



Encouraging Choice: Aging, Labour Supply, and Older Workers

Highlights

- Population aging poses a serious challenge. The work force will begin to decrease, relative to the overall population, starting in 2010.
- However, the increased intensity of the labour force participation of women and an increase in lifetime hours of labour will moderate the impact of population aging on the work force.
 - A strategy emphasizing fiscal prudence and productivity increases, as well as encouraging increased labour supply, will be important.
 - Population aging will present opportunities for older workers to continue to provide labour, and to enjoy greater choices in their life plans.
- The report explores the potential for removing impediments and providing incentives for older workers to extend their working lives.

The Policy Research Initiative has developed a report on population aging and future labour supply issues, with a focus on encouraging older workers to extend their working lives by delaying or phasing into retirement. The PRI concurs with much of recent OECD analysis, having co-operated in the production of that report. However, the PRI report uses a new analytical instrument (*LifePaths*) to look in more detail at Canadian labour supply factors. The result is a nuanced analysis tailored to the Canadian context.

The Issue: Will There Be Enough Workers to Keep the Economy Growing?

This report considers the economic risk to society posed by population aging and, specifically, the baby-boom retirement. We emphasize a need to maintain a healthy economy and fiscal prudence, while respecting the opportunity and need for people to exercise choice in the best interests of themselves, their families, and society. The paper explores how older workers could be enabled and encouraged to extend their working lives to benefit themselves, their families, and the economy.

“Enabling” and “encouraging” are key words in the report, reflecting our view that *population aging is a challenge, not a crisis*. Moreover, our assessment of the future labour market suggests we have a societal opportunity to achieve economic, social, and quality of life objectives through a proactive strategy of attitude change, improved working conditions, human capital development, and social and economic inclusion.

What Are the Messages in This Report?

- **Population aging poses a serious challenge to Canada.** Finance Canada illustrated this challenge in an annex to the 2005 budget.¹ Beginning around 2010, the Canadian work force will begin to decrease, not in absolute size, but as a proportion of the overall population. This decline in relative labour supply will mean that, if no off-setting interventions take place, the rate of growth of the economy will be reduced, and this will have a negative impact on the fiscal capacity of government, especially in view of pressures for increased

¹ The Budget Plan 2005, Annex 3, *Canada's Demographic Challenge*.

public expenditures in programs that respond to older population groups. While these pressures may be partially offset by potential decreases in expenditures serving other age groups, such rebalancing can be extremely elusive, especially in a federal structure of government and when the impacts will vary significantly by region or community size.

- There are, however, **trends toward increasing hours of labour being provided by the labour force**. These include an increased intensity of labour force participation by women, and an increase in lifetime hours of labour, which results from increased education levels of workers. These two trends will moderate the impact of the changing dependency ratio, alleviating, to some extent, but not eliminating the foreseen reduction in overall labour supply. However, although widespread labour shortages are not anticipated, specific sectors and occupations, particularly in periods of rapid change, could face serious problems of adjustment.
- **A strategy emphasizing continuing fiscal prudence, productivity increases (all factors), and encouraging increased labour supply, will be important**. While future economic growth will be highly sensitive to productivity increases, this report focuses on labour supply, a component of productivity and, to a lesser extent, on labour productivity. It does not explore other aspects of productivity.
- **Population aging will present opportunities for older workers to continue to provide needed labour to the economy, and to enjoy greater choice in their life plans**, especially in view of their increasing longevity and increasing years of relative good health. While the present system is tilted toward early retirement, especially for holders of defined-benefit pension plans, the incentives embodied in the public pension and tax system are not particularly strong when compared internationally.

Why focus first on older workers rather than increased immigration or decreasing unemployment among disadvantaged groups or marginal labour? Older workers are in their jobs, and their families are already here and counted, whereas bringing in more immigrants also entails bringing more family members who are children or elderly doing nothing, or very little, to change the amount of labour supply relative to the Canadian population. Moreover, there will be increased competition internationally for qualified immigrants and off-shoring may offer them other options as well. Older workers are often highly productive (although the research is mixed on the relationship between age and productivity) and many are motivated to keep working.

- We specifically explore the potential for **removing impediments and providing incentives for older workers to extend their working lives**. Policy options are identified for relevant departments to consider. The report underscores the importance of a cultural shift in attitudes toward active aging and optimizing employment conditions for an aging labour force. This could involve a broad-based approach, in the nature of an active aging program, which could comprise:
 - a public engagement campaign to counter stereotypical attitudes and promote active aging;
 - removal or balancing of policy disincentives to working later in life and providing flexibility in pension arrangements and phased retirement;
 - government initiatives or services to increase the employability of older workers; and
 - engaging with other governments and employers to promote more age-adapted workplaces and flexible work arrangements.

A Better Measure of Labour Supply Relative to the Size of the Overall Population

Using *LifePaths*, we have calculated the actual number of hours worked in the formal labour force by individuals over their lifetime, regardless of their age or the times or patterns in which they worked. We are also able to project these behaviours into the future, adjusting them to trends such as increasing participation of women, age of labour force entry, and increases in education levels.

This figure presents the annual supply of labour hours calculated relative to the total population of the country. This indicator shows that we may be in a period of peak overall labour supply relative to the population. We will begin to see a decline in relative labour supply after 2010. The low point, in about 2050, will be roughly the same as the labour supply in the late 1990s.

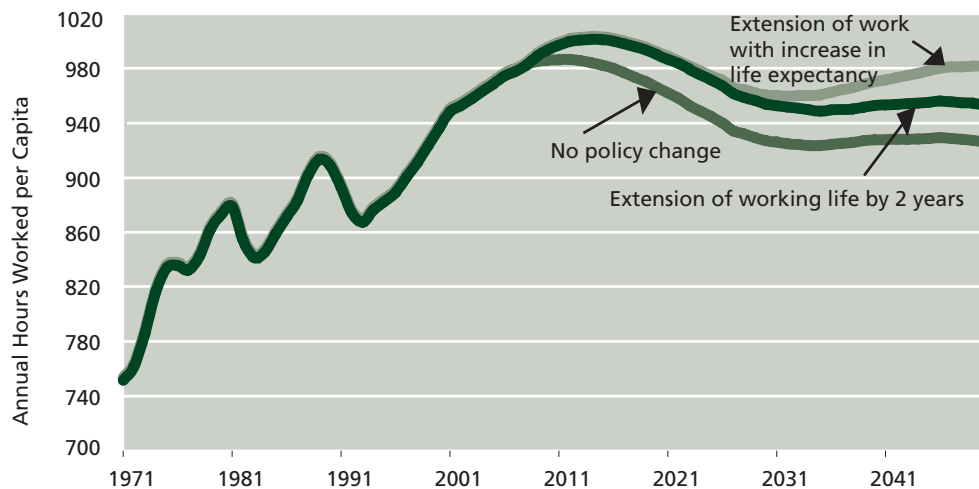
Nevertheless, an important and long-term reduction in relative labour supply will begin about 2011, and it will have consequences on economic growth.

What if older workers delayed their retirement two years? It would have a major impact on labour supply. In fact, the result would be that labour supply relative to the population would be, in 2050, about to what it is today.

As the projection indicates, the potential labour supply impact of delayed retirement is quite dramatic, because the increased labour is not offset by any increase in the economically dependent population.

Moreover, if workers in the future were to further extend their working lives by half of anticipated future increases in life expectancy, the longer-term concerns about labour supply would be considerably reduced.

Impact of Extending Working Life by Two Years and Increasing Working Life by 50% of Increases in Life Expectancy: Total Labour Supply per Capita,* 1971-2050



Source: LifePaths (Statistics Canada), using assumptions developed by the Interdepartmental Working Group on Population Aging and Life-Course Flexibility.
 * Total hours worked in Canada, divided by total population per year.

Particular policy options identified and discussed include the following.

- **Change the Canada Pension Plan to balance actuarial adjustments for early exit with incentives to delay exit**, also to permit continued accumulation of credits, and to abolish the work cessation requirement.
- **Change the *Income Tax Act* to permit drawing of Registered Pension Plan benefits while continuing to contribute**. Pension plan administrators and employers will need to collaborate to permit phased retirement.
- **Change the Old Age Security-Guaranteed Income Supplement to permit deferral of benefits** with actuarial adjustment, and to exempt a specified level of earnings for low-income workers.
- **Eliminate mandatory retirement** through removing age caps from human rights legislation, and collaborate in removing it from collective agreements, except where it can be clearly defended.
- **Adjust workplace policies to respond to the needs of an older work force**.
- **Provide services to help older workers adjust** to new employment situations, especially to self-employment.

Finally, the report sets a context for follow-up work in the population aging context.

- Recent concerns about the solvency of some employer-sponsored defined-benefit pension plans, and emerging evidence of a possible related trend away from such plans toward defined-contribution plans may indicate a shift of risk to workers and families. Such risk, in turn could become a matter of concern for the public pillar of retirement income security, especially if the new arrangements do not provide sufficient retirement security. More study is required here.
- While more labour supplied by older workers could make an important contribution to the economy, it is not likely to fill the potential demand of the future labour market. Employers will be keen to recruit workers with appropriate skills, and will also be more sensitive to the need to retain their work force. Consequently, investments by governments, employers, and individuals in human capital development, in improving the quality and productivity of work and workplaces, could bring greater dividends than in past decades when there was a surplus of labour. There is an opportunity here to achieve better arrangements for work-family and work-life balance, to broaden economic participation among disadvantaged populations, and to increase social inclusion.

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