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RAISING THE NORMAL RETIREMENT AGE: A SOCIO-ECONOMIC POLICY OPTION OR AN IMPERATIVE FOR CANADA?

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INTRODUCTION

All Western countries are currently facing the same demographic situation: a waning birth rate, increased life expectancy and, most importantly, more years of retirement.(1) Although they are rarely subjects of public debate in Canada, retirement(2) and the *normal retirement age* are major socio-economic issues that affect many facets of society: immigration, health, labour force training, business competitiveness and long-term economic growth.

The general public, however, becomes concerned about the normal age of retirement almost exclusively in periods of rising unemployment and economic slowdown. For a many years now, early retirement has been a way for businesses and governments to control their labour costs: the use of pre-retirement and early retirement schemes as economic measures was common in the workplace throughout the 1980s and 1990s. Early retirement has always been regarded as an effective way to free up jobs for younger recruits and boost productivity. The Canada Pension Plan (CPP) in 1987, and the Quebec Pension Plan (QPP) in 1984, adjusted their policies so that contributors would be able to receive a reduced pension at age 60.

From the workers' standpoint, retirement has long been a "career objective" and many people view early retirement as a very attractive option, especially when combined with the lure of travel and leisure and a favourable regulatory framework. To many people, if not most, retirement is a hard-earned right, and the earlier it begins the better.

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(1) The following figures on normal retirement age and life expectancy in Canada speak for themselves (see David K. Foot, "To Relieve Pension Headaches," *The Globe and Mail* [Toronto], 8 December 1997):

Year	Normal retirement age	Average life expectancy
1920	70 years	61 years
1951	65 years	68.5 years
1966	65 years	72 years
1997	65 years	78 years

(2) According to the Urban Futures Institute, approximately 225,000 Canadians will be retiring in 2003, and this number will rise to 265,000 per year by 2005 and to 425,000 by 2020.

However, what was regarded as a solution just a few years ago is now seen as a growing problem by a number of economists, demographers, sociologists and employer associations. The Organisation for Economic Co-operation and Development (OECD) is concerned that more and more workers are taking early retirement and living longer and that, consequently, an ever-increasing number of retirees are dependent on funds generated by those still working for their income:

> In the next 50 years, low fertility rates and rising life expectancy in OECD countries will cause this old-age dependency rate to roughly double in size. Public pension payments, which pay 30-80% of total retirement incomes in OECD countries, are expected to rise, on average, by over three percentage points in GDP and by as much as eight percentage points in some countries. Such is the pressure on pension funds that there is a danger of today's workers not getting the pensions they expected or felt they paid for.[(3)]

The OECD is also concerned about the effect that the mass retirement of baby-boomers will have on economic growth. More frequent labour shortages are expected in numerous sectors, unless action is taken now to persuade people to stay at work longer.

Several responses to this dual problem can be suggested: increase the amount of pension contributions, or their duration, or both; reduce the pension amount; postpone the effective retirement age; increase the benefits payable to late retirees; or place greater emphasis on fully funded pension systems rather than pay-as-you-go pension plans.[(4)]

The OECD says there is no easy solution, but that delaying retirement, as certain countries are already planning to do, could help.

Taking the OECD's suggestion as a starting point, this document explores whether it would be useful for Canada to consider delaying the normal age of retirement, currently age 65. First, it gives a brief history of the pension system in Canada, summarizes changes in the retirement age and the participation rate of "older workers" in Canada over the

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(3) Willi Leibfritz, "Retiring Later Makes Sense," *OECD Observer*, 13 January 2003, http://www.oecdobserver.org/news/fullstory.php/aid/824/Retiring_later_makes_sense.html.

(4) In a fully funded pension system, each person collects his or her own "capital" for retirement; Registered Retirement Savings Plans (RRSPs), for instance, are fully funded. In a pay-as-you-go system, contributions being made by those still in the workforce pay for the benefits being received by retirees; the CPP and the QPP are pay-as-you-go plans.

past 25 years, and assesses the status of our public sector pension funds. Second, it examines three major issues in connection with retirement age in the current social and demographic context. It then considers three main approaches to raising the retirement age and briefly reviews measures taken by some OECD countries to ensure funding for pension plans and to encourage older people to remain in the labour market.

RETIREMENT AGE IN PERSPECTIVE

A. Background[5]

Early in Confederation, most Canadians did not "retire." The majority lived and worked on farms well into their old age. When they were physically unable to work, they were supported by their families.

The *Canadian Government Annuities Act* of 1908 was one of the earliest significant pieces of social legislation in Canada. It was designed to encourage Canadians to prepare financially for their retirement through the purchase of a government annuity. The Act allowed for the purchase of various annuities for different amounts and lengths of time. At a specified age, the recipient would begin to receive fixed yearly benefits. The government guaranteed these benefits and assumed all the costs of administering them. Few people, however, could afford the annuities.

In 1927, Canada's first *Old Age Pensions Act* was passed:

- The maximum pension was $20 per month or $240 per year.
- It was available to British subjects *aged 70 or over* who had lived in Canada for 20 years or more.
- It was restricted to seniors whose income, including the pension benefits, was less than $365 per year (a means test determined the pension to which an individual was entitled).
- Status Indians were excluded.

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(5) Most of the information in this section on the history of government pensions in Canada is taken from the Canadian Museum of Civilization Web site at http://www.civilization.ca/hist/pensions/cpp1sp_e.html. See the appendix to this paper for an overview of highlights in the development of the Canadian pension system.

A senior's income, and thus his or her entitlement to a pension, were determined through a means test conducted by provincial pension authorities. The means test, however, did not take into account how much money a person needed to pay for food, shelter, clothing, fuel, utilities or household supplies. Provincial pension authorities had extensive discretion, so the calculations were inconsistent and varied greatly from province to province.

The pension became increasingly unpopular when provincial legislation was used to back up the means test:

- To qualify for assistance, parents had to prove that their children could not support them.
- Officials went so far as to encourage some elderly parents to sue their children for support.
- Recipients' eligibility could be withdrawn after they had begun receiving pension payments.
- Payments were even recovered through claims against the estate of dead recipients.

In 1951, the Constitution was amended to allow the federal government to pass the *Old Age Security Act*. The Act, which took effect in January 1952, established a federally funded pension, the Old Age Security (OAS), the first universal pension for Canadians:

- The maximum pension was $40 per month or $480 per year.
- The pension was available to Canadians *aged 70 or over* who had lived in Canada for 20 years or more.
- Status Indians were included.
- For the first time, Canadian seniors could receive a pension without undergoing a means test.

However, retirement still meant a drastically reduced standard of living for many people. There was growing public and political support for a universal, employment-based pension plan that would be portable from job to job. The provinces agreed to another constitutional amendment that extended the federal government's legislative powers with regard to old-age benefits. As a result, two contributory plans – the CPP and the QPP – were established in 1966:

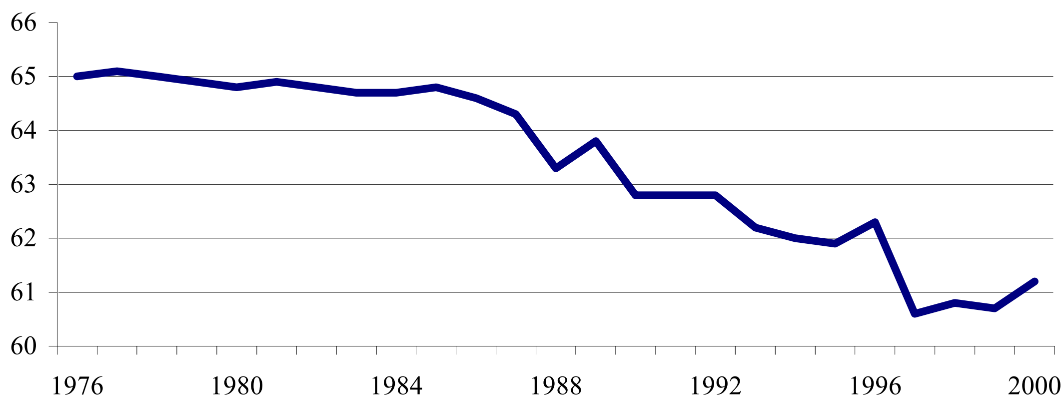
- The plans protected workers and their families from loss of income due to retirement.
- Death, survivor and disability benefits were provided.
- Recipients received benefits based on the amount they had contributed.
- Status Indians were not included (until 1988).
- Recipients could receive benefits *when they turned 65*, and the flexible pension, introduced in 1984 in Quebec and 1987 elsewhere in Canada, enabled contributors to receive a pension *when they reached 60*.

The Guaranteed Income Supplement (GIS) was introduced in 1967 as a temporary measure to further reduce poverty among seniors.

B. Retirement Age and Participation Rate in Canada

Although the official retirement age in Canada is 65, the effective retirement age has dropped significantly over the past 25 years (see Figure 1).

Figure 1: Median Age at Retirement in Canada



Sources: Statistics Canada; Library of Parliament.

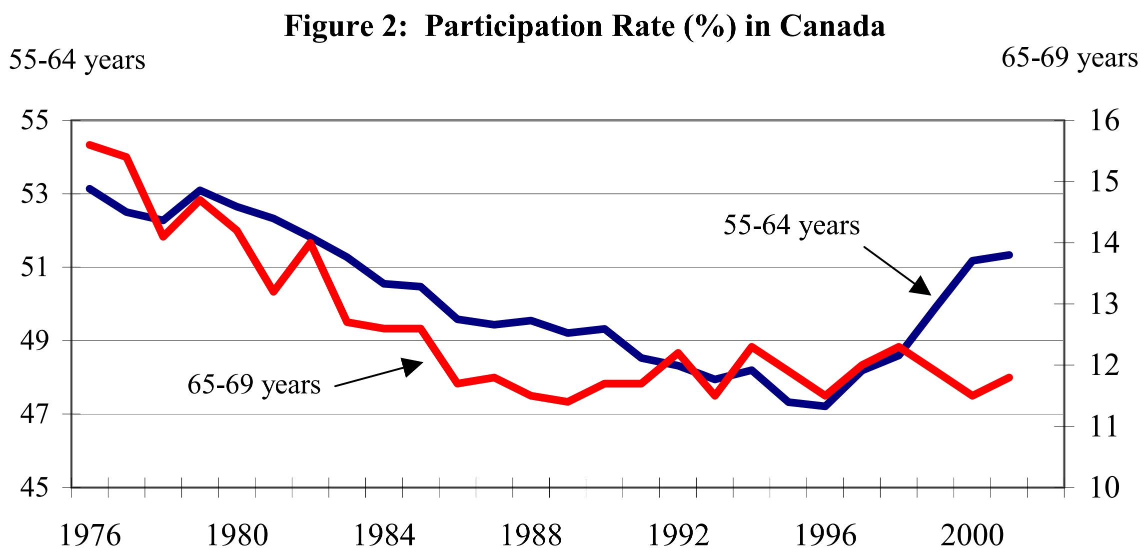
Between 1976 and 1980, the median age of retirement in Canada was 64.9 years.[6] It fell to 62.3 years between 1991 and 1995, then to 61.2 years between 1995 and

(6) Dave Gower, "Measuring the Age of Retirement," Statistics Canada, Catalogue No. 75-001-XPF, Summer 1997.

1999.[7] The economic situation, business practices and the legislative framework all contributed to this downward trend. The lowering of the minimum retirement age from 65 to 60 years with the right to QPP or CPP benefits likely contributed to the drop in the median retirement age in the 1980s. Between 1990 and 1996, many early retirement incentive programs caused the downward trend to continue. According to CPP data for 2002, 80,000 people started receiving CPP pensions at 60, in comparison with 57,000 at 65 and only 7,100 after 65.

It is not surprising to note that, simultaneously with a lower median retirement age, the participation rate[8] of people aged 55 to 64 decreased by 9.2% between 1976 and 1996, dropping from 53.1 to 48.2%, before recovering after 1997 when the economic situation improved. The drop was even more noticeable among those aged 65 to 69, whose participation rate decreased by 24.3%, from 15.6 to 11.8%, between 1976 and 2001 (see Figure 2).[9]

Figure 2: Participation Rate (%) in Canada



Sources: Statistics Canada; Library of Parliament.

From the point of view of improved working conditions, the gradual decrease in the median retirement age in Canada is generally regarded as positive. However, it should be noted that many people who retire before 65 do not do so voluntarily. Some workers aged

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(7) Statistics Canada, *Labour Force Survey*.

(8) The participation rate is the ratio of the labour force (people of working age who are either employed or actively looking for work) to the total working age population. The participation rate was 67.5% in March 2003 in Canada, for all age groups combined between 15 and 64 years old.

(9) A younger age at retirement and decreasing participation rates among older workers in the last generation are found in most OECD countries.

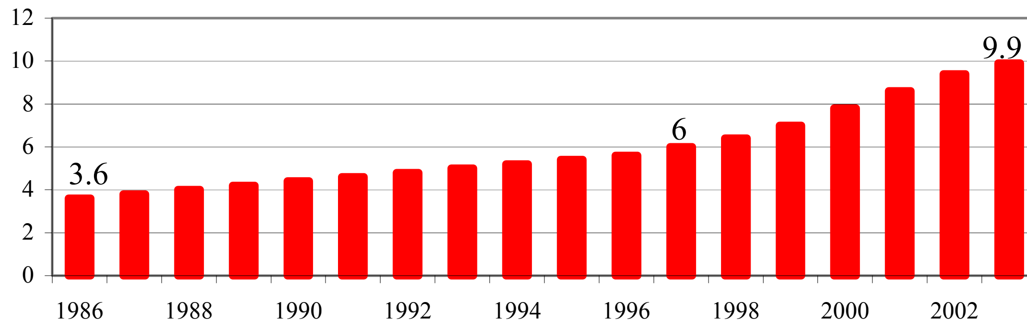
60 years and over who lose their jobs are unable to remain in the labour force, as they are unlikely to find another job. As indicated below, this is a major challenge that goes hand in hand with any policy designed to delay retirement and keep older workers on the job.

C. The Financial Status of Public Sector Pension Plans in Canada

Canada stands out among OECD countries by the enviable financial status of the CPP and the QPP. The plans' actuarial projections confirm their long-term viability and financial sustainability: the legislated contribution rate (9.9% in 2003 and thereafter) is sufficient to pay for future expenditures and to accumulate assets. In the case of the CPP, assets will reach $142 billion in 2010 and $1,578 billion in 2050.(10) Under the current schedule of contribution rates, the funding level is expected to increase significantly over the next 50 years, with the ratio of assets to expenditures growing from 2.4 in 2002 to 5.3 in 2020 and to 5.9 in 2050.

The plan's soundness, attributable to the rapid rise in the contribution rate after 1997 (see Figure 3), explains the current lack of public debate about the financing of public sector pension plans in Canada.(11)

Figure 3: CPP Combined Employer-employee Contribution Rate (%)*



* Percentage of payroll, up to a maximum of $39,100 per employee in 2002.
Source: Canada Pension Plan.

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(10) Office of the Chief Actuary, *19th Actuarial Report on the Canada Pension Plan as at 31 December 2000*, Ottawa, p. 7.

(11) It should be borne in mind, however, that contributions to the CPP and the QPP are payroll taxes. An increase in employees' contributions is equivalent to higher employment taxes.

It should, however, be noted that Canada's public sector plans, the CPP and the QPP, are not the most generous plans among the OECD countries: their replacement rate[12] is only 25%, capped at the average industrial wage. In 2003, the *maximum* CPP benefit was set at $801.25 per month. Even when the universal and social assistance benefits (OAS) are added to this, an average wage-earner can hope for a replacement rate of approximately 42% at best.[13] By comparison, the replacement rate is approximately 40% in Ireland and 43% in Great Britain, but 70% in France and Germany, and 100% in Greece.[14]

THREE MAJOR SOCIO-ECONOMIC ISSUES

As mentioned above, the OECD is concerned that an ever-greater number of retirees are depending on wealth created by today's workers. It is also concerned about the effect that massive retirements in the baby-boom generation will have on economic growth. These issues are compounded by the cost of public sector pension plans, which are no longer actuarially neutral but to some extent penalize those who continue to work. These three issues, and the impact on each of them should the normal retirement age be raised, are discussed in this section.

A. Intergenerational Equity

Regardless of their long-term solvency, the CPP and the QPP were designed to be "pay-as-you-go" rather than "fully funded" pension plans, meaning that those currently working would pay the pensions of the previous generation. A model based on this principle requires

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(12) The replacement rate is the ratio of pension benefits to earnings in the last job.

(13) It should be remembered, however, that occupational public plans and universal and assistance benefits make up only part of Canada's retirement system, as described by Michel Lizée ("Les stratégies canadienne et québécoise," *La lettre de l'Observatoire des retraites*, Paris, No. 12, March 2001, p. 15), in his discussion of RRSPs:

> [In Canada], complementary business and individual retirement savings plans – tax-exempt, fully funded mechanisms – provide income continuity on retirement, at least for people who can save and benefit from these mechanisms. The most vulnerable social categories in the labour market remain more dependent on inadequate public plans. [Translation]

(14) Florence Legros, "Has Bismarck Been Sunk?" Centre d'études prospectives et d'informations internationales, No. 201, May 2001.

demographic balance to ensure its sustainability, unless, as is currently the case in Canada, more and earlier retirements are financed by significant increases in contributions to the plans – a situation that disadvantages younger workers.

Between 1997 and 2003, the CPP and QPP contribution rates were increased by 65% to ensure the plans remain solvent indefinitely. This decision appears to place an unfair burden on the younger generations. There is a large disparity in the current system between the contributions paid and the benefits received, both in the case of today's generation and in that of the generation now aged 65 and over. The disparity is clear in terms of the average contribution rate and also the duration of the contribution period (see Table 1).

Table 1: Duration and Average Contribution Rate to the CPP and the QPP by Age, 2003*

Age in 2003	Duration of contributions	Average contribution rate (employee's share)
75	27 years	1.90
65	37 years	2.35
55	44 years	2.98
45	44 years	3.36
35	44 years	4.33
25	44 years	4.87

* Assuming participation in the plan at 21 years of age.
* Percentage of annual earnings, up to a maximum of $39,100 per employee in 2002.

Source: Library of Parliament.

By the time they retire, people in the generation aged 25 today will have paid 2.5 times more than the amount contributed by those in the generation aged 65 today.(15) This is typical of the problem with public pay-as-you-go pension plans, which unduly penalize the younger, smaller generations.

Some demographers, such as Georges Matthews, claim that the decrease in the working population and the progressive age-related increase in the social burden foreshadow intergenerational tensions.(16) Matthews believes that young people will be increasingly reluctant

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(15) For those aged 65 in 2003: 37 years x 2.35 = 86.95. For those aged 25 in 2003: 44 years x 4.87 = 214.28. The proportion is therefore 214.28 / 86.95 or 2.46, almost 2.5.

(16) André Désiront and André Robitaille, "Demographic Transition : What's at Stake?" *Forces*, No. 137, 20 February 2003.

to pay between 5 and 6% of their income for the benefit of older people, who made a much smaller contribution. Moreover, there are no guarantees that young people will have access to the same level of benefits when they retire.(17)

Given the current demographic conditions, raising the age of retirement, together with a related policy of incentives for older workers to remain in the workforce, is probably one of the best alternatives to a major increase in contributions. This could help alleviate intergenerational conflict by offsetting, on the financial level, the demographic imbalance that is causing it. Ultimately, this would be a compromise solution based on revenue sharing between younger workers and older workers who would otherwise be out of the workforce.

B. Labour Supply and Maintenance of Economic Activity

A number of Canadian companies are currently facing a shortage of skilled labour (see Figure 4). The mass retirement of baby-boomers is thus a major concern not only for businesses, but also for governments, which will have to deal with labour shortages, particularly in the health and education sectors.

On 2 April 2003, the Canadian Federation of Independent Business (CFIB) released the results of a survey that found that 49.6% of firms were concerned about the shortage of skilled labour:

> Small business concern with the shortage of qualified labour has hit an all time high, as the problem continues to wreak havoc throughout Canada. Short of workers, one third of firms were unable to pursue new business opportunities, depriving themselves and the Canadian economy of growth.(18)

Among the main strategies that SMEs are planning to use in order to cope with the labour shortage and the aging workforce, 71.6% mentioned the transfer of knowledge

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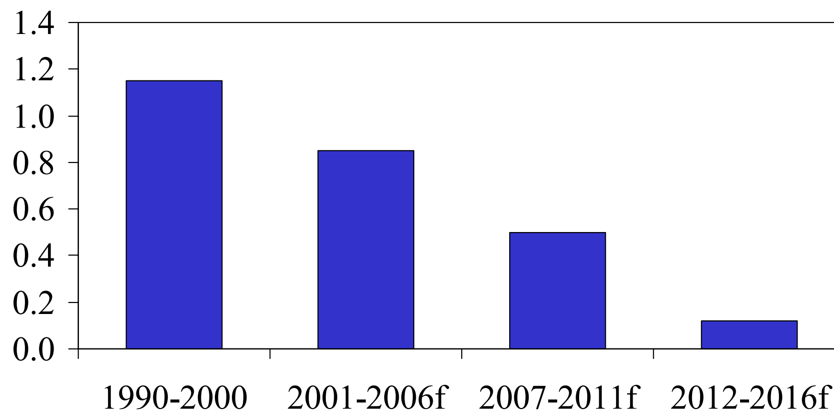
(17) This reluctance of young people to contribute more to the pensions of their elders is viewed by some as symptomatic of a lack of long-term perspective. By acting to protect their own present-day employment income, to the detriment of those already retired, the working generations are also acting against their own interests further down the road (unless they have more children than their parents), as contributions to pension plans are deferred income, not an expense. In the absence of a major demographic imbalance, it is unwise over the long term to regard pension plan contributions as a decrease in buying power; in reality, they consist in distributing consumption levels across one's lifetime.

(18) CFIB, "Small Business Concern With Shortage of Qualified Labour at All-time High," news release, 2 April 2003. One year earlier, the CFIB reported that 50.6% of its members said they were concerned about the effect of aging on their capacity to find qualified employees (Sylvie Ratté, "Strategies to Adapt to an Aging Population," *Findings of Surveys of SMEs*, CFIB, May 2002).

between older and younger workers, 36.7% will focus on more intensive use of technology and 26.4% will retain workers older than 65. There are other solutions, and a mix of short-term measures (overtime hours, for instance) and long-term ones (immigration, training of young people and older workers, changes to labour legislation, and so on) will probably have to be considered and implemented to respond to the variety of needs.

Figure 4: Growth in the Labour Force in Canada

Average Annual Growth Rates (%) (Age 15 and Over)



(f = forecast)
Sources: Statistics Canada; TD Economics; Library of Parliament.

There is already a growing shortage of labour in a number of sectors and, in view of demographic trends, it is likely to worsen, unless governments begin considering measures to convince workers to remain in the labour force longer. The current labour market has few incentives for workers who want to delay their retirement. The rules are so inflexible (and can even work against employees) that they may well be frustrating to those who are in good health and who would like to work longer, even part-time, rather than retire and receive a small pension. Equally, the rules may frustrate businesses that would like to retain their older workers in order to take advantage of their experience.

An official decision to raise the normal retirement age would likely encourage workers aged 55 to 64 to remain in the labour force longer.[19] It might also encourage those who

(19) Moreover, delaying baby-boomers' access to retirement pensions would reduce the financial impact on public and private pension funds and their long-term liabilities.

have taken early retirement to return to work, and lead to an increase in part-time work among retired or laid-off workers who are not yet close to pensionable age. This situation would help at least some of the sectors facing a shortage of labour.[20]

However, delaying retirement might penalize some people disproportionately, as they will have to rely on their own resources (work income or savings) for a longer period before being able to receive public sector pensions. Those who do not have the option of working longer will have to live off their savings exclusively until they reach normal retirement age. Those who have not accumulated sufficient savings to bridge the gap between the end of their working life and pensionable age may have no other choice but to turn to social assistance. Such people might include workers in low-paying jobs or jobs that require a major physical effort. A number of studies have shown that these workers are generally in worse health and have fewer qualifications, and therefore are less likely to stay employed. Since most of their retirement income is likely to come from public pension plans, and as their low incomes make it hard for them to save, these workers could well find themselves in dire financial straits.

Unless solutions are found to enhance the employability of older workers, offset their lack of training, counter employers' possible reservations about them, and make labour market rules more flexible, delaying retirement might – despite its other advantages – simply fuel unemployment among older people.

C. Cost Neutrality

In an interview published in *The Globe and Mail* in April 2003,[21] Canada's Chief Actuary, Jean-Claude Ménard, said that retirement benefits under the CPP are too generous for those who retire early, while those who wait until age 65 are penalized. The CPP distribution structure encourages workers to retire as early as possible, because early retirement pensions are subsidized. Even though CPP benefits may not be workers' principal consideration in planning their retirement, it is nevertheless more profitable to contribute over a shorter period and receive a lower pension, but to receive it for a longer time. Although the CPP is financially sound, it is

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(20) The other side of this argument is, however, that private or public sector employers might be compelled to retain unproductive or demotivated employees who are basically marking time until retirement.

(21) Karen Howlett, "Early Retirees Putting a Strain on the CPP," *The Globe and Mail* [Toronto], 14 April 2003.

no longer cost-neutral. In other words, the total amount paid out by the CPP to a contributor varies according to the age at which the contributor begins receiving his or her pension, which should not be the case.

This fact was shown in a TD Canada Trust study conducted in 2001.(22) The present value of the pension of a person who lives until the age of 80 will be $87,731 if he or she decides to retire at 60 and receive the lower monthly benefit of $543 (in 2001); but it will be only $82,937 if he or she decides to retire at 65 and receive the higher monthly benefit of $775 (in 2001).(23) This analysis was based on annual benefits discounted at 5% per year.

Aware of this situation, the Chief Actuary stated in his latest actuarial study:

> In the context of an aging population, where life expectancy at age 65 is expected to continue to increase and projected labour force shortages could induce older workers to stay at work longer, policy makers will have to determine whether the current actuarial adjustments should be changed or certain plan provisions modified to restore neutrality to the Plan's flexible retirement provisions.(24)

In this regard, one of the Chief Actuary's recommendations was the use of a uniform approximate monthly factor for ages under 65 that would be different than for ages 65 and over. This approach is consistent with that adopted in a number of other social security programs. Also, the actuarial adjustments should be reviewed periodically to reflect changes in the Plan's provisions and/or in demographic and economic circumstances.

The Chief Actuary also suggested that it may be possible to eliminate the financial incentive for early retirement and restore cost neutrality to the Plan without changing the current 0.5% factor. This could be achieved by modifying some of the Plan's existing

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(22) Derek Burleton, "Canada's Talent Deficit: Onus on the Private Sector to Attract, Train and Retain Workers," *TD Economics*, 6 September 2001.

(23) The calculations involve the concept of *actuarial adjustment*, i.e., the reduction or the increase, depending on the age when the retirement pension begins, that should be applied to a pension so that its present value corresponds to the present value (at the same age) of the pension payable at age 65. Individuals receiving benefits before their 65th birthday are subject to an actuarial reduction of 0.5% (up to 30%) for each month of early claiming (before age 65), and an actuarial increase of 0.5% for each month of delayed claiming (after age 65, and up to age 70).

(24) Chief Actuary, "Canada Pension Plan: Actuarial Adjustment Factors Study," *Actuarial Study No. 2*, Ottawa, March 2003, p. 2.

provisions, such as ending the contributory period at age 65 for those electing a CPP pension before age 65, or requiring working beneficiaries to pay contributions.

The Chief Actuary made no comment on the utility of simply raising the normal retirement age in order to re-establish cost neutrality in the CPP, as this would only postpone the problem, and would have no effect on actuarial adjustments.

RAISING THE NORMAL RETIREMENT AGE

A. Approaches to Raising the Normal Retirement Age

Depending on whether the goal is to restore long-term financial sustainability to the public sector pension fund (which is not really a major issue for Canada at the moment), or to restore intergenerational equity to pension plans and keep older workers in the labour force, there are a number of different ways to raise the normal age of retirement. Three main proposals are described below.[25]

First, *ad hoc increases to the normal retirement age*. This very simple approach consists in increasing, gradually or otherwise, the normal retirement age, from 65 to 67, for example. This would have a significant impact on the sustainability of public sector pension funds, because the payment of pensions would be deferred.

Second, *fixed-term pensions*: indexing the normal retirement age so that life expectancy at the normal retirement age remains constant over time. For example, assuming that life expectancy at retirement (weighted between men and women) is 15 years, and based on expected increases in longevity, the normal retirement age would have to increase by about one month every year or two for life expectancy at the normal retirement age to remain 15 years.

Third, *the ratio of retirement years to working years could be kept constant*. With this approach, the normal retirement age is indexed so that the contribution period increases at the same rate as the period over which the public sector pension is received.

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(25) American Academy of Actuaries, "Raising the Retirement Age for Social Security," *Issue Brief*, Washington, D.C., October 2002.

B. Survey of Measures Taken in Some OECD Countries

In a number of countries, raising the normal retirement age is aimed primarily at keeping public sector pension funds afloat, as their financial situation is perhaps not as enviable as Canada's. The United States and several European countries are currently facing major actuarial deficits in their public sector pension funds.

In its latest report, released on 17 March 2003, the U.S. Social Security Administration(26) announced that, unless corrective measures were taken, the Social Security funds would be exhausted by 2042 and the value of benefits paid would exceed the value of contributions by 2018. The European Commission, for its part, stated that the financial burden of pension plans threatens to cause skyrocketing deficits in several European countries, and a dramatic escalation in their debt levels.(27) The Commission believes that pension payouts are now equivalent to about 10% of the gross domestic product (GDP), and that this proportion will increase by about one-third, reaching 13.6% in 2040.

For this reason, over the last decade many countries have planned to raise their retirement age, either through legislation amending the legal age, or by implementing tax measures that involve changes to the calculations, in the hope that these measures will help balance the public sector pension plans by reducing the number of retirees and increasing the number of contributors.

Moreover, in terms of managing the supply of labour and adjusting employment policies, increasing the participation rate of those aged 55 to 64 is one of the European Union's (EU) top social priorities. At the Lisbon Summit in 2000, the heads of state and government of the EU set a goal of reaching an employment rate of 70% by the end of the decade:(28)

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(26) The U.S. Social Security Administration administers social security programs (retirement, survivor and disability pensions), as well as the Supplemental Security Income program for the elderly poor and disabled.

(27) Arnaud Leparmentier, "La réforme des retraites: casse-tête d'une Europe vieillissante," *Le Monde*, 16 January 2003.

(28) The employment rate – also called the employment-population ratio – describes the percentage of people of working age who are employed. It was 62.5% in March 2003 in Canada.

> In Europe, while the United Kingdom, the Netherlands, Sweden and Denmark have exceeded this objective, Greece, Italy and Spain are well below it. To reach 70%, the 15 EU member states intend to bring young people into the labour force earlier, increase the participation of women, through easier access to childcare in southern Europe and Germany, and make Europeans work longer, by discouraging early retirement.(29) [Translation]

In March 2002, the 15 EU member states set the objective of postponing the effective (not legislated) retirement age by five years. The average retirement age is 60 today.(30) The earliest retirees are workers in Luxembourg, at 56.8 years; the Irish work the longest, until they are 63.1 years old on average.

To raise the retirement age, some countries initially took measures to align the retirement age of women with that of men. In the United Kingdom, the retirement age for women will increase from 60 to 65 years (the retirement age of men) between 2010 and 2020. In Japan, the age at which a person is entitled to a full basic retirement pension will increase from 60 to 65 years for all, but in a gradual and phased-in manner: between 2001 and 2013 for men and between 2006 and 2018 for women. Finally, since 1992, Italian women no longer retire at 55, but at 60.

Other countries are attempting to keep their older workers in the labour force. In Germany, the 1992 reforms made the conditions for retirement much more stringent and a number of new measures will lead to a higher effective retirement age. While it is still possible to retire before 65, the penalty for doing so is a pension cut of 3.6% per year. At the same time, retiring later is encouraged by a pension increase of 6% for each year that retirement is delayed after the legal retirement age. In 1999, Sweden set up a range of retirement ages, from 61 to 70 years, which will likely encourage employees to work longer.

In the United States, the normal retirement age will increase gradually to reach 67 years in 2022. In 2003, Americans born in 1938 will be able to retire when they are 65 and two months. On the other hand, those born in 1960 or later will have to wait until they are 67 years old before they will be entitled to full retirement benefits in 2022; if they want to retire between the ages of 62 and 67 years, their pensions will be cut by a predetermined percentage depending on the number of months they are short of normal retirement age.

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(29) Leparmentier (2003).

(30) It was 61.2 years in Canada in 2000.

CONCLUSION

For the past 25 years, workers have been retiring at an ever-younger age. This trend has been encouraged by many factors, including the lure of freedom, employers eager to lower their costs or to boost productivity by replacing older workers with young people, and the approved pension plans, especially public sector plans, which make it possible to receive the maximum pension without penalty before the age of 65.

Ever-earlier retirements and the related demographic issues, such as intergenerational tensions, caused by the substantial increase in contributions to pension funds and the gradual shrinking of the country's labour force, require a solution. The one which seems most promising is officially raising the normal retirement age. However, as long as issues relating to the employability of older workers and the inflexibility of the labour market remain unresolved, raising the retirement age will only increase the numbers of older workers who are unemployed.

Before the rapidly approaching impasse is reached, governments must start rethinking not only their retirement age policies, but also their policies relating to the employment of people aged 55 to 69. These must be realigned with changes in life expectancy, households' financial requirements and the realities of the labour market.

APPENDIX

Pension Timeline[1]

1927	The *Old Age Pensions Act* was enacted, permitting the federal government to give assistance to provinces that provided a pension to British subjects 70 and older.
1952	The *Old Age Security Act* came into force, establishing a federally funded pension. It replaced the 1927 legislation that required the federal government to share the cost of provincially run, means-tested old age benefits.
1965	Amendments to the *Old Age Security Act* lowered the eligible age for the OAS pension to 65, one year at a time, starting in 1966 at the age of 69.
1966	The CPP and QPP came into force on January 1, 1966.
1967	The Guaranteed Income Supplement was established under the Old Age Security program.
1972	Full annual cost-of-living indexation was introduced for OAS.
1973	Quarterly indexation was introduced for the Old Age Security program.
1974	Full annual cost-of-living indexation was introduced for the CPP.
1975	The Spouse's Allowance was established as part of the Old Age Security program.
1975	The same Canada Pension Plan benefits became available to male and female contributors, as well as to their surviving spouses or common-law partners and dependent children.
1975	The retirement and employment earnings test for Canada Pension Plan retirement pensions at the age of 65 was eliminated (a contributor can, upon application, receive his or her retirement pension the month following his or her 65th birthday, but can no longer contribute to the CPP).
1977	The payment of partial Old Age Security pensions was permitted, based on years of residence in Canada.
1978	Periods of zero or low earnings while caring for the contributor's child under the age of seven were excluded from the calculation of Canada Pension Plan benefits.
1978	Canada Pension Plan pension credits could be split between spouses in the event of a marriage breakdown (CPP credit splitting).
1985	Under OAS, the Spouse's Allowance was extended to all low-income widows and widowers aged 60 to 64.

(1) From the Web site of the Canadian Museum of Civilization, "The History of Canada's Public Pensions," http://www.civilization.ca/hist/pensions/cpp-timeline_e.html.

1987	Several new CPP provisions came into effect, including: · flexible retirement benefits payable as early as the age of 60; · increased disability benefits; · continuation of survivor benefits if the survivor remarries; · sharing of retirement pensions between spouses or common-law partners; · expansion of credit splitting to cover the separation of married or common-law partners.
1989	The repayment of OAS benefits or "claw back" was introduced.
1991	Legislation was passed to assist those people who were denied CPP credit splitting as a result of a spousal agreement entered into prior to June 4, 1986.
1992	Three major amendments to the CPP came into effect: · A new 25-year schedule for employer-employee contribution rates was established. · Children's benefits were increased. · Provision was made for individuals who were denied disability benefits because of late application.
1995	· The period of retroactivity for OAS benefits changed from five years to one year. · Individuals were permitted to request that their OAS benefits be cancelled.
1998	· The CPP moved from pay-as-you-go financing to fuller funding. · Contribution rates were increased. · A new investment policy was introduced.
2000	All OAS and CPP benefits and obligations were extended to same-sex, common-law couples.