority of Canadian retirees assessed their financial situation to be about the same in retirement as beforehand, with about one in three saying they are worse off. Being worse off was strongly associated with retiring for health reasons and being involuntarily retired.<sup>5</sup>

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4. Income data in this section and in the section below titled "Role of the third pillar" come from special tabulations of data from the Statistics Canada's *Survey of Labour and Income Dynamics* and the *Survey of Consumer Finances*. On historical trends, see also: Baldwin and Laliberté (1999) and Myles (2000).

5. Claims about retirees' perceptions of their well-being are based on special tabulations of data from Statistics Canada's *General Social Survey* (2002).

In official policy discourse, the issue of whether the elderly have and will continue to have adequate incomes gets minimal consideration. In all of the material that was prepared in connection with the reforms to the Canada Pension Plan in the late 1990s, nothing was said about this issue (Department of Finance 1996a). The same held true of the material prepared in connection with the proposed Seniors Benefit (Department of Finance 1996b). Through the latter part of the 1990s, the OECD had a major work program on ageing societies. The work done as part of this work program acknowledged that there are income shortfalls in many OECD countries for single, elderly women and for adult immigrants. But, for the most part, income adequacy was dealt with as a problem that had been solved (OECD 2001). Recently, the *Régie des rentes du Québec* put out a discussion document on the future of the QPP that addressed the issue of income adequacy by noting:

“According to this [OECD] study, Canada, and indirectly Quebec, are among the leaders when it comes to protection for the elderly. Retired households enjoy a high relative prosperity and inequalities are maintained at a low level. In addition, Canada was able to achieve these results while keeping public spending at an acceptable level.

... [The OECD] estimates that, of the nine countries studied, ours is the most successful at looking after the economic well-being of retirees and at protecting the most vulnerable groups. According to the OECD, our primary challenge will be to raise the age of retirement in order to better balance the duration of economically active life and the duration of retirement.”

(*Régie des rentes* 2003, see also: OECD 2001)

This paper looks at developments in the third pillar and asks whether there might be a broader issue of vulnerability to inadequate incomes than is suggested in the mainstream policy discourse. While the capacity of the third pillar to deliver retirement benefits in the future warrants a formal modelling exercise, what is offered here is an assessment of some of the key influences on that capacity.

Before turning to that, three points are worth adding:

- 1) It has become common practice in Canada and in many countries to compare income data of all people aged 65 and over with younger populations, and to draw inferences directly about the adequacy of retirement and pension provisions from that comparison. But, incomes of people 65 and over include a surprisingly large amount of income from employment. If the comparison is made only with older people who have left the labour force, the income situation of the elderly does not look as good.

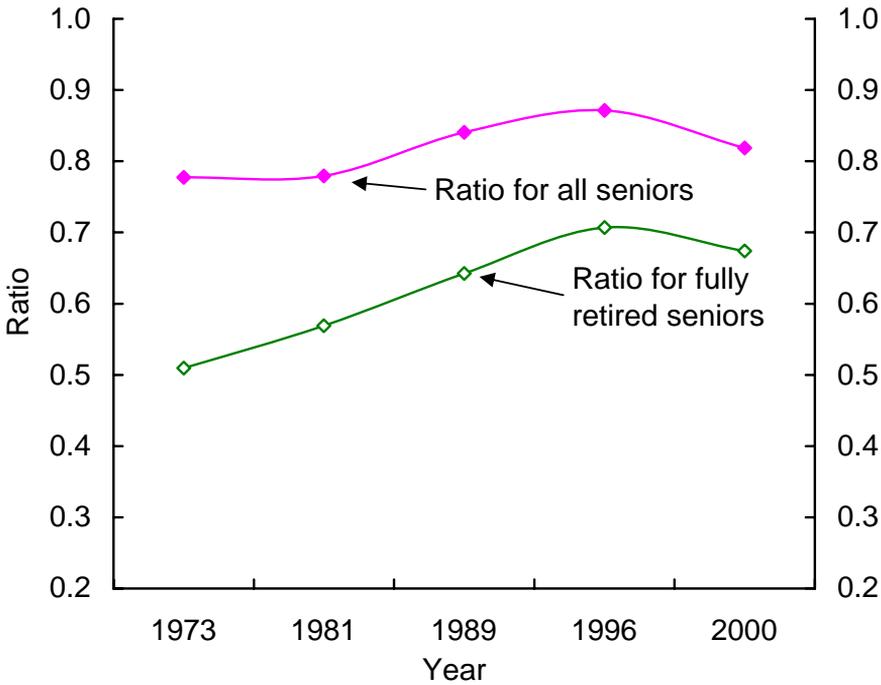
Chart 20.1 shows that the incomes of all people 65 and over reached 90% of the level of the non-elderly by the mid-1990s before receding slightly. However, for fully retired households,<sup>6</sup> average income of the over-65s was only 70% of that of younger households, even after taking account of differences in household size.

- 2) The elderly in Canada tend to have a much more compressed distribution of income than do the non-elderly. There is a heavy concentration of incomes just above and just below the Statistics Canada low income cut-off. This means that there tends to be less deep poverty among the elderly (i.e. incomes well below the low cut-off line), but it also means that there are more older people living close to the low income cut-off than would be true for younger populations.
- 3) For the low income elderly, the flat rate Old Age Security (OAS) program and the income-tested Guaranteed Income Supplement (GIS) are extremely important sources of income. (The OAS and GIS account for the following percentages of income in the first three deciles: 76.2%, 63.3% and 64.0%.) In addition, the OAS is part of the foundation on which the CPP and workplace pensions are

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6. Fully retired households are households with no earnings from employment. The equivalence scales used in calculating household incomes is the OECD new equivalence scale that assigns a value of 1.0 to the first member of the household, 0.5 to the second member, and 0.3 to additional members.

**Chart 20.1: Ratio of senior household income to that of younger households<sup>1</sup>, adjusted for size of family, Canada, 1973 to 2000**



1. The denominator of the ratio is the adjusted average income for households headed persons aged 25 to 54.

Source: Special tabulations from the Statistics Canada's Survey of Labour and Income Dynamics and the Survey of Consumer Finances.

built. But, because the program is only price indexed, its value relative to average earnings in society declines in the face of real wage growth. The relative living standard of the elderly declines in this situation.

### Role of the third pillar

The rapid growth of income of the elderly over the period from the mid-1970s to the end of the century reflected real income growth from a number of major sources. By far the fastest growing source of income over this period was income from the C/QPP

which increased from a mere \$668 per elderly household in 1973 to \$6,763 in 2000. (All dollar amounts in this section of the paper are in year 2000 dollars.) This huge increase reflects a growing portion of the elderly becoming eligible for C/QPP benefits – from 28 to 93% of elderly households receiving C/QPP benefits – as well as the rapid phasing-in of full retirement benefits – a process that took place over the ten years from 1967 through 1976. The portion of elderly household income coming from C/QPP increased from 2.8% to 19.1% of total income received by elderly households.

However, workplace pension income was the second fastest growing source of income. Average amounts received per elderly household increased from \$2,527 to \$10,436 over the period from 1973 to 2000. The increased amounts received reflected both an increase in the portion of elderly households receiving income from the source (66.3% in 2000, versus 27.9% in 1973), and an increase in the amount received per household that received income from this source (from \$9,049 in 1973, to \$15,881 in 2000). Workplace pension income accounted for 10.4% of income received by elderly households in 1973, and 29.4% in 2000. The increase in workplace pension income was particularly rapid between 1981 and 1989.

By way of contrast, income received by older households from investments was somewhat erratic, and in 2000, averaged \$6,782 compared to \$4,066 in 1973. Average amounts received from OAS/GIS remained relatively stable over the period, increasing from \$7,434 to \$7,978. Finally, average earnings from employment fell from \$8,314 to \$4,049. This was accounted for primarily by a drop in the number of households with earnings from employment from 32.6% in 1973, to 22.9% in 2000. Most of this decline was accomplished by 1989. Where they were present, earnings from employment tended to be substantial and very unequally distributed.

Workplace pensions clearly made an important contribution to income growth among older Canadians over the latter part of the twentieth century. But the contribution of workplace pensions to income improvement has not been distributed evenly across the elderly population. Table 20.1, which is based on data from the year 2000, provides an insight into this reality.

**Table 20.1: Characteristics of income received from private pensions, OAS/GIS and C/QPP, for the population aged 65 or more, Canada, 2000**

Decile	Percentage who receive	Average amount received (\$)	Percentage of total income
Private pensions			
1	12.8	1,472	2.9
2	20.3	2,014	3.9
3	20.2	2,136	3.4
4	28.8	2,399	4.9
5	52.8	2,978	9.9
6	77.6	4,677	19.7
7	85.1	7,572	29.0
8	90.6	11,333	37.3
9	90.2	17,989	45.2
10	89.7	32,609	46.4
Total	56.8	12,154	30.5
Old Age Security or Guaranteed Income Supplement			
1	89.3	5,454	76.2
2	97.1	6,811	63.3
3	98.9	8,178	64.0
4	99.5	7,712	54.2
5	99.4	6,589	41.1
6	99.4	5,739	31.0
7	99.3	5,362	24.0
8	98.7	5,031	18.0
9	95.4	4,953	13.1
10	82.8	4,263	5.6
Total	96.0	6,049	25.7
Canada and Quebec Pension Plan income			
1	47.4	1,665	12.4
2	70.7	2,895	19.6
3	76.9	3,309	20.1
4	91.2	4,377	28.2
5	94.8	5,648	33.6
6	96.3	6,265	32.8
7	97.3	6,406	28.1
8	96.9	6,657	23.4
9	95.9	6,747	18.0
10	96.5	6,566	10.1
Total	86.4	5,350	20.4

Source: Special tabulations prepared for the author based on data from Statistics Canada's Survey of Labour and Income Dynamics, 2000.

Table 20.1 shows that in the year 2000, workplace pension income was providing a larger share of total income to Canadians 65 and over than was either OAS/GIS or C/QPP (but less than the two public programs combined). This outcome reflects the fact that workplace pensions provide larger amounts of income to smaller portions of the elderly than do OAS/GIS or C/QPP. Two-thirds of elderly households received income from workplace pensions, and 29% of their income came from that source. However, 97% and 93% of the elderly received incomes from OAS and C/QPP, but received only 23% and 19% of their incomes respectively from these sources.

At the low end of the elderly income distribution, workplace pension income is notable primarily by its absence. In the middle of the distribution, the percentages of people receiving workplace pension income are increasing quite significantly (from 28.8 in decile 4, to 77.6 in decile 6), but the amounts received are still quite modest. But, in the top three deciles, both the percentage of the elderly population receiving workplace pension income and the amounts received are quite considerable.

Bearing in mind what Table 20.1 reveals about the role of workplace pension income by decile, it will surprise virtually no reader that there are differences by gender. Among Canadian men 65 and over, 68.1% receive workplace pension income compared to 47.9% of Canadian women. Older men in the fourth decile of the male distribution are slightly more likely than women in the seventh decile to receive workplace pension income (69.9% compared to 69.3%). That said, it is striking that in the top three deciles of the female distribution, workplace pension income is very widespread, with the percentage of older women receiving income from this source ranging from 84.2% up to 88.6%.

It is also striking that workplace pension income grew very rapidly as an income source for older women between 1996 and 2000. In 1996, only 34.2% of women 65 and over received workplace pension income compared to 47.9% in 2000. Moreover, the average amounts received increased from \$2,696 to \$4,233 in 2000. As will be discussed more fully below, there is reason to hope that gender differentials might diminish further in the future. Gender differentials may, however, be diminishing in the context of an overall situation that is deteriorating.

Another subset of the elderly population for whom workplace pensions have played a somewhat smaller role than would be inferred from the average case is adult immigrants to Canada. Among adult immigrants who receive workplace pension income, the amount received is very close to the average for the entire elderly population; it was 94% of the average for the entire elderly population in 2000. There was, however, a somewhat larger gap in the percentage of elderly households in receipt of workplace pension income (49.8%) versus the elderly population as a whole (56.8%). Thus overall, workplace pension income for adult immigrants 65 and over was 21% lower than for the elderly population in total (\$5,683 versus \$6,900).

Unfortunately, it is harder to be optimistic about the future prospects for the receipt of workplace pension income by adult immigrants to Canada. The well-documented increase in the difficulties they have faced getting good employment in recent years would normally have negative effects on the receipt of workplace pension income in the future (Jackson 2005).

### **Importance of economic context**

The third pillar has made an important though somewhat uneven contribution to the improved well-being of elderly Canadians. As has been noted, this is attributable in significant measure to the maturation of workplace pension plans as well as the maturation of the C/QPP. As a result, a good deal of commentary on the improved income situation of Canadians 65 and over attributes the improvement to the strength of the Canadian retirement income system. What is often overlooked is the way in which the third pillar interacted with a very specific set of economic circumstances to produce both the positive absolute and relative income situation of the elderly noted above.

One feature of workplace DB pensions is the absence of formal arrangements to protect pensions against inflation. As of the year 2000, only 9% of all DB pension plans and 16% of all pension plan members had full protection against inflation. Another 29% of DB plan members had partial protection against inflation.

As a result, the purchasing power of workplace pension incomes is subject to a significant degree of risk from inflation (Statistics Canada 2000).

Table 20.2 shows the loss in purchasing power over each of the last five decades of the twentieth century that would have been experienced by recipients of pensions that were not price indexed. It gives the amount of purchasing power that remained at the end of each decade based on an income that began to be provided at the start of the decade, but received no protection against inflation.

**Table 20.2: Purchasing power remaining at the end of each decade of non-indexed pensions that began pay at the start of the decade, 1950s through 1990s, Canada**

Decade	Purchasing power remaining
1950s	87%
1960s	77%
1970s	44%
1980s	58%
1990s	84%

Source: Author's calculations based on Statistics Canada CANSIM data reported in: Canadian Institute of Actuaries, "Economic Statistics, 19 to 20."

The dramatic effect of the high levels of inflation in the 1970s is evident. A nonindexed pension that began to be paid in 1970 would only buy 44% of the goods and services at the end of the decade that it could purchase at the beginning of the decade. The majority of the purchasing power – 56% of it to be exact – was lost to inflation.

The loss of purchasing power in the 1970s will not come as a surprise to older readers. But, bearing in mind the low inflation nature of the 1990s, the fact that 16% of purchasing power was lost in that decade may come as something of a surprise. Bear in mind, too, that a decade now represents little more than half of the average life expectancy of a 65-year-old Canadian, and the importance of inflation risk to older persons' purchasing power is clear.

In considering the well-being of older Canadians, the real incomes (incomes net of inflation) they have and how those incomes move through time is very important. Equally important is the question of how those incomes compare with the incomes of active workers. Are the incomes of retirees allowing them to share pretty much the same standard of living as younger people?

As was noted above, it is very common to form judgements about the well-being of people 65 and over by comparing their income to that of younger people. One thing about this comparison in the late 1980s and 1990s in Canada deserves far more attention than it gets. The average real rate of wage growth of the working-age population was virtually nonexistent. Table 20.3 highlights this point.

Like Table 20.2, Table 20.3 draws on data from the last five decades of the twentieth century. It shows how the value of a price-indexed pension would change over the course of each decade compared to average wages and salaries. In other words, a price-indexed pension that began to be paid in say 1960, would have the same purchasing power at the end of the decade, but it would only be worth 76% of what it was worth at the start of the decade compared to average wages and salaries. There was a 24% loss in relative purchasing power.

The measures in Table 20.3 are a direct reflection of real wage growth in each decade. The low numbers in the 1950s and 1960s reflect strong, real wage growth. The numbers for the 1980s and 1990s are a sad reflection of the lack of real wage growth over that period. If we think of expressing incomes of the elderly as a percentage of incomes of the non-elderly, the former were growing rapidly thanks to the maturation of the C/QPP and workplace pensions, and the latter were stagnating thanks to nonexistent, real wage growth.

One other condition made the 1980s and 1990s special with respect to the third pillar. That is the high rate of return on financial assets. This was largely, but not exclusively, a story about the long bull run in the stock market from 1982 to the year 2000, and this commentary will focus on stock market returns. It is important to note however, that people who bought long-term bonds in the early part of this period also made unusually strong returns on them.

**Table 20.3: Changing relative value of price indexed pensions compared to real wages<sup>1</sup>, 1950s through 1990s, Canada**

Decade	Relative value at the end of the decade
1950s	75
1960s	76
1970s	88
1980s	100
1990s	96

1. Wages after inflation.

Source: Author's calculations based on Statistics Canada CANSIM data reported in: Canadian Institute of Actuaries, "Economic Statistics, 19 to 20".

Stock markets across much of the globe participated in the long bull run. At the end of 2000, the Toronto Stock Exchange index stood at 7.53 times its level as of the end of 1982. In Canadian dollars, the US-based Standard and Poor's index stood at 19.49 times its 1982 level. To put the giddiness (and unreality) of these numbers into perspective, Canada's nominal GDP grew by a factor of 2.83, and corporate profits grew by a factor of 5.08. The fact that stock market returns outpaced corporate earnings over such a long period is indicative of the price/earnings ratios of stocks climbing to unprecedented levels and setting the stage for an inevitable collapse (Shiller 2000).

All parts of the third pillar benefited enormously from this development. The investment returns of defined benefit pension plans easily exceeded the rate assumed by plan actuaries when calculating plan liabilities. Pension surpluses became common place. The appropriate way to apply surpluses was often in dispute between employers and unionized plan members, and occasionally the disputes were settled in court. Nonetheless, the surpluses also financed a mix of contribution holidays by employers and benefit improvements for plan members. The surpluses were often used to facilitate special early retirement packages in downsizing situations. In some cases, they were also used to make ad hoc adjustments to the pension incomes in pay.

Higher returns on investments also made a direct contribution to individual savings arrangements. Exactly how these higher returns might manifest themselves (higher incomes with no change in retirement age, earlier retirement, or lower saving rate) is not clear. What is clear is that the circumstances of the 1980s and 1990s made it easier to achieve retirement income objectives through the third pillar.

Clearly, rates of return on financial assets declined precipitously in the period from mid-year 2000 to the early part of 2003. The effects of this will be noted below. For the moment, two points bear emphasis. First, to state the obvious, the strong growth in the absolute and relative incomes of older Canadians in the latter part of the twentieth century got a strong boost from particular features of the economic environment: low inflation, low real wage growth and high returns on financial assets. The same institutional arrangements cannot be expected to produce the same results in different circumstances. Second, the combination of population ageing and decelerating population growth that have well-known adverse effects on contribution rates to pension plans financed on a pay-go basis, will have similar, though less direct, effects on contribution rates to workplace DB plans.

### **Financing problems of workplace pension plans**

All Canadian jurisdictions impose financial requirements on workplace DB plans that are quite strict by international standards. Pension assets are to be separated from the assets of sponsoring employers, and are held in trust for the plan members. Moreover, once in not more than every three years, an actuarial valuation must be performed on the pension plan. A basic feature of these valuations is the preparation of two actuarial balance sheets in which the amount of assets held in the pension fund is compared to the liabilities of the plan; the liabilities are the value of the benefit promises made to the plan members.

One balance sheet is prepared on a 'going concern' basis meaning that it is assumed that the plan will remain in place indefinitely. The other is prepared on a 'solvency' basis meaning that it is assumed that the plan is going to be wound up on the

effective date of the valuation. While there are several differences between the two types of balance sheets, it will suffice to note here that the solvency valuations are required to rely more heavily on current market values of assets. Solvency valuations also have to determine the value of liabilities using current interest rates in the market as opposed to interest rates that might reasonably be expected over longer periods of time.

If going concern liabilities exceed assets, an actuarial deficit (unfunded liability) results that has to be amortized (paid off) over no more than fifteen years. If solvency liabilities exceed solvency assets, a solvency deficiency is said to exist and it must be amortized over no more than five years. The overriding object of these financing exercises is to create a situation in which the employer sponsoring the pension plan can go bankrupt, and there will be sufficient assets in the pension fund to pay the benefits promised to the plan members.

The glow was barely off the celebration of the new millennium when workplace DB balance sheets were engulfed in a perfect financial storm. The stock market bubble burst in the spring of 2000 and continued to fall through the spring of 2003. The asset side of workplace DB balance sheets took a beating. Trusted pension plan assets of just over \$600,000 billion fell by more than \$60 billion between mid-year 2000 and the end of 2003 despite an increase in workplace pension contributions from \$12 billion in the year 2000 to \$19 billion in 2002 (Statistics Canada 2003).

Although it got far less attention, the liability side of the balance sheets was also taking a beating. The yields on long-term Government of Canada bonds fell over the 10 years from the end of 1995 through the end of 2004, from 9.4% to 4.9%. To put this decline in context, a one percentage point drop in a DB pension discount rate will typically increase current service costs by 20%.<sup>7</sup>

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7. Although performance of the stock market has improved since the early part of 2003, the balance sheets of DB pension plans are still suffering thanks to the need to overcome the losses of the early years of the decade and, more importantly, due to the persistence of low interest rates. A silver lining in all of this is that the financing difficulties of DB pension plans have provoked a thorough debate on the proper means of financing them.

The stock market decline and falling long-term bond yields caused pension balance sheets that had been running up surpluses in a relatively easy manner through the 1980s and 1990s to swing hard in the deficit direction. DB plans, in which contribution holidays had been taken shortly before, suddenly required full contributions to cover newly accruing benefits and special payments to get rid of actuarial deficits. Employer contributions to workplace DB pension plans shot up from \$6.4 billion in 2000 to \$11.6 billion in 2002 (Statistics Canada 2003).

Not surprisingly, many employers and pension consultants expressed a great deal of pain in the face of the DB financing problems. These problems provided an additional spur to the shift from DB to DC that had been underway for some time, and that will be discussed below.

At the same time, the damage done to pension balance sheets produced another type of problem. Companies came to the brink of bankruptcy with substantial unfunded liabilities — Air Canada and Stelco being the most prominent cases in point. In these cases, it would have been the plan members rather than the employers who would have felt the pain, as benefits would have had to be cut to match the benefit payments with the available assets.

The fact that both types of problems arose (increased contributions and threatened benefit cuts) as a result of the damage done to balance sheets, highlights the dilemma in resolving DB financing issues. The measures that hold out the greatest promise for reducing the volatility of pension contributions are likely to accentuate the risks to plan members that assets will not be sufficient to cover liabilities in the event of bankruptcy.

In the case of DB pension plans, important institutional players (employers, unions, regulators, and, to some degree, politicians) found themselves in the centre of the storm and spoke on it, as they should. Far less attention focussed on the reality that the change in financial markets that produced the DB crisis was affecting DC plans as well. However, in the DC world, there was an important difference: it was individual plan members who were taking it on the chin. Asset accumulations were contracting and annuity prices were going up.

Given the mistreatment of this issue in so much popular discussion, including that of pension professionals, it is worth noting that the negative impact of changes in financial markets does have second order effects in both DB and DC plans.

In the case of DB plans, the first order effect is that employers have to make special payments to pension plans (there is a small number of plans in which the special payments are made by both employers and active plan members). But there may be second order effects that shift some or all of the burden to plan members through measures such as: pension benefits improvements that were planned may not be made; wage and salary increases might be smaller than otherwise planned; or, non-pension benefits may be curtailed in some way. Strangely, there is no systematic evidence on who actually bears risk in DB plans despite all of the strong statements one hears on the subject.

In the case of DC plans, the impact of poor performance is conceived of in terms of lower benefit amounts per month for the plan members. Clearly though, the impact could also be manifest in delayed retirement.<sup>8</sup> In an extreme case of poor performance, an employer might even feel pressure to top up low pensions which would entail the secondary shifting of risk from the plan members to the employer.

### **Declining coverage of workplace pensions<sup>9</sup>**

Following a long period of steady increase in the portion of employed Canadians covered by workplace pension plans, a reversal in this process began in the mid-1980s and carried on into the 1990s. Thus in 1991, 45.4% of employed Canadians were

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8. Although there is some debate on the matter, it has been argued that increased labour force participation by the 55- to 64-year-old age group in the US and UK since the year 2000 is attributable to wealth lost in the stock market during that period. See: Eschtruth and Gemus (2003), Gardner and Orszag (2003), and Coile and Levine (2005).

9. Data on pension coverage are from Statistics Canada 2003 as are data referred to in the discussion below of the "Shift from DB to DC."

members of workplace pension plans, and in 2001, only 40.1% were members of workplace pension plans. Between 1992 and 2002, the absolute number of people who belong to workplace pension plans grew by 2.9%, but the employed labour force grew by 15.2%.

For purposes of estimating the impact on future retirement incomes, it is important to know what portion of employed people belong to workplace pension plans. However, it is also worth noting that the actual number of workplace pensions declined by 26% between 1992 and 2002. The fact that the decline in the number of plans significantly exceeds the decline in plan membership suggests that the part of the workplace pension population that shrunk the most was smaller plans. To some extent, the decline in small plans may have been offset by the growth of group RRSPs that do not show up in data on pension coverage. Some evidence on this point is provided by Frenken and Maser (1992). However, it appears that the use of RRSPs levelled off in the mid-1990s and is not offsetting a decline in workplace pension coverage (Palameta 2003).

Given what was noted above about the different role of workplace pension income in the incomes of older men versus older women, it is worth noting that the longstanding gap in workplace pension coverage between employed men and employed women has been largely eliminated in recent years. In 1991, 49% of employed men and 41% of employed women belonged to workplace pension plans. By 2001, the comparable number were 41% and 39%. Unfortunately, this equality was created not by a levelling up of women, but by a levelling down of men. As Morissette and Drolet have noted, there has been a sharp drop in pension coverage among young men aged 25 to 34 (Morissette and Drolet 1999).

A word of caution does have to be offered on this gender-equalizing process. The benefits to which people become entitled in retirement reflect not only pension coverage (and earnings) at a particular moment in time, but on pension coverage through time. Since workplace pensions typically fall somewhat short of providing full portability, and women change jobs more frequently than men,

it may be harder for women to maintain continuity in pension coverage through time. Because of their longer life expectancy, women retirees are also somewhat more vulnerable to the effects of inflation on nonindexed pensions.

Differences in pension coverage between men and women is just one of many social and economic variables with respect to which pension coverage varies. This variability is important in thinking about the overall decline in pension coverage just noted. Two extreme possibilities present themselves: there was a uniform decline across all social and economic variables, or there was no decline within social and economic groups, but the prominence of different groups in the employed labour force changed so as to bring about the decline (i.e. groups with traditionally low coverage increased in importance).

In their discussion of declining pension coverage of younger men, Morissette and Drolet draw attention to the importance of sectoral shifts in employment and declining unionization in explaining lower pension coverage.<sup>10</sup>

### **Shift from DB to DC**

Running parallel to the general decline in pension coverage just discussed has been a shift in coverage from DB to DC plans. The significance of this shift rests in the fact that a larger share of the future elderly will have their workplace pension incomes more directly exposed to investment risks at or around the date of retirement. Moreover, as was noted above, the risks may be reflected in either or both of income uncertainty, or uncertainty about the age of retirement.

The shift in the balance of coverage from DB to DC has not been dramatic, but it has been steady for some years. Thus over the period from 1992 to 2002, the percentage of plan members who belong to DC plans increased from 9% to 15%. This trend

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10. A thorough assessment of the social and economic characteristics of workplace pension plan members is provided in Lipsett and Reesor (1997).

was more pronounced in the corporate sector than elsewhere; DC membership as a percentage of plan membership in the corporate sector increased from 12% to 21%. It should be noted, however, that these data might understate the shift to DC as group RRSPs that don't show up in the data seem to have grown in prominence in recent years (Frenken and Maser 1992).

DC plans have always held some attraction for small employers thanks to the certainty of the employer's financial commitment under DC plans and their administrative simplicity. Some longer-term trends have added to these traditional considerations. Among the longer term influences are: the increasing complexity of DB plans that has resulted from tax and regulatory change; shift in employment to non-standard work including part-time work; young worker resistance to DB plans based on their weak record in dealing with termination of employment before retirement; generally slack labour markets; the influence of employer preferences in the US and the UK where the shift to DC has been more pronounced; and, general policy level support for DC coming from institutions like the World Bank and the OECD.

Two further influences of more recent origin are also worth noting. Conflicts over DB surpluses that have gone to court have generally been resolved in favour of plan members. This has led to a sense of grievance in some quarters that employers who sponsor DB plans face downside risk with no chance of capturing upside gains; in the rhetoric of the day, they face asymmetric risk. This view leaves no room for the secondary shifting of risk noted above. Also, the financial problems faced by DB plans that were noted above have added to the attractiveness of DC to some employers while simultaneously accentuating their disadvantage for plan members.

While the trend to DC is clear and has many motivations, it is also a slow continuous trend, not an avalanche or a tidal wave. Moreover, there are some clear mitigating influences, not the least of which is union and plan member pressure. Also, to the extent that a pension plan is viewed as a means of attracting and retaining workers, a DC plan is less likely to be attractive to the growing number of older workers than is a DB plan. In addition,

pension benefit levels and retirement ages might both become more unpredictable. The first order effects of this will be felt by plan members, but there may be second order effects that will be difficult for employers such as people working later or retiring earlier than suits employers' purposes, or facing strong moral pressure to make up for poor pensions.

There is also a question whether DC plans will remain as simple administratively in the future as they have in the past. Canada's Joint Forum of Financial Market Regulators (a body that brings together pension, insurance and securities regulators) has recently issued guidelines on the operation of capital accumulation plans, by which the regulators mean any form of savings plan that employers operate for employees. The guidelines suggest that the providers of DC plans have significant responsibilities to plan members with respect to the range of investment choices that are available, and with respect to plan members' access to appropriate counselling (Joint Forum of Financial Market Regulators 2004).

As the term guideline suggests, these are voluntary. But they are not totally lacking in legal significance, as compliance (or otherwise) with the guidelines will likely be an issue in any civil litigation. It is noteworthy, too, that the guidelines, unlike regulatory law, are relevant to both group RRSPs and DC pension plans.

### **Overall assessment of the challenges in the third pillar and conclusions**

Workplace pensions play an important role in providing income to older Canadians. For Canadians 65 and over, whose situation has been the focal point of this paper, workplace pensions lift people from adequacy to comfort. Although it has not been documented above, workplace pensions also play an important role in facilitating retirement prior to age 65. Relative to C/QPP and OAS, workplace pensions tend to pay out more of their income prior to age 65.

It is equally clear that workplace pensions currently face severe pressures. This is especially true of the DB variety of

workplace pension plan. Given the role that workplace pensions play in the retirement income system, their overall contraction is less likely to manifest itself in more older Canadians with incomes below low income measures, than in fewer people stating that their standard of living is as good as it was during their employment. It will also be reflected in fewer people being able to retire comfortably before age 65.

There has been a tendency in some quarters to declare that DB pension plans are a thing of the past, at least in the private sector. This is clearly a huge exaggeration, although it does accurately capture a trend. That said, it is also worth noting that hybrids, which have long existed in the form of multi-employer pension plans and DC plans with DB guarantees, are now emerging in new forms. There are a number of quite large pension plans in the near public sector that have formal arrangements for sharing special payments, within limits, between employers and plan members. In addition, the Quebec Federation of Labour has called for the creation of employee-run DB plans under which plan members would make all special payments.

Clearly, the third pillar has been weakened, and there is a more broadly based vulnerability of retirement income in Canada than one would infer from policy discourse. Cries of calamity would overstate the case. However, the complacency about the adequacy of retirement incomes that dominates official policy discourse understates the case. In context, it is worth noting that two recent studies that have taken totally different approaches from each other and from this paper have reached the conclusion that as many as one-third of the future elderly may have inadequate incomes. Thus Schellenberg (2004) found that one-third of people aged 45 to 59 who were surveyed in the 2002 *General Social Survey* foresaw having inadequate income in retirement, and the same conclusion was reached in an analysis of the data on 45- to 64-year-olds derived from Statistics Canada's *Survey of Financial Security* in 2001 (Maser and Dufour 2001). Then again, as was noted at the outset, this is an issue that deserves some formal modelling.

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# **Chapter 21. The diversification and the privatization of the sources of retirement income in Canada**

by

Long Mo, Jacques Légaré and Leroy Stone<sup>1</sup>

## **Research question**

Between the mid-1970s and the mid-1990s, the number of the elderly living below the low income cut-offs in Canada has decreased considerably. The success of Canada in this connection has been well documented in recent years. OECD (2001) largely attributes this success to the combination of different sources of income at the time of retirement. However, there is a lack of thorough knowledge about the recent evolution of the sources of retirement income in Canada.

Baldwin and Laliberté (2000) as well as Myles (2000) have examined the evolution of the sources of income of the elderly Canadians between the middle of the 1970s and the middle of the 1990s. However, their studies have not treated two crucial phenomena, namely the diversification and the privatization of the sources of retirement income, phenomena whose importance has been recognized in recent years (OECD 2001, Yamada 2002, Mo 2003, Pedersen 2004).

The evolution of the sources of income of elderly must be studied by taking into account the historic context in which it has happened in Canada. The Canada Pension Plan (CPP) and the Quebec Pension Plan (QPP) were started in 1966 and the first cohort to receive full benefits of the QPP/CPP was 65 years old in 1976. Cohorts that have taken their retirement after this period have profited from the expansion of the private professional

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pension plans that were established between the 1950s and the 1970s. Consequently, the Canadian public and private pensions that are proportional to earnings have been in maturation, with the result that persons with pension rights have been increasingly numerous since the 1980s (Myles 2000). In addition, in Canada as in most of the developed countries, the reform of pensions, initially due to financial pressures associated with demographic aging, has resulted in a recombination of the elements of the retirement income system (Goodin and Rein 2001).

Regarding the elderly themselves, the period since 1980 is one in which the proportion of those who are pre-retired is rising. In addition, there has been a rapid increase of their longevity, an unprecedented phenomenon. These circumstances should always to be kept in mind when one studies the evolution of composition of retirement income over the period.

The present study aims to contribute to the furtherance of knowledge on this subject by helping to fill the above-mentioned gaps. Our research covers the period 1980 to 2002 and addresses the following question: to what extent have there been a diversification and a privatization of the sources of retirement income in Canada? We pose this question as much at the level of the totality of the older population as at that of two particular sub-populations, who are the older women living alone and the older immigrants. The latter are persons that have immigrated to Canada at various ages and that are now elderly. The older women living alone are traditionally seen as belonging to the more vulnerable groups among the elderly (OECD 2001).

As for the older immigrants, they often have a less complete and more precarious professional careers than native-born Canadians. According to a study of Statistics Canada (2004), earnings of the new immigrants in Canada have deteriorated during the 1980s and 1990s. Another recent study shows that in Québec the older immigrants of 45 to 54 years had in 2001 a lower income than the average of the population of the same age, but also that their income has deteriorated significantly by comparison with immigrants of similar age in 1981 (Mo and Légaré 2005). It follows that immigrants will form part of the vulnerable groups of the elderly of tomorrow, a result of the growing prevalence of

defined contribution pension plans, and of the establishment of a closer correspondence between benefits received and contributions made, the latter depending on occupational earnings. The evolution of the composition of retirement income of the persons of these two groups is, therefore, going to attract our attention.

## Context

For humanity, the economic protection of the elderly is a subject of constant interest. However, in the context of population aging and the transformations of the labor market, the situation in this connection has become, during our days, increasingly worrisome to the point that one speaks of a “geriatric crisis” (World Bank 1994), of “retirement in peril” (Bichot 1999), and of the “insecurity of retirement” (Wolff 2002).

After the Second World War, especially during the last three decades, the elderly living in developed countries have considerably improved their standard of living, thanks to the installation of social protection systems. However, given the large number of persons that take an early retirement, the increase of longevity, the risk of future shortages of labor and, especially the major arrival to the age of retirement of the generations of the Baby Boom, the financial pressure on social protection systems grows considerably and the security of income of the future retired is called into question. Such a situation is of great concern to scientific researchers and policy makers, as well as the general public.

Even if the sources of retirement income are not a new subject, the importance of studies in this connection has attracted the attention of researchers and of policy makers.

For the first time in 1986, Rein and Rainwater proposed the concept of “income package” (Rein and Turner 1997:101). In contrast with the notions of life-cycle that are centered on intergenerational relationships, that of the income package deals primarily with the evolution of the economic role of the State as regards the various sources of income. These two approaches focus on different aspects of income, but they are linked and

complementary. From its appearance, this innovative concept has been applied widely in studies on problems relative to incomes of the elderly.

With this approach, Rein and Turner (1997) have examined the historical evolution of the composition of retirement income, while casting light on the roles of work, the family, the State and of the market in the security of the income of the elderly. They have demonstrated that the evolution in this connection has been marked historically by the following three stages: the first corresponding to the development of the welfare state (between years that preceded the first world war and the years after the second), the second corresponding to the focus of its primary role in the strategy of protection (occurring towards the 1960s), and the third comprises the emergence of diversification. This third stage is of central importance, according to the authors; because it represents a guarantor of the security of retirement income in the context of population ageing. Diversification leads to a reduction in the role of the State, on the one hand, and to major transformations of family and labour market, on the other hand.

With an in-depth analysis based on comparable data, a recent study of OECD (2001) has confirmed the hypothesis stated above. According to this study, several OECD countries have reacted in recent years to the increase of the demographic and budgetary pressures by modifying the combination of the sources of income at the time of retirement and, especially, by the establishment of a balance between the public and private benefits, as well as between the defined benefit systems and the defined contribution systems, in their pension regimes. Public pension regimes are revised downward in order that the budgetary pressure is lessened and that a greater place is left to the financing of occupational pension plans and personal retirement savings plans. At the same time, public authorities have intervened, at least in their words if not in reality, to diversify the passage from economic activity to retirement and to lessen the tendency toward early retirement. Consequently, the income package of the elderly has changed markedly. Yamada (2002) believes that this change is even more important than that of the level of income.

Some results of the major research concerning the diversification of the sources of retirement income deserve our attention:

- (1) Many studies have found that poverty among the retired is often linked to a limited number of sources of income. Low-income retirees count mainly, perhaps solely for some of them, on social transfers (Rein and Turner 1997, Disney et al. 1998, Baldwin and Laliberté 2000, Smeeding 2001, OECD 2001, Yamada 2002).
- (2) The diversification of resources has been, in the course some periods of history, an important strategy of adaptation used by the elderly to preserve their living standard (Rein and Turner 1997).
- (3) Currently, analyses demonstrate that the diversification of the sources of income favors both the adequacy and the security of income at the time of retirement (Rein and Turner 1997, Yamada 2002). OECD (2001) has also underlined the importance of a greater diversification of the sources of income at the time of retirement.
- (4) As an example of the importance of diversification, OECD (2001) has cited the example of Canada. This country passed, between the middle of the 1970s and that of the 1990s, from the one with of the lowest rate of income replacement for the retired, among the nine countries studied by OECD, to the one with the highest rate. Indeed, one finds that, among nine examined countries, not only is Canada the country where the income of elderly low income persons increased the most rapidly during the studied period, but equally one of the countries where the relative weight of investment income among the elderly has increased the most. It should be remembered, however, that Canada has harvested the fruit of the setting-up, in decades preceding the 1980s, various forms of investment to ensure that the sources of retirement income are diversified.

## Method

The analysis of retirement income should take into account at the same time the individual and her family. If only the family whose head is elderly is considered, as is sometimes the case in

the literature, some of the elderly are omitted – for example, those that reside in a family whose head is not elderly, On the other hand, the analysis that takes only individuals into account ignores the fact that some sources of income are shared among members of the family and that there exists economies of scale. It is not necessary for a six-person family to have twice the income of a family of three persons in order to have the same living standard.

In the present study, we use the concept called “individualized income based on the economic family”. This concept allows one to examine the income of the elderly, those aged 65 years and more, by taking account both the sharing of income inside the family and of the economies of scale. The economic family includes all persons sharing an accommodation and who are related by blood, marriage or adoption.

To calculate the individualized income in terms of that of the family, we use the square root of the scale of equivalence. We divide the family income by the square root of the size of the family in question, rather than by the actual size of this family. As an example, for a family of four persons that has an income of \$40,000, the value of the individualized income is, for each member of this family, \$20,000 ( $40000/\sqrt{4}$ ) instead of \$10,000 ( $40000/4$ ). It is a commonly used approach (Yamada 2002), although it is arbitrary.

If one chooses other equivalence scales, for example that of the “central variant” that attributes a weight of 1.0 to the first person of the family and 0.4 to each supplementary person, the observed individualized incomes are different. However, the influence on results of the analyses done in the present study would not be great.<sup>2</sup>

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2. The OECD (2001) and Yamada (2002) demonstrate that there is no major difference in the international comparison of sources of revenue among senior citizens when the different scales of equivalence are applied. Using microdata files from SLID in 2002, we have calculated the proportion of each source in the incomes of persons aged 65 and older, using both kinds of equivalence scale cited above. The differences between the calculated results are not significant.

This approach of adopting the “individualized income based on the economic family” is appropriate for an analysis like ours concerning the economic well-being of the elderly (Atkinson, Raiwater and Smeeding 1996, Yamada 2002). The underlying hypothesis is that the elderly who live in high-income families enjoy a better quality of life compared to that of the elderly living in low-income families, regardless of who earns this income. It is possible, consequently, that the income of the elderly includes the income received by other non-aged members of the family, for example the income from work earned by an adult child. It will be necessary to take this into account when interpreting the results of analysis.

Given the objective of the present study, we use the available income, namely the income after tax. In principle, we classify the available income of the elderly into the five following sources of income:

- (1) Net governmental transfers, that is to say the totality of the governmental transfers received less taxes. (Governmental transfers include benefits of the Old Age Security (OAS) and of the Guaranteed Income Supplement (GIS)<sup>3</sup>).
- (2) Benefits from the Canada Pension Plan (CPP) or from the Quebec pension plan (QPP).
- (3) The income arising from private pension regimes, including mainly benefits of employer pension plans and of Registered Retirement Savings Plans (RRSP).
- (4) The returns on investment, including the returns of dividends, interest and rent.
- (5) Income from work.

This division of the sources of income reflects the structure of the system of retirement income in Canada, which is considered a system with three pillars (HRDC 2001). The two first sources include all relevant government programs and represent,

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3. This way of proceeding is not ideal when taking into account the part of individuals' retirement income that comes from government. In effect, the government spends resources on older people but also receives a portion back in taxes. Subtracting one from the other for net transfers is related more to the preoccupations of the government who provides retirement income.

respectively, the first and the second pillars of the system of retirement income. The rest constitutes the third pillar. (To ensure comparability, values of income of all years are expressed in constant dollars of 2002.)

### **Sources of data**

In order to reply to the research questions, we have used a series of data that come partly from Survey of Consumer Finances (SCF) of Statistics Canada for years 1980, 1985 and 1990, and partly from its successor, Survey on Labour and Income Dynamics (SLID), for years 1996, 2000 and 2002. These two surveys represent, for the studied period, the sole sources of data on retirement income that provide details about sources of pensions in Canada (Statistics Canada 2000).

It should be noted, however, that the data of these two surveys are not exactly similar. Since 1998, SCF has been replaced by SLID, which began in the year 1993. Two studies have confirmed that SCF and SLID agree well for the period 1993 to 1997. This is the period when these two surveys were both conducted (Statistics Canada 1999; 2000). However, data on sources of income have not been analyzed in these two studies.<sup>4</sup>

### **The composition of the income of the elderly**

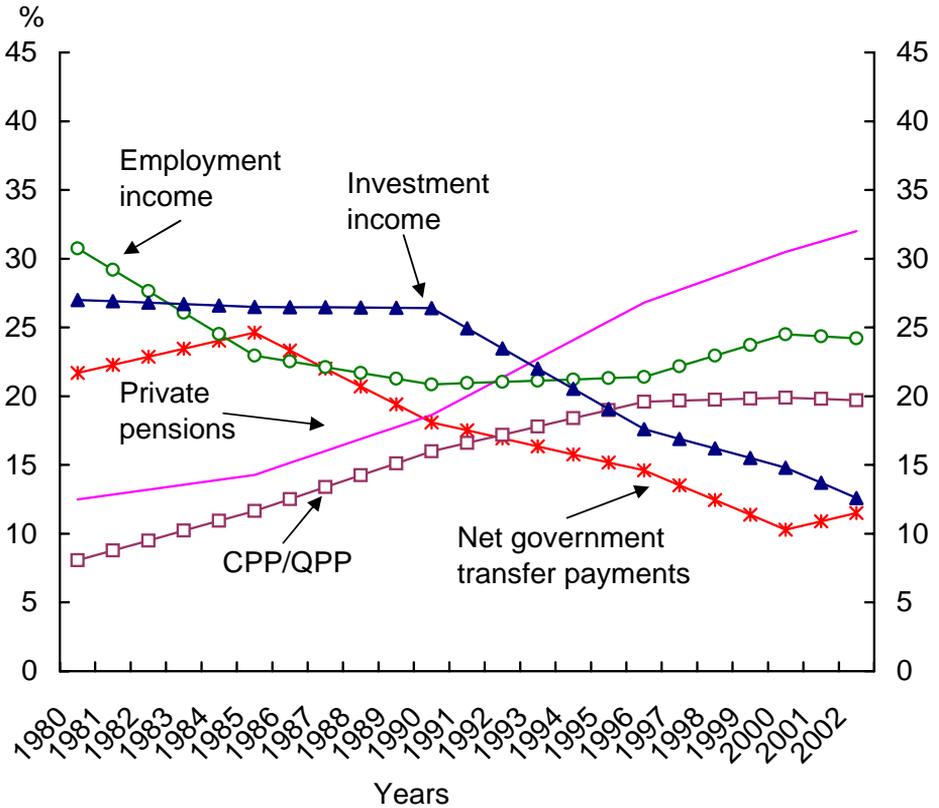
Before passing to the previously presented research questions, a review of the main trends in the composition of the income of the elderly is useful.

From the 1980s until the beginning of the present century, the composition of the income of the Canadian elderly has changed considerably. The importance of each of the five sources studied, within the totality of the retirement income, has notably changed. Here are some key findings (see Chart 21.1):

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4. See Mo (2005) for a more in-depth study of the differences between the data of the two studies and the nuances in the analysis.

**Chart 21.1: Evolution of the distribution of income by source, population aged 65 and over, Canada, 1980 to 2002**



Source : Data compiled by the authors from the SCF (1980, 1985, 1990) and the SLID (1996, 2000, 2002) micro-data files of Statistics Canada. Data for other years come from interpolation.

(1) The financial dependence of the retired on governmental transfers has declined<sup>5</sup>. The share of net governmental transfers has decreased from 21.7% in 1980 to 11.5% in 2002. The decline has taken place mainly over the period from the middle of the 1980s to the end of the last century.

5. The observed loss is in large part linked to our definition of net transfers (see note 3). In Myles (2003), there is smaller difference from 28.7% in 1980 to 27.4% in 1995. It is also important to note that according to the classification of revenue sources used in the present study, governmental transfers do not reflect public pensions (CPP/QPP).

- (2) The share of the public pensions (CPP/QPP) has grown from 8.1% in 1980 to 19.6% in 1996, and then has stabilized until near 2002.
- (3) The marked increase in the share of private pensions is well known, passing from 12.5% in 1980 to 32.0% in 2002.
- (4) The share of investment income has fallen from 26.5% during the 1980s to 12.6% in 2002.
- (5) Over the whole period, the share of employment income has been in decline, from 30.8% in 1980 to 24.2% in 2002. However, this decline took place mainly during the first half of the 1980s, since this share increased from that time to the end of the 1990s.

The evolution of the proportion of employment income reflects the tendency of the elderly to take an early retirement in the 1980s. However, this trend was reversed by the end of the 1990s. In the beginning of the 1980s, employment income was the largest among all five studied sources, but this position has been ceded to income from private pension regimes since mid-1990s. Such an evolution can also reflect other factors such as the growing weight of the more elderly persons (75 years and older) who do not participate in the labor market, or a decline of the number of hours worked among those older than 65 years.

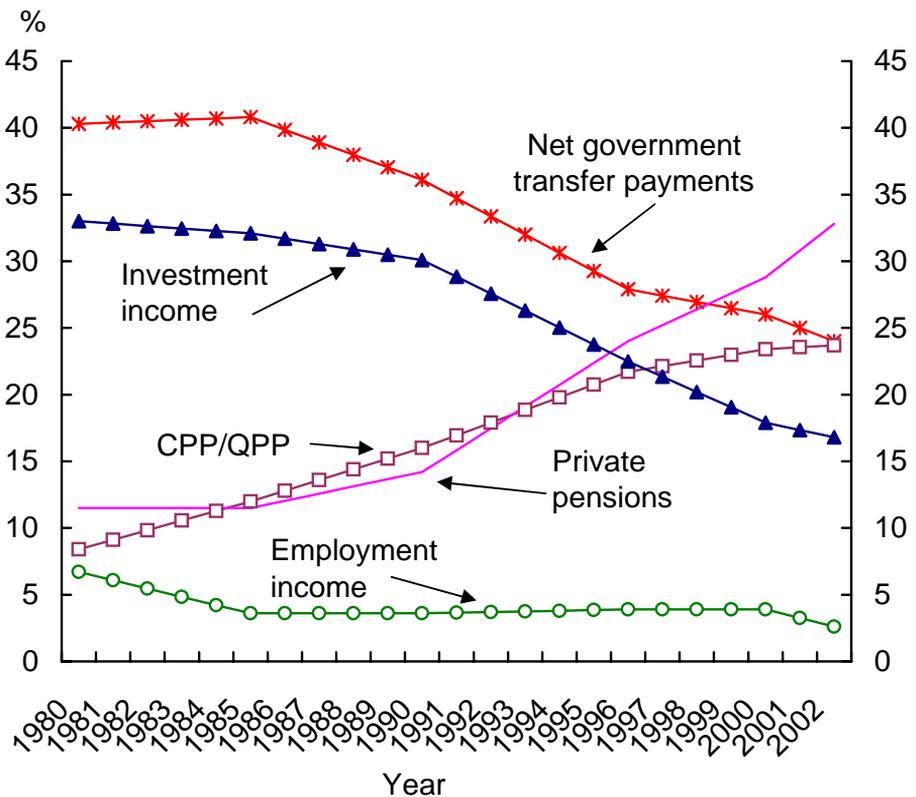
The recent trends deserve careful attention. If the proportions of private pensions, of the CPP/QPP and of investment income have maintained their past trends since the year 1996, that has not been the case for the two other sources. After having had a rebound, the share of employment income resumed its decline between 2000 and 2002. Also, after a decline during 15 years, the share of net governmental transfers has increased notably since the year 2000. Whether these are cyclical phenomena or they new trends that could be linked to the maturation of some programs is an issue to be addressed in future studies.

As mentioned earlier, it is useful to examine the situations of two sub-populations that are often considered the most vulnerable – namely, older women living alone and older immigrants. Then, we pass to a brief examination of the situations of these two groups in connection with the evolution of the sources of income.

Overall, the tendency of the evolution of the sources of income of older women living alone is similar to that observed for the totality of the elderly population during period 1980 to 2002. The share of governmental net transfers and that of investment income have decreased, while the share of public and private pensions has increased. The share of employment income has been in slight decline (chart 21.2).

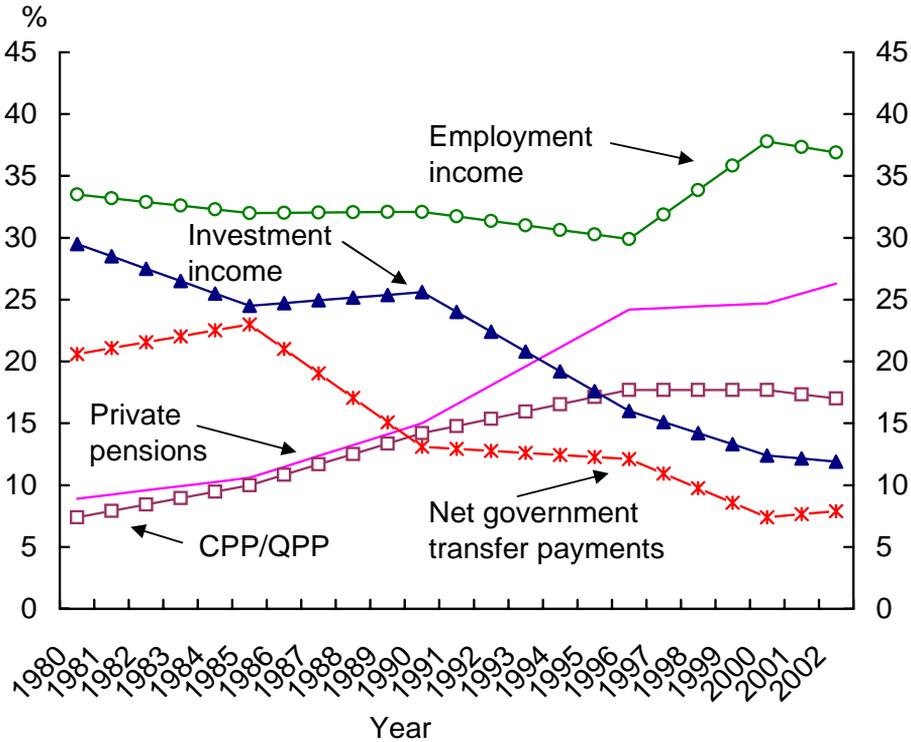
The importance of each source for older women living alone has changed markedly. During the 1980s, older women living alone depended mainly on governmental transfers and on investment

**Chart 21.2: Evolution of the distribution of income by source among single women aged 65 and over, Canada, 1980 to 2002**



Source : Data compiled by the authors from the SCF (1980, 1985, 1990) and the SLID (1996, 2000, 2002) micro-data files of Statistics Canada. Data for other years come from interpolation.

**Chart 21.3: Evolution of the distribution of income by source among immigrants aged 65 or older, Canada, 1980 to 2002**



Source : Data compiled by the authors from the SCF (1980, 1985, 1990) and the SLID (1996, 2000, 2002) micro-data files of Statistics Canada. Data for other years come from interpolation.

income (73.3% in 1980). However, this is no longer the case. Not only governmental transfers but also pensions play an important role, their shares totaling more than 80% in 2002. It is notable that this segment of the older population has benefited markedly from the maturation of the systems of public and private pensions during the period studied.

As regards the situation of older immigrants, in contrast with the general situation of the elderly, employment income has always constituted the main source of income of this group from the 1980s until 2002. Moreover, this source has always been much larger than the one that occupies second place. Also notable is the finding that the older immigrants' dependence on employment income has had a tendency to grow markedly since the year 1996.

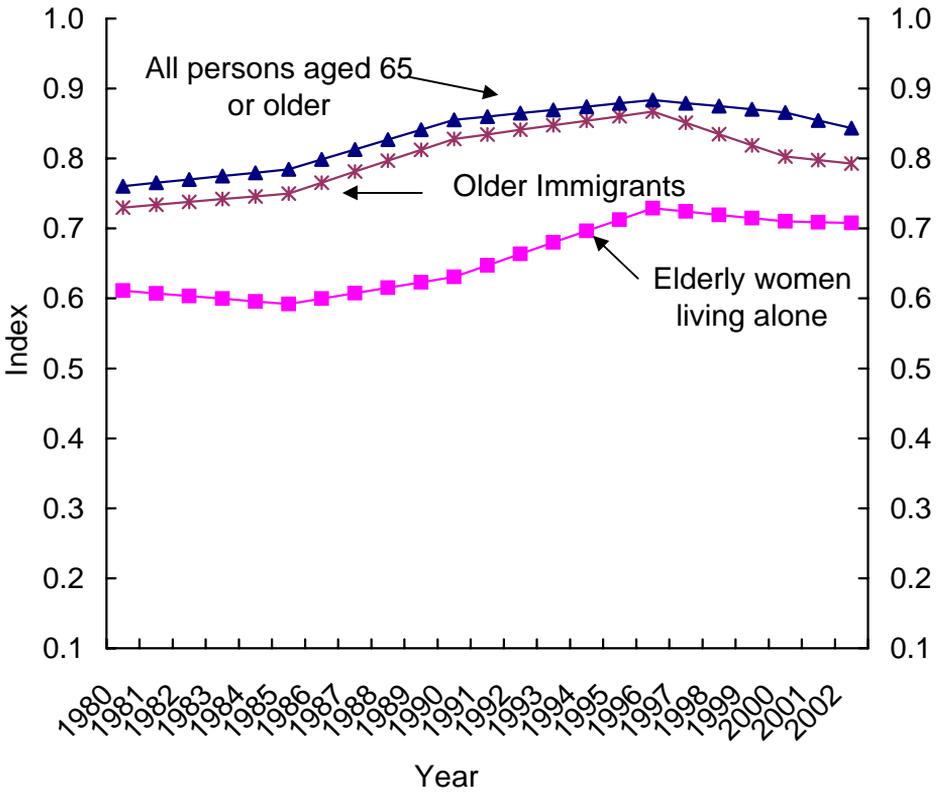
As is true of the elderly population, the share of investment income, and that of governmental net transfers, have decreased during period 1980 to 2002 among older immigrants. On the other hand, the shares of public and private pensions have increased. Nevertheless, we observe that the effect of the expansion of public and private system pensions is not as strong among older immigrants as for all the elderly. In other words, it seems that as regards financial security in old age, immigrants profit less from the maturation of public and private pension systems.

### **The diversification of the sources of income of the elderly**

According to a study of OECD (2001), to the extent that the share of public pension programs decreases under the pressure of the aging of populations, other resources should be substituted, otherwise the financial situation of the elderly would deteriorate. In Canada, if the share of public regimes has decreased, that would not, until now, be due to a reduction of public pensions linked to population aging. Instead, it would reflect the gradual maturation of private pensions. The privatization of the sources of income of the elderly cannot then be seen as a disengagement of the State from the area.

The past studies of diversification have often been limited to theoretical or qualitative research. In the present study, we make a quantitative analysis of this phenomenon in Canada, by using an index of the diversification of the sources of income (IDSI) (see chart 21.4), which is defined in Appendix E. In general, given a classification of sources of income, the more the sources are diversified, the greater is the value of the IDSI. For example, in the case where one classifies income into five sources, as in the present case, IDSI equals  $1/5$  for the person whose income concentrates in one source only. On the other hand, it is equal to one if the income of the person is equally distributed among the five sources (that is to say that the income from each source represents  $1/5$  of the total income). In reality the value of IDSI is situated between these two extreme cases, the IDSI varying thus between 0.2 and 1.

**Chart 21.4: Index of diversification of the sources of income of elderly persons, Canada, 1980 to 2002<sup>1</sup>**



1. See Appendix E.

Source : Data compiled by the authors from the SCF (1980, 1985, 1990) and the SLID (1996, 2000, 2002) micro-data files of Statistics Canada. Data for other years come from interpolation.

First, we confirm the arrival of “the era of the diversification of retirement income” in Canada since the 1980s. The IDSI has increased steadily from 0.760 in 1980 to 0.884 in 1996 for the total elderly population. Between years 1996 and 2002, the IDSI has seen a slight decline; but it has remained above the level of 0.84. Thus, in general, the elderly Canadians have had a tendency to have a better balance among the said five sources of income.

The dynamics of the diversification involves a recombination of financial resources that leads to a quasi-balance among the various elements of the system of retirement income. Since the 1980s, the elderly rely more than ever on their public and private pensions, which decreases the dependence on income from work, on investment income and on governmental transfers.

Our results run counter to the perception that the diversification of the sources of income has affected only the high-income elderly (Yamada 2002). In Canada, the diversification of the sources of income has happened among the elderly of all the quintiles of income<sup>6</sup>. If we compare levels of the IDSI between the 1980s and 2002, we observe that the rate of increase of the IDSI between 1980 and 2002 is 21.7%, 32.1%, 6.9%, 1.2% and 13.0% for first (lowest income), second, third, fourth and fifth (highest income) quintiles respectively (Mo 2005). This finding shows that, in a sense, the speed of the diversification is even more rapid among the low-income elderly, although the level of diversification is generally lower among them.

Thus, on the average, the low-income elderly counted traditionally on a lower number of income sources to ensure their standard of living; but the situation has improved in recent years.

The diversification has also happened among older women living alone. Twenty years ago, this group of older population depended mainly on the governmental transfers and on the investment income. As they diversify sources of income, they depend more on their pensions. Being always lower, and by far, than the average for the totality of the elderly, the IDSI of the older women living alone has increased from 0.592 in 1985 to 0.729 in 1995, and then it has been in slight decline to reach 0.708 in 2002.

On the other hand, both the level and the speed of the diversification of the sources of income of the older immigrants have been close to those of the totality of the elderly. The IDSI of the older immigrants has increased from 0.730 in 1980 to just

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6. It is important that the two notions of “diversification” and the “level of diversification” are clearly distinguished. According to the IDSI, the first is interpreted as the amount of the IDSI, and the second is measured by the level of the IDSI.

above 0.867 in 1996. However, reflecting the constant importance of the workers' earnings among older immigrants, the IDSI has then been in decline since 1996, to reach 0.793 in 2002.

### **The privatization of the sources of income of the elderly**

It has been observed that as a result of the remarkable expansion of defined contribution pension plans, the proportion of the income of the retired arising from private sources has increased markedly in the USA. This phenomenon of the privatization of the sources of retirement income also seems evident in some other industrialized countries, and it increasingly attracts the attention of researchers (Pedersen 2004). In most of the industrialized countries, and in Canada especially, defined contribution pension plans will be found especially among the younger generations, in contrast with the current pensioners being studied here.

There is no indicator that is accepted unanimously to measure the phenomenon of privatization of income sources. For the purposes of our study, and given the characteristics of the system of retirement income in Canada, we use two indicators to measure the privatization of the sources of income in retirement: (1) the proportion of private pensions in total income, and (2) that of total income arising from private sources (that is, the income available minus the governmental net transfers).

One can debate for long whether the CPP/QPP should be allocated to the private sources of income, or should be treated as governmental transfers. We consider them as belonging to private pensions because CPP/QPP consist essentially of payments related to past employment income, although they also include some governmental transfers and they are administered by the agents of the State.

Our results reveal that whatever be the proposed indicator, sources of income of the elderly are increasingly from the private

category in Canada during the period from 1980 to 2002<sup>7</sup>. This phenomenon constitutes an important characteristic of the evolution of the composition of retirement income during the last twenty years.

Let us examine first the proportion of the available income that arises from private sources (that is, the income available less the governmental net transfers). This proportion has increased steadily during the last fifteen years of the 20th century among older Canadians, passing from 75.4% in 1985 to 89.7% in 2000. It was at 88.5% in 2002, well above the figure of 78.3% for 1980.

According to this indicator, the sources of income have been also increasingly privatized among the older women living alone, as well as among older immigrants during the period from 1980 to 2002. The proportion of income arising from private sources reached 76.0% in 2002 among older women living alone and 92.1% among the older immigrants (Table 21.1).

If one adopts another indicator, namely the proportion of private pensions, the privatization of the sources of income of the elderly is shown more clearly. There is also a new phenomenon – the proportion of private pensions has grown sharply, from 12.5% in 1980 to 32.0% in 2002. While the proportion of income coming from the private sources increased 13.0% from 1980 to 2002, the proportion of private pensions increased far more rapidly, the increase reaching 156.2% during the same period. Whatever is the chosen indicator between the two proposed measures, the privatization of sources of income has been stronger among the older women living alone and among the older immigrants than is the case among the totality of the elderly.

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7. Mo (2005) examined the privatization of the sources of revenue of elderly persons aged 65 years and older in Canada by calculating another measure of the phenomenon, according to which the CPP/QPP are not considered as a private source in view of the fact that they include government transfers. Using this measure, a different conclusion is reached, resulting in privatization that only affects older people in the second and third quintiles in 1980-2002. When it comes to privatization for all older persons, it is only observed during the period 1985-2000. This shows, concretely, the sensitivity of the results concerning the emergence and intensity of privatization to the choice of the measures of the phenomenon.

**Table 21.1: Two indicators measuring the privatization of the sources of income for persons aged 65 and over, for all elderly persons and for two specific groups, Canada 1980 to 2002**

	1980	1985	1990	1996	2000	2002	Increase 1980 to 2002
Share of income that comes from private sources (%)							
All elderly persons	78.3	75.4	81.9	85.4	89.7	88.5	13.0
Women living alone	59.7	59.2	63.9	72.1	74.0	76.0	27.3
Immigrants	79.4	77.0	86.9	87.9	92.6	92.1	16.0
Share of private pensions (%)							
All elderly persons	12.5	14.3	18.6	26.8	30.5	32.0	156.2
Women living alone	11.5	11.5	14.2	24.0	28.8	32.8	184.4
Immigrants	8.9	10.6	15.0	24.2	24.7	26.3	193.9

Source : Data compiled by the authors from the SCF (1980, 1985, 1990, 1996) and the SLID (1996, 2000, 2002) micro-data files of Statistics Canada.

## Discussion

How can retirement systems remain viable in the future without putting in peril the security of the income of the retired? According to a recent study of OECD (2001), among many policy issues related to this subject, the following three are crucial: (1) how to encourage delayed departures to retirement, (2) how to better balance resources related to retirement, and (3) how to ensure an adequate income to the elderly, including those in vulnerable sub-groups.

As a key solution to the economic problems arising from demographic aging, the World Bank extolled in 1994 an approach of multiple pillars for systems of retirement income: a non-funded and obligatory pillar, a funded obligatory pillar, and an optional and private pillar (World Bank 1994). Other international organizations, such as International Labour Organization (Gillion et al. 2000) and International Social Security Association (Hoskens et al. 2001) have participated in debates on this proposal. Despite divergences of view in the beginning, opinions have converged and, in practice, the tendency to a system of multiple pillars has characterized the reform of retirement systems since the 1990s (Queisser 2000, World Bank 2001).

OECD considers, from its perspective, that the diversification of the sources of income at the time of retirement is an important objective to be achieved in order to ensure the security of income of the retired. Supplementary earnings obtained by working until a more advanced age can be an element of this diversification. The increased recourse to private pensions and to programs of individual retirement savings is another. To diversify sources of retirement income, there is a need to modify the combination of the elements of the systems of retirement income, by establishing a balancing between the public and private pensions, between pay-as-you-go and funded systems, between the defined benefit and defined contribution systems. If the proposal of the World Bank emphasizes the concept of regimes, that of OECD is centered on the combination of the sources of income of the retired. The two envisage the same goal – diversify sources of income of the retired by establishing a network of regimes to guarantee retirement income.

In decades to come, systems of retirement income will be exposed to many risks. The most threatened are persons who have had an incomplete professional career (and who thus have an insufficiently long period of paying contributions to retirement income systems); for example, persons that have been intermittent wage earners, that have been hired through atypical contracts, that have temporarily been self-employed, who have experienced long-duration unemployment, or who have never worked.

The appearance of the new vulnerable groups is not the only problem. There exists among the retired subgroups that

have always been in a precarious situation, for example, the very aged persons, especially women, living alone. According to recent estimates, the number of the elderly aged 80 years and more (even that of centenarians) will rise sharply in the coming decades (United Nations 2003), while the fraction of women who will age as divorced or single persons will increase considerably (Smeeding 2001).

The security of income at the time of retirement has been examined by many studies, and has been at the core of the reform of retirement income systems. Nevertheless, important gaps in knowledge persist. More analysis of the long-term perspective is needed. Because the full effect of the reform of retirement systems can be felt only in the distant future, such a long-term perspective is indispensable to reduce the risk of putting in place policies that could become impracticable politically or unbearable financially (Bichot 1999, OECD 2001, Wolff 2002).

## **Conclusion**

The present study confirms the major evolution of the composition of income of the Canadian elderly during period 1980 to 2002. While Canada's success in improving the adequacy of retirement income is important and recognized, our study shows that this success is associated with a major evolution of the distribution of sources of retirement income.

Elderly Canadians have been found at the end of this period with radical changes in the distribution of their income by source. Their main source is no longer income from work. That place has been taken by income coming from the private pension regimes. In the beginning of the 1980s, the elderly counted mainly on income from work and from investments, but now they rely mainly on pensions and governmental transfers.

The diversification and the privatization of the sources of income, two trends that characterize the evolution of the composition of income at the time of retirement, have happened in all the quintiles of income, and among both older women living alone and older immigrants; although the intensity of the phenomenon varies from one group to the other.

As a result of these trends, public pensions and especially private pensions have increased in importance, and the dependence on governmental transfers has been reduced. In sum, the elderly count today on improved balance among various sources of income.

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## **Chapter 22: Additional topics for future research<sup>1</sup>**

by

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Chapter One of this book advocates the development of an awareness of the variety of ways in which the institution of retirement is changing in the twenty-first century. This closing chapter calls attention to some key aspects of the changes that were not focuses of the discussion in the preceding chapters.

The text that follows will consider the following topics: the problem of unfunded liabilities and other major pension plan issues, preparedness of the population to shoulder an increased level of personal responsibility for adequacy of income in retirement, workplace environments of older workers, and the linkages of retirement with other important later-life transitions. All of these topics received some mention in the preceding chapters; but the systematic commentary they deserve is missing.

### **Unfunded liabilities and other major pension plan issues**

A recent Consultation Paper of Finance Canada states that

“In recent years, there have been growing concerns that defined benefit pension plans have had to deal with adverse market conditions, funding deficits, legal rulings creating uncertainty, some lack of clarity regarding pension rights under insolvency and questions regarding the impact of pension accounting rules. ... [although] the current situation [is] stable and manageable.” (Finance Canada 2005)

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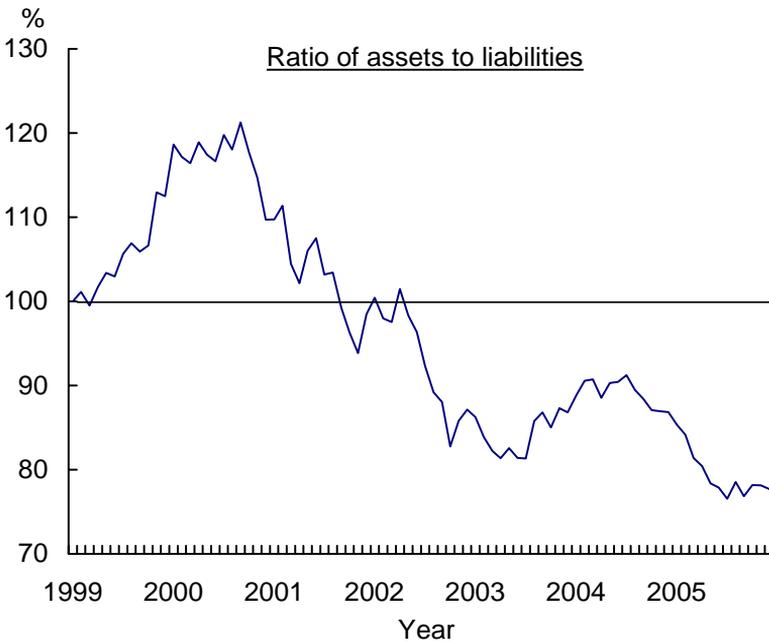
1. The authors thank the peer reviewers for their contributions to improving earlier drafts of this chapter. The comments of Brigitte Neumann and all the co-editors of the book were especially helpful. Assistance from Harpreet Kaur Randhawa is gratefully acknowledged. All opinions and errors herein are our sole responsibility.

The Conference Board of Canada adds that:

“Corporate Canada confronts a pension crisis. ... despite several years of economic upturn and robust stock market returns, as well as catch-up payments made by many plan sponsors, the country’s defined benefit pension plans remain substantially underfunded. As of May 2005, the average defined benefit (DB) plan was only 85% – funded — a sharp drop from over 110% – funded five years earlier.” (Conference Board of Canada 2005a)

The Mercer Canadian Pension Health Index provides a monthly measure of the impact of economic market conditions on the solvency position of a typical, unindexed Canadian pension plan. The chart 22.1 shows the index from January 1998 to mid-2005.

**Chart 22.1. Mercer Pension Health Index, Canada, 1995 to 2005**



Source: Mercer Human Resource Consulting. Pension Commentary - October 2005.

“The ... Index shows the ratio of assets to liabilities for a model pension plan. The ratio has been arbitrarily set to 100% at the beginning of the period. The Index assumes contributions equal to current service cost and no plan improvements.” (Mercer Human Resource Consulting 2005)

The Index had a strong upward trend throughout the late 1990s. However, during the year 2000 the ratio began to fall after achieving a maximum index of approximately 120%. It descended below the 100% level in 2001. The index continued a downward trend until 2003, where it appears to have stabilized between 80% and 90%.

In the USA, the funding problems faced by defined benefit pension plans have received much attention. In recent testimony presented to the Committee on Finance of the United States Senate, the Director of the Congressional Budget Office (CBO) states that: “At present, the underfunding of defined-benefit pension plans is a pervasive and sizable phenomenon. PBGC estimates that the vast majority of plans are currently underfunded to some degree.” (Holtz-Aiken 2005)

In addition to the impact of recent changes in the financial markets, a new demographic force has complicated the picture. Actuarial calculations are based on average life expectancy, and with longer life expectancy, pensions will be paying out income for longer than expected. The effect of this improvement in life expectancy will be compounded by the huge size of the Baby Boom generation. Thus, declining investment returns coupled with key demographic changes are creating unprecedented challenges for employer pension plans.

The response to these challenges has tended to focus upon technical topics concerning the operations of the defined-benefit (DB) plans. These include accounting and actuarial assumptions, insurance for pension plans, disposition of pension surpluses, response to company bankruptcies or other threats to pension plan defaults, etc. (see Holtz-Aiken 2005, Grillo 2004, and Schroeder 2005).

However, two topics in the area of institutional behavior also merit attention. The population is increasingly confronted with a mix of DB and defined-contribution (DC) plans, and many families will rely upon incomes from both kinds of plans for many years into the future. (See Holtz-Aiken 2005, and Finance Canada 2005, Table 2.) Corporate and employee behavior, as well as attitudes, concerning the choice between these kinds of plans deserve more data-gathering and analysis.

A related topic is the extent and quality of information disclosure to employees made by plan sponsors concerning the status of the plans relative to funding and liability issues. How many plan members actually are provided with this kind of information regularly? In what kinds of plans, industries and occupations is the flow of this kind of information very good (at one extreme) or very poor (at the other extreme)? In the USA, this issue has been highlighted by Holtz-Aiken as follows:

“The transparency of the risks within the defined-benefit pension system is another important consideration. . . . The current pension system does not do a very good job of providing the kind of information that would be helpful to investors and plan participants as well as to policymakers and taxpayers. . . . In many cases, companies use a higher interest rate to calculate their plans’ liabilities for corporate financial reports than they use to report liabilities to government agencies or to the plan’s participants. The higher discount rate makes pension liabilities appear smaller to those who use annual reports to value companies on the basis of their assets and liabilities.” (Holtz-Aiken 2005)

### **Preparedness to bear a new level of personal responsibility for adequacy of income in retirement**

Even when employees are provided with adequate information concerning their pension plans, whether they have been well prepared to understand key technical aspects of that

information is an issue. This brings up the following general questions. To what extent are workers prepared to shoulder an increased level of personal responsibility for adequacy of income in retirement? What are the distributions of the amount and of the quality of this personal knowledge in the adult population, and in what key population subgroups do these aspects of the knowledge (amount and quality) exist at a high level, or, in contrast, at a low level?

These questions have been mentioned, at least indirectly, in the chapters of Baldwin, Rein and Townson. And they emerge as central issues in the context of the on-going mutations of the social institution of retirement, which were discussed in the Chapter One.

The importance of these questions arises in part because of a trend that has been highlighted at various points in this book. As employers move away from defined benefit pension plans, while offering employees access to defined contribution plans and Group RRSPs, they send to employees the implicit message that they are now in charge of their own financial futures. A rising proportion of non-standard jobs also serves to send that message to the population. The message is further reinforced by the state when it increasingly limits its distribution of after-tax transfer income to those who are manifestly in need of income support to purchase basic necessities and who have resided in the country for a minimum period measured in decades.

Thus, today's workers, including all generations in the workplace, face a new challenge. Their challenge is to gain a better understanding of how to plan financially, and then to actually do something about it. And doing something about it means understanding how government pensions work, what kinds of pension or retirement savings plans they have or can join, what risks are associated with these plans, what is the financial health of any plan of which they are a member and how to effectively manage personal savings, not to mention debt.

The good news is that there are a number of factors that should have a positive impact on the preparedness of today's workers to take charge of their own financial futures. Average educational levels, for example, are higher than ever. Financial

planning is complex and technical. The better educated the individual, the greater the potential for good choices and planning to take place.

Secondly, most Canadian workers are aware of the government vehicles available to them for tax-deferred savings because these programs have been in place for several decades. It would be difficult for a modern worker not to know about these programs given the kind of promotion surrounding them in the early months of each calendar year.

Thirdly, studies, mostly out of the U.S., have documented the fact that many boomers plan to work after they begin receiving retirement-related income, thus generating income that will supplement pension income. Many of these boomers say that they will work because they want to, not because they have to.

Fourthly, more households than ever before will experience retirement income from two former workers, not just one. Women in large numbers will be retiring with pension incomes, albeit not as large as those of their male counterparts as noted in Townson's chapter. In these households, knowledge of financial planning, priority setting and actual savings decisions are being shared. In theory, this should increase the likelihood that sound financial decisions will be made in general and in relation to retirement in particular.

Lastly, the generations coming after the boomers understand perhaps better than any other workers that they are in charge of their own careers and their own financial futures. They know that their employers have re-written the implicit social contract about the exchange of loyalty between employer and employee. More than previous generations, they will move from job to job and in and out of the workforce with quality of life a high priority. Many are also aware of the importance of financial security, having lived through the corporate and government downsizing in the 1990s, or having been bystanders relative to their parents' experiences.

Despite the tendency of the factors just cited to facilitate adequate preparedness to do personal financial planning, there remain important questions that need to be raised. Will the

pre-retirees of today and tomorrow adequately prepare in order to make the right decisions in taking charge of their own financial futures? To what extent will institutional arrangements, cultural values and personal motivation facilitate acquiring the minimum capacity to execute that effort with competence? Will employers make greater efforts to educate their employees in order to equip them with the knowledge they need to make the right financial decisions, to say nothing of understanding and evaluating corporate pension and savings programs? Will more Canadian workers seek financial planning advice from the experts? Will more women seek out such advice, since we know that currently they do so at a much lower rate than do men, even though they are more financially vulnerable in retirement? Among today's pre-retirees, what are the pertinent attitudes, how do they plan to fund their retirements, and what kind of help do they need to do this effectively? The answers to such questions require new data and research.

At least two studies in Canada have provided information that is useful in developing answers to the questions cited above. Morisette and Zhang (2004) have dealt with the extent of employees' knowledge about employer-sponsored pension plans. Kemp, Rosenthal and Denton (2004) have dealt with factors that help or hinder the commencement of financial planning relative to income in the later years of life. Morisette and Zhang found that 4% of full-time employees with indeterminate jobs had incorrect knowledge about the existence of their pension plans. Among immigrants the figure rose to 9%. Kemp, Rosenthal and Denton found that

“Catalytic financial influences included employer programs and enrolment in retirement courses, while job loss and unforeseen expenses were viewed as constraints. ... Participants' locations in the social structure influenced the onset of financial preparation, however, subjective perceptions of life circumstances were also pivotal.”

But these two studies merely scratch the surface of the range of research that is needed to build up policy-relevant knowledge in this field. Even on the questions that they address, there is much room for new research.

## **Workplace and labor-market environments**

Results of the Rethinking Work 2004 Survey indicate that high job stress and job dissatisfaction tend to lower the age of departure from the career job. “Workers who experienced frequent job stress or who were dissatisfied with their job planned to retire at least a year earlier than their co-workers who had low or moderate levels of stress or who were satisfied with their jobs”. (Lowe 2005:18)

However, there was at best a weak indication that lowering job stress and increasing job satisfaction would be key factors in decisions to delay retirement beyond the moment it would normally be taken. “Positive conditions of low stress and job satisfaction do not, in themselves, contribute to postponing retirement beyond the national norm.” (Lowe 2005:19)

Lowe’s finding does suggest, however, that the national norm might be different if key aspects of the workplace environment were friendlier to older workers. These aspects include the sense of being discriminated against (including being denied due considerations and respect) because of one’s age, as well as more mundane aspects of ergonomics in the physical environment.

Moreover, relevant workplace environment issues go beyond those pertaining to an older worker’s prospects of remaining with a current employer. Perhaps of equal, if not greater, importance is the labor-market environment that confronts the older person seeking work opportunity, including self-employment. Various dimensions of possible employer hostility or receptivity arise in this connection.

Irrespective of whether the workplace environment affects the age of retirement, there remain key questions about how it influences certain aspects of the transition to retirement, including especially the preparatory steps. This topic seems to be one of the few where Canada has not been the venue of a great deal of theory and research.

In the USA, there are suggestions of a very low level of employer awareness and concern about the possible links between workplace environment factors and transitions to retirement among

their older employees. Shellenbarger (2005) recently reported on some results of a related AARP project in this area as follows:

“What if you held a contest for best workplace and no one applied? AARP ... invited employers to compete for a listing in its Modern Maturity magazine as one of the ‘best employers for workers over 50.’ Aware that other workplace contests draw hundreds of applicants, the 35 million-member nonprofit mailed invitations to 10,000 companies.

Total applicants: 14.

‘The best places for older workers? Gee, we hadn’t even thought about that,’ was the reaction at many companies, says Deborah Russell, an AARP senior program coordinator. ‘Older workers are just one of those areas that haven’t been particularly big on the radar screen of employers.’

...

But most companies have a long way to go to attract and retain top-flight older workers. Age bias is a deep-seated barrier, of course. And there are cost obstacles. Too many pension plans require the largest employer contributions as workers approach retirement, making older workers more expensive.

Beyond that, many employers need to fine-tune work-life conditions, an element of workplace quality that’s more important to many older workers than to younger ones.”

The situation in Canada may be better, but probably not by a wide margin. Recently, the Conference Board of Canada provided the following overview of findings from a survey of employers:

“Although some industries are already facing problems associated with finding enough people with the right skills to fill their workforces and many managers in other sectors realize that the retirement of their older workers will have serious implications

for their organizations, the study amply demonstrates that not a lot of action is being undertaken by employers to remedy the situation. At present, other corporate priorities having a more immediate operational or financial influence will usually take precedence over questions of an aging workforce. Nevertheless, if Canadian companies are to be ready for the oncoming changes in their employee populations, awareness has to be turned into action through strategic planning, effective HR practice development, and partnerships between employers and employees.” (Conference Board of Canada 2005b)

Yet links between workplace environment factors and aspects of transitions to retirement could become very important to a wide range of employers as the baby boom’s retirement wave gets underway. Why this is so has been pointed out in the said Conference Board of Canada report:

- retaining leadership talent;
- minimizing degradation in corporate knowledge and memory (that is, effectiveness of intergenerational knowledge transfer as regards key aspects of corporate memory and know-how);
- the need to develop separate recruiting strategies for different segments of the population, including older people, to fill the holes left by retiring employees.

The upshot of all these remarks is simple and compelling. New data, theory and research are urgently needed to help Canadian institutions confront the implications of the up-coming wave of baby boomer retirements, especially as regards the workplace and labor-market environments in which older workers find themselves. On this point, the Conference Board of Canada concludes as follows:

“Hopefully, more and more employers will acknowledge the necessity of confronting the inevitable demographic challenge before it becomes economically debilitating. Only by commencing the crucial planning that will lead to effective and timely

solutions for their aging workforces will we avoid a loss of national competitive position and a much reduced standard of living.” (Conference Board of Canada 2005b)

### **Retirement as part of a matrix of later-life transitions**

Our last topic is weak links to practical business or government policy concerns. Yet it is important for the development of high-quality knowledge about the social institution of retirement. The quality of this knowledge in turn feeds back on the degree of enrichment of the useful practical information that social science can provide to support the activities of those who are preoccupied with strategic business and policy questions. As the social institution of retirement changes and becomes more complex, the importance of attending to this topic increases. For example, retirement trajectories are becoming more diverse, and their increased diversity is related to the linkages between retirement and other later-life transitions.

The general issue about which we advocate improved development of knowledge is the manner in which retirement processes relate to other later-life transitions in two directions of influence. First, other life course changes affect aspects of retirement processes. In turn, those changes are affected by retirement processes. (For example, once initiated, the retirement process influences the quality of marital life, aspects of one's roles, identity and sense of control.) No doubt, the time sequencing of these two-way influences is very complex; but its importance in advancing understanding of retirement is such that we need to signal the need for systematic theory and research in this area.

Among the other life-course transitions that deserve attention are changes in parenting roles, in responsibilities for care giving relative to others in the same or older generations, in partners' retirement planning and behavior, in economic status, in health status and functional capacity, and in self-concept. Any of these changes has the potential to become a key factor in retirement

decision-making and in the pattern of transition to the state of being retired. Let us consider two of these linked life-course transitions, for the purposes of illustration.

## **Parenting roles**

Among the most important later-life changes linked to retirement are ones that involve adult children. Two notable examples of such challenges pertain to children who delay their launch into independence or return to the empty nest in early adulthood, and to those who, in the wake of divorce, return to their parents' home bringing their own children with them. If children are financially dependent on their parents, the latter face 'prolonged parenting' and tend to delay departure from their career jobs, and thus are less likely to seek a bridge job or to exit the labor force (Palkovitz and Daly 2003).

## **Care giving responsibilities**

Adult children must often assume responsibility for the care of elderly family members, compounding changes in parental roles for individuals in later-life and ultimately affecting retirement timing. Due to their additional responsibilities, changes in work patterns were required for 27% of female and 14% of male care givers aged 45 to 54 (Cranswick 2003). Such changes included working split shifts, leaving early and making up the time later, reducing the number of work hours, turning down a promotion, leaves of absence, and semi- or full retirement.

Care giving shapes men's and women's retirement timing in vastly different ways due to their fundamentally different responses to care giving duties. Women tend to remain home to provide care, whereas men delay their retirement and work to shoulder the financial burden associated with disability. Caring for a spouse has the strongest impact on retirement timing. Women caring for their husbands are five times more likely to retire than their female peers not engaged in care giving. Men caring for their wives, on the other hand, are 50% slower to retire (Detinger and Clarkberg 2002). Even as we witness more men involved in care giving than in the past, there remain significant gender differences in men's and women's care giving activities and retirement timing decisions based on these responsibilities.

## Concluding Comment

In closing, we have merely touched on four important topics that represent gaps in the earlier discussion in the book. These are all topics that need development in confronting the major issues connected with retirement in the twenty-first century. They all require innovations across three fronts: theory, data gathering and data analysis.

The topics that were discussed at much more length in the book almost all need further work that involves innovations across those same three fronts. Many findings presented above are seriously incomplete or give rise to new questions that need to be addressed. However, space shortage prevents any effort here to make a listing of these findings, and the reader is invited to review the authors' closing comments in the chapters presented earlier.

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