

Catalogue no. 75-001-XIE



PERSPECTIVES

ON LABOUR AND INCOME

APRIL 2006

Vol. 7, No. 4

■ **CRACKING THE RRSP
NEST EGG**

■ **ON SICK LEAVE**



Statistics
Canada

Statistique
Canada

Canada

At Your Service...

How to obtain more information

Specific inquiries about this product and related statistics or services should be directed to: *Perspectives on Labour and Income*, 9 A-6 Jean Talon, Statistics Canada, Ottawa, Ontario, K1A 0T6 (telephone: (613) 951-4628; e-mail: perspectives@statcan.ca).

For information on the wide range of data available from Statistics Canada, you can contact us by calling one of our toll-free numbers. You can also contact us by e-mail or by visiting our website at www.statcan.ca.

National inquiries line	1 800 263-1136
National telecommunications device for the hearing impaired	1 800 363-7629
Depository Services Program inquiries	1 800 700-1033
Fax line for Depository Services Program	1 800 889-9734
E-mail inquiries	infostats@statcan.ca
Website	www.statcan.ca

Information to access the product

This product, catalogue no. 75-001-XIE, is available for free in electronic format. To obtain a single issue, visit our website at www.statcan.ca and select Our Products and Services.

Standards of service to the public

Statistics Canada is committed to serving its clients in a prompt, reliable and courteous manner and in the official language of their choice. To this end, the agency has developed standards of service that its employees observe in serving its clients. To obtain a copy of these service standards, please contact Statistics Canada toll free at 1 800 263-1136. The service standards are also published on www.statca.ca under About Statistics Canada > Providing services to Canadians.

Perspectives on Labour and Income

(Catalogue no. 75-001-XIE; aussi disponible en français: *L'emploi et le revenu en perspective*, n° 75-001-XIF au catalogue) is published monthly by authority of the Minister responsible for Statistics Canada. ©Minister of Industry 2006. ISSN: 1492-496X.

All rights reserved. The content of this electronic publication may be reproduced, in whole or in part, and by any means, without further permission from Statistics Canada, subject to the following conditions: that it be done solely for the purposes of private study, research, criticism, review or newspaper summary, and/or for non-commercial purposes; and that Statistics Canada be fully acknowledged as follows: Source (or "Adapted from", if appropriate): Statistics Canada, year of publication, name of product, catalogue number, volume and issue numbers, reference period and page(s). Otherwise, no part of this publication may be reproduced, stored in a retrieval system or transmitted in any form, by any means—electronic, mechanical or photocopy—or for any purposes without prior written permission of Licensing Services, Client Services Division, Statistics Canada, Ottawa, Ontario, Canada K1A 0T6.

Symbols

The following standard symbols are used in Statistics Canada publications:

.	not available for any reference period
-	not available for a specific reference period
...	not applicable
p	preliminary
r	revised
x	confidential
E	use with caution
F	too unreliable to be published

Highlights

In this issue

■ Cracking the RRSP nest egg

- Mandatory conversion of RRSPs substantially boosts the income of 70 year-olds—an average of about \$1,600 or 6.6% of taxable income in 2002. At the same time, some other forms of income are declining, so the net increase in taxable income is much less—\$800 in 2002.
- The income effect of mandatory conversion is increasing over time, indicating that younger cohorts have greater RRSP assets when they reach age 69 than those who preceded them. More of the converted assets are now being managed in RRIFs as opposed to annuities.
- High-income earners are much more likely to have a substantial RRSP-related boost in income than those earning less. More than half of the top income quintile had an increase of over \$2,400 compared with 1 in 20 of the bottom quintile. Hence, much of the income generated by mandatory conversion will be taxed at relatively high marginal rates.
- Very few seniors rely on RRSPs for a significant proportion of their income prior to age 70. Just 2.4% made annual RRSP withdrawals that accounted for over one-quarter of their income. For this group, taxable income actually declined at age 70.

- Seniors who continue to earn most of their income from employment at age 69 tend to be high-income professionals. For them, mandatory conversion results in an average RRSP-generated boost in income of more than \$7,000, softening to \$5,100 after netting out declines from other sources.

■ On sick leave

- In 2003, long-term absences from work (two weeks or more) due to illness or disability averaged 11 weeks and cost \$8,800 each.
- While the rate for long-term absences for personal illness or disability was relatively stable—3.9% in 1993 and 3.7% in 2003, the rate for absences that were work-related fell steadily—from 1.8% to 1.4%.
- Prior health issues, age, job permanency, and having a unionized job with extended medical or disability coverage, all significantly increased the likelihood of an extended absence.
- Absences lasting upwards of four months had consequences, including negative health, stress, career stagnation, and heightened chances of being on leave again the next year.

Perspectives

PERSPECTIVES

ON LABOUR AND INCOME

THE COMPREHENSIVE JOURNAL

on labour and income
from Statistics Canada

Yes, I want PERSPECTIVES ON LABOUR AND INCOME
(Catalogue no. 75-001-XPE).

Save
by extending your
subscription!
Save 20%
by subscribing for 2 years!
Only \$100.80 (plus taxes)
Save 30%
by subscribing for 3 years!
Only \$132.30
(plus taxes)

Subscribe to *Perspectives on Labour and Income* today!

ORDER FORM	MAIL Statistics Canada Finance Division R.H. Coats Bldg., 6th floor 120 Parkdale Avenue Ottawa, Ontario Canada K1A 0T6	PHONE 1 800 267-6677 Quote PF026100	FAX 1 877 287-436 (613) 951-0581	E-MAIL Infostats@statcan.ca	METHOD OF PAYMENT (Check only one)																			
	Name _____				Charge to my: <input type="checkbox"/> MasterCard <input type="checkbox"/> VISA <input type="checkbox"/> American Express																			
	Company _____ Department _____		Card Number _____ Expiry Date _____		Authorized Signature _____																			
	Address _____ City _____ Province _____		Cardholder (Please print) _____		<input type="checkbox"/> Payment Enclosed \$ _____																			
	Postal Code _____ Phone _____ Fax _____		Authorized Signature _____		_____																			
	E-Mail address _____				<table border="1"> <thead> <tr> <th>Subscription</th> <th>Price (CDN \$)</th> <th>Quantity</th> <th>Total CDN \$</th> </tr> </thead> <tbody> <tr> <td>1 year</td> <td>63.00</td> <td></td> <td></td> </tr> <tr> <td>2 years</td> <td>100.80</td> <td></td> <td></td> </tr> <tr> <td>3 years</td> <td>132.30</td> <td></td> <td></td> </tr> </tbody> </table>				Subscription	Price (CDN \$)	Quantity	Total CDN \$	1 year	63.00			2 years	100.80			3 years	132.30		
	Subscription	Price (CDN \$)	Quantity	Total CDN \$																				
	1 year	63.00																						
	2 years	100.80																						
	3 years	132.30																						
Catalogue No. 75-001-XPE	Title Perspectives on Labour and Income			Subtotal _____																				
No shipping charges for delivery in Canada. Outside Canada, please add shipping charges as indicated. Canadian clients add either 7% GST and applicable PST or HST (GST Registration No. R121491807). Clients outside Canada pay in Canadian dollars drawn on a Canadian bank or pay in equivalent US dollars, converted at the prevailing daily exchange rate, drawn on a US bank. Federal government departments must include with all orders their IS Organization Code _____ and IS Reference Code _____.				Applicable GST (7%) _____																				
Your personal information is protected by the Privacy Act. Statistics Canada will use your information only to complete this sales transaction, deliver your product(s), announce product updates and administer your account. From time to time, we may also offer you other Statistics Canada products and services or ask you to participate in our market research.				Applicable PST _____																				
If you do not wish to be contacted again for promotional purposes <input type="checkbox"/> and/or market research <input type="checkbox"/> , check as appropriate.				Applicable HST (N.S., N.B., N.L.) _____																				
				Shipping charges U.S. CDN \$24, other countries CDN \$40																				
				Grand Total _____																				

Cracking the RRSP nest egg

Ted Wannell

A registered retirement savings plan (RRSP) constitutes a key component of retirement income planning in Canada. RRSPs allow individuals to save pre-tax dollars in a variety of investment instruments wherein interest, dividends and capital gains accrue tax free until the funds are withdrawn. RRSPs work in conjunction with employer-provided registered pension plans (RPPs) to supplement the basic public pension plans: Old Age Security and Guaranteed Income Supplement (OAS/GIS), and the Canada and Quebec Pension Plans (C/QPP).

The tax-sheltering features of RRSPs have made them very popular investment vehicles, heavily promoted by the financial services industry. As of 1999—the last year a comprehensive wealth survey was conducted—half of all families and unattached individuals held RRSPs totalling \$343 billion. This accounted for 9.8% of all household assets, following principal residences (31.5%), employer pension plans (17.3%), and business equity (10.1%). The foregone tax revenue on RRSP deductions and the income generated by this wealth is estimated to be more than 1% of GDP annually—about \$10 billion (Canada 2004).¹

However, the taxman will eventually receive his due. RRSPs must be converted into an annuity or a registered retirement income fund (RRIF) in the year the taxpayer turns 69, with prescribed minimum withdrawals starting the following year. Income tax is then paid at the applicable marginal rate. The basic planning assumption is that this rate will probably be lower than when the contributions were made, since income is generally lower after retirement. Nonetheless, RRSP withdrawals already generate significant tax revenues—estimated at over \$4 billion in 2002 (Canada 2004).

Ted Wannell is with the Labour and Household Surveys Analysis Division. He can be reached at (613) 951-3546 or perspectives@statcan.ca.

These should continue to grow rapidly, given the aging of the population, the increasing wealth held in RRSPs, and the characteristics of RRSP investors.

Past research on RRSP contributors found employees belonging to registered pension plans (RPPs) far more likely to contribute than those without pension plans (Akyeampong 1999). Although subsequent research indicated that the elevated contribution rates of RPP members had more to do with other personal and job characteristics (Palameta 2001, 2003), the fact remains that 60.4% of RRSP contributors can count on collecting employer pensions on top of OAS/GIS and C/QPP benefits. Moreover, those with at least some RPP assets held 62.8% of the RRSP wealth in 1999. These facts would indicate that much of the income stream flowing out of RRIFs will be taxed at relatively high marginal rates.

Some financial writers have taken note of the downstream tax consequences of RRSP investing (for example, Cestnick 2003), pointing out that at some juncture it becomes more advantageous for a high-income earner to invest in non-registered instruments. Two factors need to be considered: Capital withdrawals from non-registered instruments are not subject to income tax (unlike with RRIFs), and some forms of investment income (notably dividends and capital gains) are taxed at lower rates.

Other commentators have questioned the wisdom of RRSP saving at the lower end of the income spectrum (for example, Shillington 2003; Hamilton 2001), arguing that current-year deductions are negligible for most low-income earners, whose marginal income tax rates are low or even zero. More importantly, if their savings do grow to the extent that they could provide a significant stream of income in retirement, much of that extra money would be clawed back from means-tested income support programs (OAS/GIS) or other social benefits (such as subsidized housing).

These issues have spawned proposals for an alternate form of registered saving: tax pre-paid accounts (Poschmann and Robson 2004). Such accounts, referred to as Roth plans in the United States, offer no deduction for contributions, but tax-free withdrawals in retirement. Proponents argue that such plans could solve some of the retirement savings dilemmas of both high- and low-income workers.

For a topic of interest to many groups—policy-makers, financial planners, individual savers, and those marketing goods and services to seniors—precious little hard information is available on RRIF income. That void can be partially filled by exploiting the Longitudinal Administrative Databank (LAD), the largest available source for RRSP-generated income, to document the apparent size of the mandatory conversion effect and its differential impact across the income spectrum and various groups of interest (see *Data source and definitions*).

Some bumps in the road

The ideal data source for RRSP-generated income would have several attributes:

- details on all the different types of RRSP-generated income—withdrawals, pre-age-69 annuities, mandatory conversion annuities, and RRIF withdrawals
- information on all other sources of income
- individual and family characteristics

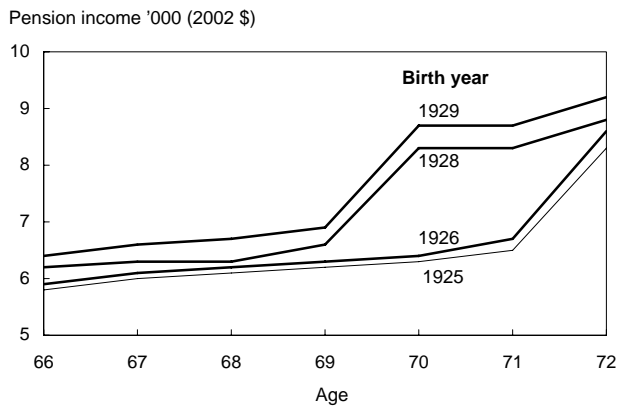
- multiple years of data
- a sample large enough to allow robust inferences regarding relatively small, specific groups

Currently, no sample survey comes close to meeting all these criteria. However, the LAD—an amalgam of income tax and other information—provides enough information and a large enough sample to examine the impact of mandatory conversion.

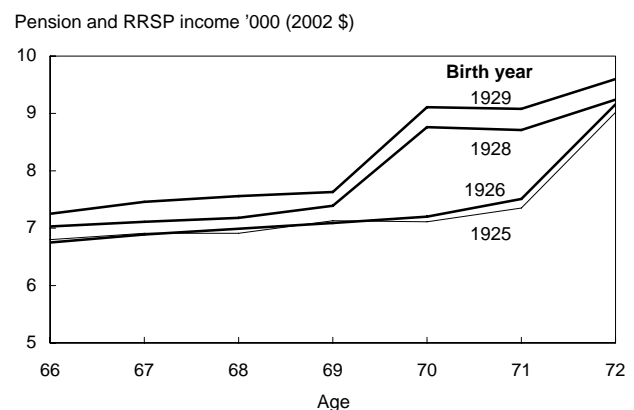
Its main shortcoming is the compression of RRSP-generated income into two variables: T4RSP income, and pension income (PI). The former includes direct withdrawals from RRSPs and income from RRSP-financed annuities. Combining these two represents very little loss of specificity since both are fully RRSP-financed. On the other hand, PI includes RRIF-generated income and income from employer pension plans (C/QPP income is recorded separately). However, the longitudinal nature of the data allows an approximation of the mandatory conversion effect by looking at the change in PI from age 69 to age 70, where the effect is clearly observable.

Since the tax effects of mandatory conversion are also of interest, changes to the federal and provincial income tax codes introduce another confounding factor. A series of reductions to the federal marginal tax rates was announced in 1999, potentially making it difficult to untangle the impact of mandatory conversion on effective tax rates. Fortunately (for taxpayers and this analysis), the rate reductions were accelerated

Chart A Mandatory conversion causes a sharp increase in T4 pension income ...



... which is partially offset by the drop in RRSP withdrawals.



Source: Longitudinal Administrative Databank, 2001-2002

between the 2000 and 2001 tax years, leaving rates stable between 2001 and 2002, the focus of much of the analysis.²

Mandatory conversion provides income boost

The effects of mandatory conversion can be seen in PI, which shows a significant jump at age 70 in recent years and at age 72 before the mandatory conversion age was lowered for the 1997 tax year (Chart A). Average PI typically increases by about 25% (about \$1,800) at the time of conversion.

However, looking solely at PI overestimates the income effect of mandatory conversion since T4RSP income (from RRSP withdrawals and RRSP-generated annuities) falls by about \$300 at the same time. So the net effect is closer to \$1,500.

RRSP-generated income has been rising across birth cohorts, indicating that RRSP assets are increasing for younger cohorts relative to older ones. What is not immediately obvious is that annuity income after age 69 (residual T4RSP income) has been declining across cohorts, indicating a trend towards managing assets within RRIFs rather than exercising the annuity option at mandatory conversion.

Average mandatory conversion effect is small in relation to total income

Among seniors, income generally declines with age. Employment income falls due to both declining employment rates and fewer working hours among those who continue to hold jobs. The real value of private pension income may fall for those with non-indexed pensions. And, investment income may also decline as seniors draw down their assets.

To illustrate, mandatory conversion provided a net boost of about \$1,600 for 70 year-olds in 2002, equivalent to 6.6% of their 2001 income (Table 1). However, their taxable income increased by only \$800 (3.2%). So the boost from mandatory conversion represents a temporary upward shift in a generally declining age-income profile for seniors.

These findings also give a first glimpse of the tax consequences of mandatory conversion. Average taxes paid increased from \$4,000 in 2001 to \$4,200 in 2002. This increase (about \$40 million for the entire cohort) is the lower bound of the taxation boost fuelled by mandatory conversion.³ Although the increase in taxes

Table 1 Income change at mandatory conversion for all taxfilers

	2001 Age 69	2002 Age 70
		\$
Total taxable income	24,900	25,700
Pension income	7,000	9,000
T4RSP income	700	350
All other	17,200	16,350
Taxes paid	4,000	4,200
Effective tax rate (%)	16.1	16.3

Source: Longitudinal Administrative Databank

paid nudges the average tax rate only from 16.1% in 2001 to 16.3% in 2002, it represents an effective tax rate of 25.0% on the \$800 increase in taxable income.

Mandatory conversion effect increases with income

Previous research has shown, not surprisingly, that high-income earners contribute more to RRSP accounts and accumulate more RRSP wealth. Since they are also more likely to have registered pension plans and other financial assets, high-income earners may have little need to withdraw from their RRSP accounts prior to mandatory conversion. These factors should combine to produce a much stronger mandatory conversion effect, which is indeed the case.

Dividing 69-year-old taxfilers into five equal groups sorted by income shows that the percentage within each quintile who experienced more than a \$2,400 increase in PI from age 69 to age 70 rises steadily from 5% in the lowest quintile to 56% in the top (Chart B).

The situation is similar if a relative, as opposed to absolute, increase in income is used as the measure. Just 3% of the bottom quintile experienced more than a 5% increase in income at age 70, compared with 43% in the top quintile. Clearly, income matters in terms of mandatory conversion, indicating that much of the outflow from RRSPs will be taxed at relatively high marginal rates.

Data source and definitions

The **Longitudinal Administrative Databank (LAD)** is based on a 20% sample of T1 tax records. The charts in the article focus on all individuals who filed valid returns in the stated age and year combinations. The tables are based on approximately 202,000 individuals whose 69th birthday fell in 2001 and who filed valid returns in 2001 and 2002. This pair of years was chosen since minimal changes in federal tax rates occurred then. The marginal rate boundaries for federal income tax were adjusted for inflation, and income items in this study have been adjusted accordingly (to 2002 dollars). Other recent year pairs yielded similar results for income items, but the tax results were more variable because of changes to the federal marginal rates.

Registered retirement savings plans (RRSPs) are for individuals, including the self-employed. They are registered for purposes of the federal *Income Tax Act*. Contribution limits are based on earned income and the presence of any employer-sponsored pension plan. An RRSP's value is based on accumulated contributions and return on investment. Contributions are tax-deductible and the investment income is tax-deferred, but withdrawals are taxable.

Registered retirement income funds (RRIFs) are for individuals, established at financial institutions, and registered under the *Income Tax Act*. They are meant to provide income in retirement. RRIFs are established by transferring monies directly from RRSPs or registered pension plans. Withdrawals from a RRIF are taxable. A minimum amount must be withdrawn each year, beginning the year after the RRIF is established.

The **Canada and Quebec Pension Plans (C/QPP)** are contributory, earnings-related, social insurance programs that ensure a measure of income protection for contributors and their families against the loss of income due to retirement, disability or death.

Old Age Security (OAS) is a taxable monthly payment to Canadians 65 and older, based on years of residency in Canada. The **Guaranteed Income Supplement (GIS)** is a non-taxable benefit paid to lower-income OAS recipients. Both are income-tested and can be clawed back as income increases.

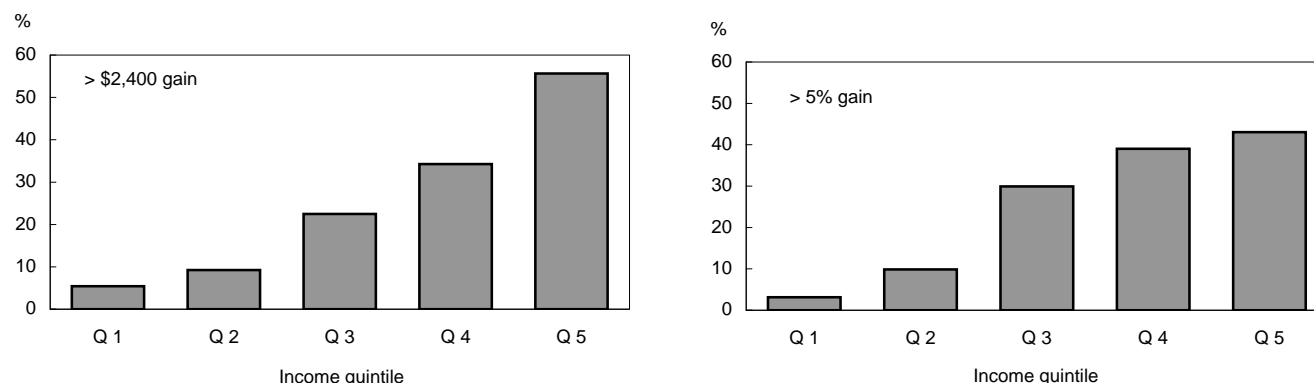
Registered pension plans (RPPs) are sponsored by employers or unions and usually funded through contributions by both employees and employers. RPPs must satisfy certain conditions and be registered for purposes of the federal *Income Tax Act*. Contributions to RPPs are tax-deductible and their investment income is tax-deferred, but payments from them are taxable.

The **effective average tax rate** is the ratio of taxes paid to taxable income. This is also referred to as the ratio of averages or aggregate tax rate.

The **marginal tax rate** is not used since it connotes the tax rate on the highest dollar of income at the individual level—a figure not calculated here. Moreover, it may imply that clawbacks have been accounted for. As long as the taxes paid remain at zero (fairly common for low-income seniors), clawback effects will not be observed with the effective average tax rate calculation (see *Means testing for OAS and GIS*).

(Definitions have been adapted from the Department of Finance glossary of frequently used terms. Internet: www.fin.gc.ca/gloss/gloss-e.html.)

Chart B The effects of mandatory conversion increase with income in both absolute and relative terms.



Source: Longitudinal Administrative Databank, 2001-2002

Groups of interest

While financial planners may promote investment strategies that apply to broad cross-sections of the population, the circumstances of the individual must be considered. For some, commentators have questioned the merit of RRSPs; for others, RRSP income is inherently an important part of their retirement income. These two groups inhabit mainly the high and low ends of the income spectrum.

Seniors reliant on public pensions

The evolving public pension system—comprising OAS/GIS and the C/QPP—has been instrumental in raising the average income of seniors, keeping many above the low-income cutoff line (Myles 2000). At the same time, many seniors have become increasingly reliant on these payments, which now account for a greater proportion of seniors' income than in the past.

As noted, RRSPs are a less tax-efficient strategy for low-income earners since the tax breaks associated with both the initial investment and the investment

growth are relatively small, given the progressive nature of the income tax system. Many low-income earners pay no tax and even more pay at very low marginal rates (Table 2). RRSP savings thus provide them with little in the way of tax relief, while the downstream withdrawals may affect means-tested social benefits such as the OAS/GIS (see *Means testing for OAS and GIS*).

In 2001, nearly a third of 69 year-olds (32.3%) were reliant on public pensions for at least three-quarters of their total income. One in five of these individuals had some PI in that year, averaging \$1,800. After mandatory conversion, almost a third (31.8%) collected PI averaging \$2,600. Although average effective tax rates were very low among those reliant on public pensions, 1.2% in the year they turned 69, the rate rose to 1.7% the following year—an effective tax rate of 12.0% on the increased income after mandatory conversion.

If the population is further limited to those almost entirely reliant on OAS/GIS, the effective tax rate is 0% for each year, even though small proportions do collect some PI (1.7% at age 69 and 5.9% at age 70).

Table 2 Mandatory conversion and reliance on C/QPP and OAS/GIS

	2001 Age 69	2002 Age 70
Over 75% of income (32.3%)		\$
Total taxable income	9,400	9,900
Pension income	370	820
T4RSP income	110	70
All other	8,920	9,010
Taxes paid	110	170
Effective tax rate (%)	1.2	1.7
50% to 75% of income (23.3%)		
Total taxable income	17,500	18,200
Pension income	3,900	5,200
T4RSP income	550	240
All other	13,050	12,760
Taxes paid	1,100	1,300
Effective tax rate (%)	6.3	7.1
Less than 50% of income (44.4%)		
Total taxable income	40,100	41,200
Pension income	13,500	16,900
T4RSP income	1,200	610
All other	25,400	23,690
Taxes paid	8,300	8,600
Effective tax rate (%)	20.7	20.9

Source: Longitudinal Administrative Databank

Means testing for OAS and GIS

OAS is a residency-based, taxable social benefit for those 65 and older. It is intended as a base level of income support for seniors and is clawed back only at quite high levels of individual income. During the final quarter of 2002, the maximum monthly OAS benefit was \$449. At that time, benefits were reduced by 15 cents per dollar of annual income in excess of \$56,968.

The GIS is a non-taxable benefit targeted specifically to low-income seniors. In the final quarter of 2002, it paid a maximum of \$534 to those living alone or \$348 to each spouse in a senior couple. An allowance is available for spouses or widowed spouses (aged 60 to 64) of GIS recipients.

The GIS and Allowance are clawed back at much higher rates than the OAS. The GIS is reduced by 50 cents for every dollar of non-OAS income. The Allowance consists of both an OAS and a GIS component; the OAS component is reduced by 75 cents per dollar, the GIS component by 50 cents.

The means testing of other social benefits, such as rent subsidies and provincial drug benefits, could conceivably result in situations where the tax-back rate on RRSP-generated income approaches or exceeds 100%. In other words, RRSP income could make some low-income seniors less well off. In addition, high clawback rates are a disincentive for low-income seniors to participate in the labour market, since the added earnings may not result in net financial improvement.

One would expect to see some reduction in average OAS/GIS corresponding to an increase in PI, but the small amounts involved (\$50 on average) may be offset by, for example, a small increase in the percentage receiving the GIS (Table 3).

Some small declines in OAS/GIS were evident among those with somewhat less reliance on this program (for whom it represented between 50% and 90% of total income—data not shown). For these individuals, mandatory conversion coincides with an average increase of \$200 to \$300 in total income and an average loss of \$100 in GIS. This corresponds to the GIS tax-back rate of 50%. Rough calculations indicate that this situation could affect up to 1 in 20 seniors at mandatory conversion.⁴

Table 3 Mandatory conversion and reliance on OAS/GIS

	2001 Age 69	2002 Age 70
90% and over of income (4.4%)		
Total taxable income	4,800	5,000
Pension income	20	90
T4RSP income	10	10
All other	4,770	4,900
Taxes paid	0	0
Effective tax rate (%)
70% to less than 90% of income (8.7%)		
Total taxable income	6,300	6,500
Pension income	70	220
T4RSP income	50	30
All other	6,180	6,250
Taxes paid	10	30
Effective tax rate (%)	0.2	0.5
50% to less than 70% of income (12.6%)		
Total taxable income	9,900	10,200
Pension income	370	790
T4RSP income	150	50
All other	9,380	9,360
Taxes paid	50	100
Effective tax rate (%)	0.5	1.0
Less than 50% of income (74.3%)		
Total taxable income	30,900	31,800
Pension income	9,400	11,900
T4RSP income	920	460
All other	20,580	19,440
Taxes paid	5,400	5,600
Effective tax rate (%)	17.5	17.6

Source: Longitudinal Administrative Databank

Substantial employer pensions

At the other end of the spectrum are seniors with employer pensions exceeding their combined C/QPP and OAS/GIS. Just one in five 69 year-olds fit this definition, and their average income was more than double that of the other 80%—\$43,000 compared with \$20,200 (Table 4). At mandatory conversion, average PI for this group increased by \$2,400 (\$1,860 after accounting for the drop in RRSP withdrawals). This compares with a \$1,900 increase (\$1,580 netting out RRSP withdrawals) for the remaining population. So mandatory conversion does *not* have a disproportionate effect on those with substantial employer pensions.

Tax rates may be more of a concern to higher-income seniors, such as those with significant pension benefits. With their greater income, those with substantial pension benefits pay taxes at a higher average rate than other seniors, 20.5% versus 13.9%. The average tax remained the same for both groups at age 69 and 70, with only slightly higher average rates on the increase in average income.

Early RRSP withdrawers

Significant RRSP withdrawals prior to mandatory conversion may be an indicator of seniors who have not saved adequately to match their spending habits.

Table 4 Mandatory conversion and significant employer pensions

	2001 Age 69	2002 Age 70
T4 pension income less than or equal to C/QPP + OAS/GIS (79.5%)		
Total taxable income	20,200	20,900
Pension income	2,300	4,200
T4RSP income	610	290
All other	17,290	16,410
Taxes paid	2,800	2,900
Effective tax rate (%)	13.9	13.9
T4 pension income larger than C/QPP + OAS/GIS (20.5%)		
Total taxable income	43,000	44,300
Pension income	25,100	27,500
T4RSP income	1,100	560
All other	16,800	16,240
Taxes paid	8,800	9,100
Effective tax rate (%)	20.5	20.5

Source: Longitudinal Administrative Databank

Alternatively, these withdrawals could be a gauge of high levels of RRSP wealth being drawn down to smooth income and taxes across one's remaining years. It could also be that some seniors are drawing down RRSPs before age 69 to avoid GIS or OAS clawbacks. Each argument finds some support in the data.

Very few 69 year-olds relied on RRSP withdrawals for more than a quarter of their income, just 2.4% (Table 5). Their average withdrawal of \$11,300 boosted mean taxable income to \$29,500. However, mandatory conversion coincided with a drop of \$8,000 in RRSP withdrawals and only a \$5,400 increase in PI. Tallying up all sources, their total income actually dropped by \$1,400 after mandatory conversion. For this group, then, the conversion process may serve as a signal to curb spending.

Those who withdrew more moderate sums from their RRSP prior to conversion better fit the mould of income smoothers. For the one in five 69 year-olds whose RRSP withdrawals made up 25% or less of their income, very small increases in total income (from

\$28,800 to \$29,000) coincided with mandatory conversion, along with a small decline in taxes paid. In comparison, those with no RRSP withdrawal at age 69 experienced a \$1,000 rise in total income (from \$23,800 to \$24,800) and a corresponding rise in their average tax rate.

Senior workers

Another strategy for those who have not saved enough for a comfortable retirement is to continue working past age 65. But the GIS clawback likely provides an employment disincentive to many low-income seniors. Overall, just one in eight 69 year-olds relied on employment or self-employment earnings for at least a fifth of their income, and only one in twenty-five earned enough to account for more than 60% of total income (Table 6). And the income profile of these older workers suggests that many are self-employed professionals who likely do not have substantial employer pensions.

The 69 year-olds who earned more than 60% of their total income from employment brought in an average of \$78,400 from all taxable sources in 2001—of which only \$2,200 came from PI. These individuals experienced a huge increase in PI after mandatory conversion, more than quadrupling to \$9,600. Although other sources of income drop somewhat, their average total income still increased by \$5,100, adding \$1,500 to their tax bill.

Seniors who rely less on employment income generally have lower taxable income, but higher levels of pension income prior to mandatory conversion. Those who earned between 20% and 60% of their taxable income from employment averaged \$35,600 in total income. This dropped to \$21,500 for those who counted on employment for less than a fifth of their total income (the vast majority of 69 year-olds). Despite their lower total income, these seniors did have higher levels of PI (\$7,400) at age 69 than those who worked more. Those who continued to work, however, had greater RRSP savings, since mandatory conversion corresponds with greater increases in PI for senior workers. As a result, all three groups had similar levels of PI at age 70.

Conclusion

RRSPs are tax-advantaged savings vehicles that constitute the third pillar of the retirement income system in Canada, the other two being public pensions (OAS/GIS and C/QPP) and registered pension plans

Table 5 Mandatory conversion and RRSP withdrawals

	2001 Age 69	2002 Age 70
Over 25% of income (2.4%)		\$
Total taxable income	29,500	28,100
Pension income	5,800	11,200
T4RSP income	11,300	3,300
All other	12,400	13,600
Taxes paid	4,900	4,200
Effective tax rate (%)	16.6	14.9
Over 0% to 25% of income (20.4%)		
Total taxable income	28,800	29,000
Pension income	10,100	12,300
T4RSP income	2,100	760
All other	16,600	15,940
Taxes paid	4,500	4,500
Effective tax rate (%)	15.6	15.5
No withdrawal (77.2%)		
Total taxable income	23,800	24,800
Pension income	6,200	8,000
T4RSP income	0	150
All other	17,600	16,650
Taxes paid	3,800	4,100
Effective tax rate (%)	16.0	16.5

Source: Longitudinal Administrative Databank

Table 6 Mandatory conversion and senior workers earnings

	2001 Age 69	2002 Age 70
Over 60% of income (3.9%)		
Total taxable income	78,400	83,500
Pension income	2,200	9,600
T4RSP income	760	740
All other	75,440	73,160
Taxes paid	24,600	26,100
Effective tax rate (%)	31.4	31.3
Over 20% to 60% of income (8.7%)		
Total taxable income	35,600	36,000
Pension income	5,600	9,400
T4RSP income	910	460
All other	29,090	26,140
Taxes paid	6,800	7,000
Effective tax rate (%)	19.1	19.4
20% or less of income (87.4%)		
Total taxable income	21,500	22,100
Pension income	7,400	8,900
T4RSP income	680	320
All other	13,420	12,880
Taxes paid	2,800	2,900
Effective tax rate (%)	13.0	13.1

Source: Longitudinal Administrative Databank

through an employer. RRSPs are converted into income by way of direct withdrawals or conversion to annuities or RRIFs. RRSPs must be converted into annuities or RRIFs in the calendar year of the holder's 69th birthday, with minimum withdrawals mandated for subsequent years.

Mandatory conversion provided an average income boost of about \$1,600 for 70 year-olds in 2002, at a time when other sources of income are generally declining. Since RRIF income is taxed at an individual's marginal rate, the income raises the average effective tax rate and total taxes paid by 70 year-olds. However, this is the basic covenant of the system: RRSP deposits are deducted from taxable income in the year they are made and compound tax free, while withdrawals are likely to occur at lower levels of income and marginal tax rates in retirement.

Of course, no system is perfect for all people. Commentators have noted that RRSPs may not be the most appropriate retirement vehicle for people at the extreme high or low end of the income spectrum.

High-income earners are much more likely to have significant income gains coincident with mandatory conversion, with such gains being taxed at relatively high effective rates. As for low-income earners, a small percentage lose some of their GIS entitlement as a result of RRIF income coming on stream. Some analysts have proposed tax-prepaid retirement savings accounts to fit the needs of these groups. Alternatively, sound financial planning could help to optimize savings and income under the current regime.

Very few individuals currently rely on RRSP-generated income for a significant proportion of their income prior to their 70th birthday. Even after mandatory conversion, RRIFs and RRSP-generated annuities account for less than 10% of total income. In absolute terms, seniors who continue earning substantial employment income at age 69 do experience large mandatory conversion effects, but these are generally high-income individuals whose average RRSP-generated income barely surpasses the 10% threshold.

The mandatory conversion effect has been increasing over time, indicating that successive cohorts of Canadians have higher and higher levels of RRSP saving. Other research indicates that employers may increasingly be offering group RRSPs as an alternative to traditional registered pension plans (Morissette and Drolet 2001). These trends indicate that RRSP wealth is likely to become a more important component of seniors' income in the future. As such, data development to provide more precise information on RRSP-generated income merits serious consideration. Further research is also required to better identify the distributional, as opposed to the average, effects within subgroups of particular interest to policy-makers and the financial planning community.

Perspectives

■ Notes

1 The 1% of GDP estimate represents a long-term rule of thumb since annual estimates of the foregone taxes are highly variable. The most volatile element is the foregone revenue on capital gains and investment income from RRSP wealth. This component is correlated with financial market swings. The other main component is income tax deductions for annual RRSP contribution. This component is correlated with the inflows to RRSP accounts and marginal tax rates.

2 The bracket boundaries were adjusted upward in 2002 to account for inflation, but all income reported in this article has also been adjusted for inflation.

3 The upper bound would be approximately double the lower bound considering the net income increase of \$1,600 related to mandatory conversion. Since the income boost might cause some seniors to work fewer hours (earning less employment income) than would otherwise be the case, this 'substitution effect' would place the true tax revenue effect of mandatory conversion somewhere between the two bounds.

4 The maximum potential proportion experiencing a GIS clawback should be roughly equal to the proportion of the population in the categories experiencing a decline in average GIS payments times the proportion of those categories with non-zero PI at age 70.

■ References

Akyeampong, Ernest. 1999. "Saving for retirement: RRSPs and RPPs." *Perspectives on Labour and Income* (Statistics Canada catalogue no. 75-001-XPE) 11, no. 2 (Summer): 21-27.

Canada. Department of Finance. 2004. *Tax Expenditures and Evaluations*. Internet: http://www.fin.gc.ca/toce/2004/taxexp04_e.html.

Cestnick, Tim. 2003. "To RRSP or not: six issues to weigh." *Globe and Mail*. January 29, 2003, p G3. Internet: <http://www.globeinvestor.com/servlet/ArticleNews/print/gam/20030129/RRCESTY>.

Hamilton, Malcolm. 2001. "The financial circumstances of elderly Canadians and the implications for the design of Canada's retirement income system." In *The State of Economics in Canada: Festschrift in Honour of David Slater*. Edited by Patrick Grady and Andrew Sharpe. pp. 225-253. Montreal: McGill-Queen's University Press.

Morissette, René and Marie Drolet. 2001. "Pension coverage and retirement savings." *Perspectives on Labour and Income* (Statistics Canada catalogue no. 75-001-XPE) 13, no. 2 (Summer): 39-48.

Myles, John. 2000. *The Maturation of Canada's Retirement Income System: Income Levels, Income Inequality and Low Income among the Elderly*. Analytical Studies Research Paper Series. Catalogue no. 11F0019MIE, no. 147. Ottawa: Statistics Canada.

Palameta, Boris. 2001. "Who contributes to RRSPs? A re-examination." *Perspectives on Labour and Income* (Statistics Canada catalogue no. 75-001-XIE). July 2001 online edition.

---. 2003. "Profiling RRSP contributors." *Perspectives on Labour and Income* (Statistics Canada catalogue no. 75-001-XIE). January 2003 online edition.

Poschmann, Finn and William B.P. Robson. 2004. *Saving's Grace: A Framework to Promote Financial Independence for Low-Income Canadians*. Backgrounder no. 86. C.D. Howe Institute.

Shillington, Richard. 2003. *New Poverty Traps: Means-Testing and Modest-Income Seniors*. Backgrounder no. 65. C.D. Howe Institute.

On sick leave

Katherine Marshall

Long-term absences from work because of illness or disability can be costly for an employer. Direct costs include reduced productivity and output as well as replacement of labour, while indirect costs show up in reduced staff morale and lower quality of output. Increasing work stress (Williams 2003; Watson Wyatt 2003) and an aging workforce are just two reasons why absences remain a relevant workplace issue. Strategies for reducing them include improved workplace safety, health promotion activities, and employee assistance programs.

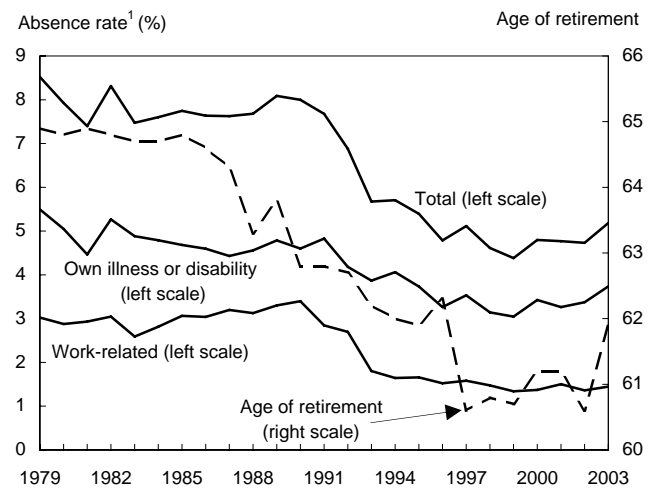
The costs of work absence and the methods for managing it are tangible, but the reasons for its occurrence in the first place are less straightforward. Several disciplines have contributed to the understanding of absenteeism, reflecting the myriad interrelated personal, social (psychological), economic, and environmental factors at play (Kaiser 1998). More specifically, variables studied include personal demographics, health status, attitude toward work, job satisfaction, job content, working conditions, workplace culture, potential lost earnings, and possible reprimand. Understanding absenteeism is further complicated because motivation can vary depending on the type and duration of the absence.

Work-related absences show biggest decline

In 2003, some 720,000 work absences of two weeks or longer due to illness or disability, 200,000 of which were work-related, were reported in the Survey of Labour and Income Dynamics (SLID). These absences represented 5.2% of all employees, a decline from 5.7% in 1993 (Chart A). The Absence from Work Survey, which also used to collect long-term absence data, found a similar downward trend throughout the 1980s—from 8.5% in 1979 to 6.9% in 1992.¹ Much of the overall decrease occurred because of a reduction

Katherine Marshall is with the Labour and Household Surveys Analysis Division. She can be reached at (613) 951-6890 or perspectives@statcan.ca.

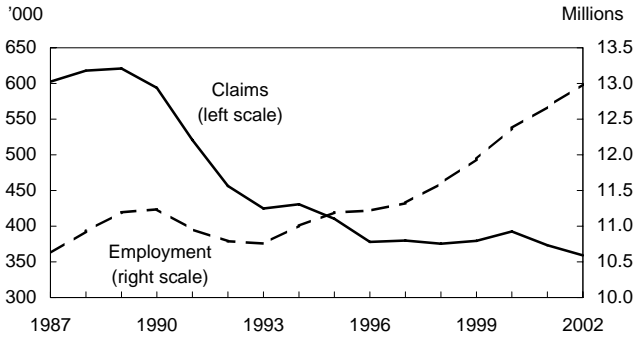
Chart A The long-term absence rate has dropped 2% in the past two decades.



¹ Absences divided by annual average employees.
Sources: Absence from Work Survey, 1979-1992; Survey of Labour and Income Dynamics, 1993-2003; Labour Force Survey, 1979-2003

in the work-related absence rate, which fell from 3.0% in 1979 to 2.7% in 1992, and from 1.8% to 1.4% since 1993. These findings are consistent with figures from workers' compensation boards, which also show a steep decline in work injury cases during roughly the same period. The number of accepted claims for time lost due to injury dropped from 602,500 in 1987 to 359,200 in 2002, even though the number of employees increased from 10.6 to 13.0 million (Chart B). Heightened awareness of occupational health and safety issues, including the federal government's creation of the Canadian Centre for Occupational Health and Safety in 1978, is credited for some of the reduction in the work injury rate. The Centre interprets much of the reduction to factors including "changing technologies, better educated workers, and industry

Chart B Time-loss injury claims have fallen despite employment gains.



Sources: Association of Workers' Compensation Boards of Canada, 1987-2002; Labour Force Survey, 1987-2002

initiatives together with occupational health and safety policies and programs” (CCOHS 2003). Furthermore, employment during this period shifted from the goods-producing sector—which generally has higher overall injury rates—toward the service sector (AWCBC 2005).

Long-term absences for personal illness or disability also dropped substantially between 1979 and 1992, from 5.5% to 4.2%, but remained relatively stable during the past decade (3.9% in 1993 and 3.7% in 2003) (Chart A). The large drop in personal illness absence rates in the 1980s may be tied in part to a parallel fall in the median age of retirement (from 64.9 in 1979 to a low of 60.6 in 1997, and under 62 since). Older workers leaving the workforce earlier may have a dampening effect on absence rates since sickness absenteeism rises significantly with age.

Average time off relatively stable at 11 weeks

Since 1993, the average duration of long-term absences has remained steady at around 10 weeks for personal illness or disability, and 13 weeks for those linked to the workplace (11 weeks for the combined absences). The distribution of weeks off differs by type of absence—with 30% of all work-related absences in 2003 lasting 17 or more weeks, compared with 20% of own-illness and disability absences (Chart C).

While the cross-sectional numbers and their trends over time are useful, additional insights can be gleaned by following individuals over time. This paper focuses

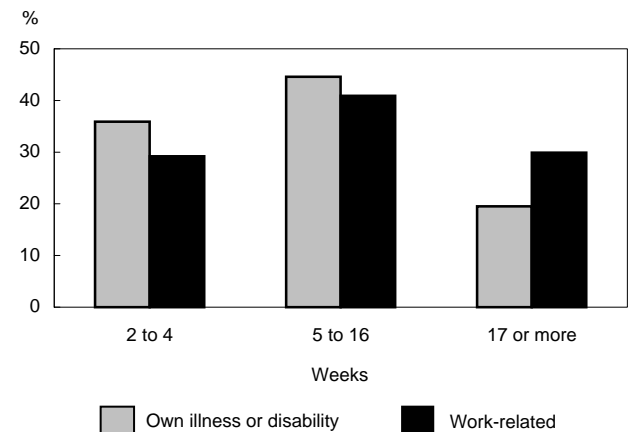
on employees who took a long-term absence in 2002, examining factors preceding the absence (in 2001), as well as any consequences of the absence in 2003 (see *Data sources and definitions*).

Age, health, unionization, pay and job security key in own illness absence

Of all those with a long-term absence in 2002, 3.3% cited personal illness and 1.3% a work-related illness or injury (Table 1).² Although the proportion was higher for women than for men (3.6% versus 3.0%) and for those married rather than unmarried (3.6% versus 2.9%), when considered together with age in a regression model, the only statistically significant demographic variable proved to be age. Among employees aged 45 and over, 4.6% had a long-term illness leave, which made them significantly more likely (1.5 times) to be on leave than those under age 35—even after controlling for personal health or disability.

Not surprisingly, those in poor or fair health, or those with a physical or mental disability prior to their absence, are significantly more likely than other employees to take long-term leave for illness reasons—regardless of age. Although only 740,000 workers reported being in poor or fair health prior to their absence, almost 9% ended up on long-term sick leave (meaning they were 1.7 times more likely to be on leave than those in good health). Also, of the two

Chart C In 2003, one-third of illness or disability absences¹ lasted one month or less.



¹ Of those two weeks or longer. Source: Survey of Labour and Income Dynamics, 2003

Data sources and definitions

The **Survey of Labour and Income Dynamics (SLID)** began in January 1993. Respondents remain in the sample for six years, and each year approximately 30,000 people aged 16 to 69 complete two detailed questionnaires on labour market activity and income. The survey asks about work absences, other than paid vacations, that lasted one week or longer. If illness or disability is the reason, a subsequent question asks whether the absence was due to a work-related illness or injury. Details are collected for up to two absences (the first and last if more than two occurred) for each job in the year, to a maximum of six jobs. The target population for this paper is all persons who did some paid work in 2002 and had a personal or work-related illness or disability absence from their main paid job that lasted two weeks or longer. The absence must have ended in 2002 or 2003, and respondents must have reported in all three years (2001 to 2003). If a respondent had more than one long-term absence (which was the case for 5% of absence takers), the longest one was examined.

The **Absence from Work Survey (AWS)** was an annual supplement to the Labour Force Survey (LFS) from 1977 to 1998. It asked employees about work absences of at least two weeks duration due to "illness, accident or pregnancy." Detailed information on duration and type of compensation received was collected for the most recent absence.

A **long-term absence** lasts two weeks or longer. The AWS initially focused on absences of at least two weeks as this is the standard waiting period before EI benefits are payable.

An **absence rate** is calculated by dividing the total long-term absences in any given year by the average number of employees in that year. The denominator for the AWS was the LFS, which includes all workers whose main job is paid, while for SLID it consists of all those who had at least one paid job in the year. By definition, the SLID denominator will be somewhat higher than the LFS.

Extended medical insurance is an employer-sponsored medical insurance or health plan that supplements public coverage. **Disability insurance** is an employer-sponsored plan providing financial protection in the event of income lost through disability.

Health status is self-reported and asked on the SLID labour questionnaire in January of each reference year. Respondents answer the question: "In general, how would you describe the state of your health?" Answers range from poor (5) to excellent (1).

Disability status is derived from several questions. Respondents are deemed to have some disability if they report having difficulty with activities of daily living, or if they have a physical or mental condition or health problem that reduces the amount or kind of activity they can do.

Stress is also self-reported on the January questionnaire. Respondents are asked the question: "Would you describe your life as...?" Answers range from 'not at all stressed' (4) to 'very stressful' (1).

million employees with a disability, nearly 8% had an absence in 2002. Controlling for other factors, those with a disability were 2.4 times more likely to have a long-term absence. Prior poor mental or physical health also significantly increased the amount of time off the job. While the average length of own-illness absence was relatively close to 10 weeks for all variables examined, absences for those in fair or poor health, with a disability, or highly stressed averaged 18, 13 and 14 weeks respectively (data not shown).

The combination of two job-related factors—belonging to a union and having medical or disability insurance coverage—also significantly increased the likelihood (1.7 times) of a leave from work for personal illness when compared with workers who had neither benefit. Some 5.0% of unionized and insured employees had an absence. Although working in the public sector appears important (absence rate of 4.8%), the key factors are unionization and supplementary medical insurance. This suggests that two elements—

job protection and lost earnings—are strongly associated with the incidence of long-term leave due to illness.

Past research has shown that "although unions can shield workers from sanctions from absenteeism, this fact would not induce the workers to take more five-day absences" (Chaudhury and Ng 1992). While unions may not directly encourage the use of long-term personal illness leave, they may have the power to protect against possible reprimand and hence may indirectly bolster its use. Furthermore, unionized settings tend to offer more generous sick leave policies. Indeed, almost half (47%) of unionized leave takers reported receiving full pay compensation compared with only one-quarter of the total not unionized (see *Absence compensation*). Therefore, non-unionized workers (with or without insurance coverage) may be more likely to continue working, despite not feeling well, if reprisal is feared or reduced pay is at stake. In reality, choosing to take an absence falls on a continuum, based

Table 1 Long-term illness or disability rate (two or more weeks) in 2002 by reason and selected indicators

	Total ¹	Own-illness absence	Odds ratios ²	Work-related absence	Odds ratios ²
	'000	%		%	
Total employees	12,636	3.3		1.3	
Men	6,440	3.0	n.s.	1.4	n.s.
Women	6,196	3.6	1.0	1.3	1.0
Age					
Less than 35	5,082	2.2	1.0	0.5 ^E	1.0
35 to 44	3,425	3.4	n.s.	1.9	3.2***
45 and over	4,130	4.6	1.5*	1.9	2.5**
Married	7,405	3.6	n.s.	1.5	n.s.
Not married	5,231	2.9	1.0	1.1 ^E	1.0
High school or less	5,203	3.6	..	1.3 ^E	..
Postsecondary certificate/diploma/degree	5,933	2.8	..	1.5	..
Health indicators prior to absence					
Good to excellent health	11,832	3.0	1.0	1.1	1.0
Poor or fair health	737	8.8	1.7**	5.4 ^E	n.s.
No disability	10,666	2.6	1.0	0.7	1.0
Physical or mental disability	1,905	7.6	2.4***	4.8	4.6***
Somewhat to not at all stressed	10,557	3.2	1.0	1.0	1.0
Very stressed	1,865	4.5	n.s.	3.4 ^E	2.4***
Job indicators prior to absence					
Not unionized, without insurance ³	3,851	2.3	1.0	0.7	1.0
Not unionized, with insurance	4,334	3.1	n.s.	0.9	n.s.
Unionized, with insurance ⁴	3,795	5.0	1.7*	2.6	3.1**
Public sector	2,621	4.8	1.0	2.2	1.0
Private sector	10,015	2.9	n.s.	1.1	n.s.
Permanent job	10,010	3.7	1.6*	1.5	..
Temporary job	2,250	2.1 ^E	1.0	F	..
Goods-producing sector	2,982	3.4	1.0	1.2	1.0
Service-producing sector	9,515	3.3	n.s.	1.4	n.s.

¹ Individual variable categories may not add to the total due to non-responses.

² This regression calculation indicates whether certain variables significantly increase or decrease the chances (odds) of having an absence; n.s. = not significant with reference group (1.0).

³ Refers to having supplementary medical and/or disability insurance coverage from the employer.

⁴ Includes a minority of employees (4.5%) who are unionized but have no insurance coverage.

* Regression results statistically significant at the .05 level; ** at the .01 level, *** at the .001 level.

Source: Survey of Labour and Income Dynamics, 2001-2003

on factors such as perceived consequences, degree of work attachment, and ability to attend (Harrison and Martocchio 1998).

Having extended medical or disability coverage is a strong indicator that paid sick leave is also a job benefit. In this case, some or all of an extended illness

absence would be paid for. Almost two-thirds of those with insurance coverage who were on long-term leave because of personal illness were partially or fully paid by their employer while off work, compared with only a small minority of those uninsured (see *Absence compensation*). Even though many employees without paid

sick leave can apply for Employment Insurance (EI) sickness benefits, those who are eligible must first undergo a two-week unpaid waiting period. They then receive only 55% of their earnings to a maximum of \$413 per week. On the other hand, those with insurance coverage are likely to receive paid sick leave for the waiting period. Again, depending on the degree of illness, some choice could be involved as to staying at work or not, with potential loss of earnings playing a large part in that decision.

Job security is another issue linked with personal illness absences. Permanent employees were 1.6 times more likely to have a long-term absence than those with a temporary, term, contract or casual job.³ This finding aligns with the hypothesis that a lack of job security is associated with reduced absence because of either the fear of layoff or the desire for contract renewal. “Employees on temporary contracts have stronger incentives for job attendance when this affects future employment chances” (Arai and Thoursie 2005).

Stress an important issue in work-related absences

As with personal illness absences, age is also a factor with work-related absences (Table 1). Older workers, whether in excellent or poor health, were more than twice as likely as younger workers to have a long-term absence, suggesting that they are more prone to work-related accidents, injuries or illness. However, regardless of age, having a physical or mental disability significantly increased the chances (4.6 times) of having a work-related absence due to illness or disability. Health status prior to absence, whether poor or excellent, was not a significant factor.

Interestingly, stress is a factor with work-related absences only. Employees feeling very stressed were 2.4 times more likely to take a leave than those not overly stressed. Recent research has found that half of all employees report single or multiple stresses in their work environment (Williams 2003). Also, on- and off-the-job stress is associated with depression among workers, and depression is associated with more disability days than any other chronic condition (Shields forthcoming).

Like employees with a long-term personal illness absence, those whose long-term absence was work-related were more likely to be unionized. Again, unionized workers may be better informed by union

representatives and supervisors of their rights, and may have less fear of reprimand for filing a claim. Protection from reprisal may be more significant than reduced wages in the case of work-related absences. Unlike personal illness absences, equal proportions of insured non-unionized workers (83%) and insured unionized workers (81%) reported receiving payment from their employer as well as workers’ compensation during their absence (see *Absence compensation*). Furthermore, workers’ compensation is available to virtually all workers and usually offers almost full earnings replacement.

Somewhat surprisingly, industry does not seem to be a significant factor in work-related absences despite the differences shown in workers’ compensation injury claim rates. Unfortunately, a more detailed industry or occupational examination of absences was not possible because of the very small sample sizes that would have resulted. Moreover, workers’ compensation claims are not strictly comparable to the SLID absences from work.

Post-absence consequences found for those off four months or longer

Many of the possible downsides to a long-term absence from work are not measurable. These include altered attitudes of co-workers and supervisors, a reduced network, and lowered energy level. Measurable or not, consequences are likely to be greater the longer one is off work.

In terms of measurable consequences, higher rates of stress and poor health were generally seen for those with an extended absence (17 weeks or more), regardless of the reason, in both the year before and the year after the absence (Table 2). One-third of these people felt very stressed in the year prior to the absence compared with only one-seventh of those with no absence. Health was significantly worse in both 2001 and 2003 for all those with a long-term absence of any duration in 2002, compared with those with no absence. Among the extended absence group, fully one-quarter reported fair to poor health before their absence, compared with 1 in 16 of those with no absence.

Furthermore, perhaps because of their accentuated health and stress issues, those with an extended absence were the only ones to reduce their labour market attachment the following year. Among this group, the rate of full-year work dropped significantly, from 84% in 2001 to 58% in 2003, while usual

Absence compensation

Doing without earnings while on leave for illness or disability for a considerable period of time would likely be difficult for most workers, but fortunately the majority of employees have several options for compensation.

Employer-based sickness benefits: The 1995 Survey of Work Arrangements found that 57% of employees had access to paid sick leave, and 59% had a supplemental health plan. Although SLID does not ask about paid sick leave per se, 62% of employees in 2002 had a job that offered extended medical insurance coverage. Many plans require workers to earn sick leave credits based on the amount of time worked. An earned sick leave credit is usually equivalent to full pay. In 2002, half of those with either a personal or work-related long-term absence due to illness or disability received full or partial pay from their employer for the time they were away.

Although it is not possible to tie the receipt of Employment Insurance (EI) or workers' compensation directly to a long-term absence, they are quite likely related when both occur in the same year. One-quarter of those whose absence in 2002 was for personal illness reported EI benefits that year, while 50% of those with a work-related absence received workers' compensation.⁷ In total, the majority of absence takers (73% for personal illness and 81% work-related) received some form of compensation.

In all cases, unionization, medical or disability insurance coverage, and job permanency increased the chances of receiving compensation, particularly among those with a personal illness. For example, only a minority of non-unionized employees without insurance received employer compensation for their personal illness absence—although receipt of EI was relatively high for this group (37%). Overall, however, only 45% of this group collected some form of compensation. In comparison, 72% of non-unionized and 89% of unionized workers with insurance coverage received compensation.

Employment Insurance (EI) sickness benefits are available to eligible workers who have contributed. To qualify, a person must have had their weekly earnings decrease by more than 40%, accumulated 600 insured hours in the last 52 weeks, and submitted a medical certificate. Sickness benefits are capped at 15 weeks, although benefits can run to a maximum of 50 weeks for other reasons. The basic rate is 55% of average insured earnings to a maximum of \$413 per week. Benefits commence after an unpaid two-week waiting period.

Workers' compensation is a provincial statutory insurance plan for personal injury, illness or death caused by or associated with a job. Each province sets its own rules. Despite some provincial differences, the majority of workers in most industries are covered, and plan principles are the same: Employers are solely responsible for the cost (through annual premiums), employees cannot sue in lieu of compensation benefits, and workers are automatically eligible no matter who was responsible for the problem ('no-fault' insurance). Claims must be filed and approved by a workers' compensation board (a neutral agency), and benefits may include medical services, wage-loss benefits, and rehabilitation services. Earnings replacement is upward of 90% of net average wages.

Employees who received workers' compensation (WC) or Employment Insurance (EI) sometime in 2002, or partial or full pay from their employer during their long-term absence (two weeks or more)

	Own-illness absence				
	Employer compensation (EC)			EI	EC, EI, or both
	Full	Partial	None		
			%		
Total with an absence	33	18	49	27	73
Job characteristics					
Not unionized, without insurance ¹	F	F	91	37 ^E	45 ^E
Not unionized, with insurance	35	16 ^E	48	23 ^E	72
Unionized, with insurance	47	27	26	22 ^E	89
Permanent	36	19	44	25	76
Temporary	F	F	83	40 ^E	52 ^E
			%		
				WC	EC, WC, or both
Total with an absence	31	18	51	50	81
Job characteristics					
Not unionized, without insurance ¹	F	F	93	64 ^E	64 ^E
Not unionized, with insurance	49 ^E	F	40 ^E	47 ^E	83
Unionized, with insurance	33 ^E	26 ^E	41 ^E	42 ^E	81
Permanent	33	19 ^E	48	47	79
Temporary	F	F	F	F	F

¹ Refers to medical or disability insurance coverage from an employer. The category of those who are unionized but have no insurance coverage is not shown as it represents less than 5% of employees.

Source: Survey of Labour and Income Dynamics, 2001-2003

Table 2 Health and employment indicators by duration of work absence in 2002

	No absence	2 to 4 weeks	5 to 16 weeks	17 or more weeks
Very high stress			%	
2001	15	15 ^E	23 [*]	33 ^{*E}
2003	15	20 ^E	20 ^E	36 ^{**E}
Poor or fair health				
2001	6	17 ^{**E}	11 ^E	24 ^{**E}
2003	5 ^(*)	13 ^E	10 ^{*E}	26 ^{***E}
Employed full year¹				
2001	74	82	87 ^{***}	84 ^{***}
2003	78 ^(***)	78	79	58 ^{(*)*}
Employed full time				
2001	83	81	91 ^{**}	88
2003	86 ^(***)	87	89	86
Mean weekly usual hours			hours	
2001	33	35	36 ^{**}	33
2003	34 ^(***)	34	34	30 ^{**}
Median hourly earnings			\$	
2001	17.00	18.07	17.25	17.12
2003	18.65 ^(***)	19.45	18.25	17.62

¹ Restricted to those whose absence started and ended in 2002 (see Note 4).

* Regression results statistically significant at the .05 level; ** at the .01 level, *** at the .001 level.

Numbers in () = significant difference between 2001 and 2003.

Source: Survey of Labour and Income Dynamics, 2001-2003

weekly hours dropped from 33 to 30.⁴ Among those without an absence, however, full-year work increased significantly—from 74% to 78%. Other employment indicators suggest that even though 2003 was an economically stronger year than 2001, only those without an absence benefited from this growth. For example, they were the only ones with significantly more full-time work (a rise from 83% to 86%) and longer usual weekly hours (from 33 to 34) in 2003. And, they were also the only employees to enjoy a significant increase in hourly earnings—from \$17.00 in 2001 to \$18.65 in 2003. (Absence takers also had increases, but they were not statistically significant.) Previous research has suggested that absenteeism can lead to decreased performance that can in turn lead to reduced pay and fewer promotions (Harrison and Martocchio 1998).

While this article examined only long-term absence takers who did return to work, the ultimate consequence is that some employees are forced to leave their jobs because of illness. Since 2000, roughly 3% of all annual job separations occurred because of personal or work-related illness or disability. This represents less than 1% of all employees (roughly 73,000).

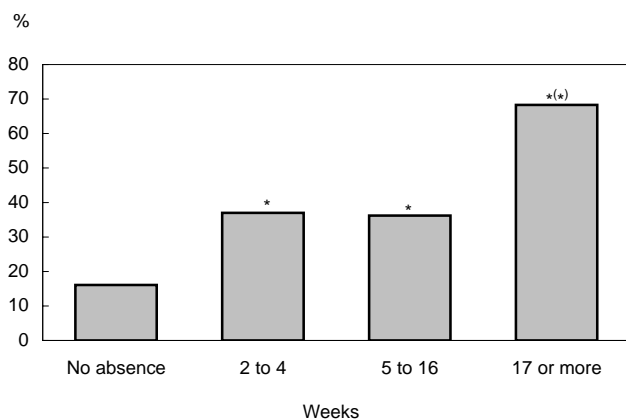
Another striking consequence of long-term absence is the chance of relapse—another (separate) absence. More than one-third of those whose absence in 2002 ranged from 2 to 16 weeks, and over two-thirds of those whose absence lasted 17 weeks or more, experienced another absence of one week or more before the end of 2003, compared with only one-sixth of those with no absence in 2002 (Chart D).⁵

Conclusion

Although long-term absences for personal illness or disability have seen relatively stable rates over the past decade (3.7% in 2003), they still amounted to more than half a million in 2003. An additional 200,000 work-related absences were observed, but their rate has fallen, hitting 1.4% in 2003. With an average duration of 11 weeks, long-term illness or disability claims undoubtedly have negative consequences for employers, co-workers, and the absentees themselves. At the very least, the work of an absent employee is left undone, shared among those remaining, or carried out by a replacement. The cost of each long-term absence is roughly \$8,800.⁶ Furthermore, absences lasting upwards of four months are generally associated with negative health, stress, and career stagnation, as well as heightened chances of being on leave again the following year.

Two job factors significantly influenced an illness or disability absence: having medical or disability insurance coverage through an employer (indicating paid sick leave) and being in a unionized job. The first variable suggests that unless they

Chart D The majority of those with a long-duration absence in 2002 had an absence of one week or longer in 2003.



* Significant difference with "no absence" group; (*) significant difference with short- and medium-duration groups.
Source: Survey of Labour and Income Dynamics, 2001-2003

are very sick, people without insurance may stay on the job, since the alternative may result in lost wages. The second—being in a union—alludes to job protection and higher levels of compensation while off work. Another factor in personal-illness absences is job permanency, indicating job security and reduced fear of reprisal.

Age, health status, disability, and stress are important predictors for one or both of long-term personal and work-related illness or disability absences. While the physical and mental health of employees has the potential to change, the aging of the workforce is certain as baby boomers move into their final working years before retirement. As the average age of the workforce increases, so may the rate of long-term work absences due to illness.

Improving employee health is often touted as a way to reduce long-term absenteeism due to illness. This relatively new movement includes promoting wellness or health management as a "more preventative and holistic method of tackling the problem [of absenteeism]" (Manocha 2004). Many employers now offer health promotion programs, such as employee assist-

ance, stress management, smoking cessation, fitness subsidies, and flu vaccinations, but few cost-benefit analyses have been done. Furthermore, since disability is tied to long-term absences, workplace and job accommodation may also help reduce the rate. In fact, the Conference Board of Canada found that employers engaging in health promotion as well as initiatives toward "psychosocial and physical work environments" are the most likely to see results in cost savings, improved productivity, and enhanced employee retention (Bachmann 2002).

Perspectives

Notes

- 1 Although the trend lines show a decline for the two data sources, the overall rates are generally lower with SLID. Part of the reason is that the denominator (annual average number of paid workers) is slightly different and higher for SLID (see "Absence rate" in *Data sources and definitions*). For more information on this subject, see Noreau (1996).
- 2 The focus of this section is on employees who had at least one long-term absence. This total is smaller than the total number of absences because approximately 5% of workers had more than one long-term absence in the same year.
- 3 This finding is based on a relatively small sample size and should therefore be interpreted with some caution. However, it is consistent with findings from other similar studies.
- 4 To account for absences that may have spilled into 2003, only those that ended in 2002 were considered in this calculation. The low rate of full-year work for those with long-term absences is most likely because the majority took another absence in 2003 (see Chart C).
- 5 A variable on the SLID job file indicates whether the respondent had an absence of one week or longer (excluding paid vacation) in the year. Details of the absences are found on a separate file. Reasons for the absence of one week or longer found in chart C were not determined.
- 6 This rough calculation of \$8,800 is based on 440 hours of lost time (11 weeks x 5 days x 8 hours per day) multiplied by average hourly earnings of \$20.
- 7 Among the non-absence population, 16% reported receiving some EI during the past year, and 3% workers' compensation.

■ References

- Arai, Mahmood and Peter Skogman Thoursie. 2005. "Incentives and selection in cyclical absenteeism." *Labour Economics* 12, no. 2 (April): 269-280.
- Association of Workers' Compensation Boards of Canada (AWCBC). 2005 *National Work Injury and Disease Statistics, 2002-2004*. Mississauga, Ontario: AWCBC.
- Bachmann, Kimberley. 2002. "Health Promotion Programs at Work: A Frivolous Cost or a Sound Investment." Ottawa: The Conference Board of Canada.
- Canadian Centre for Occupational Health and Safety (CCOHS). 2003. Performance report for the period ending March 31, 2003. Ottawa: CCOHS. Internet: www.ccohs.ca/ccohs/reports/performance_03.html.
- Chaudhury, Mohammed and Ignace Ng. 1992. "Absenteeism predictors: least squares, rank regression, and model selection results." *Canadian Journal of Economics* 25, no. 3 (August): 615-635.
- Harrison, David and Joseph Martocchio. 1998. "Time for absenteeism: A 20-year review of origins, offshoots, and outcomes." *Journal of Management* 24, no. 3: 305-350.
- Kaiser, Carl. 1998. "What do we know about employee absence behavior? An interdisciplinary interpretation." *Journal of Socio-Economics* 27, no. 1: 79-96.
- Manocha, Rima. 2004. "Well adjusted." *People Management* 10, no. 7: 26-30.
- Noreau, Nathalie. 1996. *Comparison of Data on Absences between SLID and Absence From Work Survey (AWS)*. SLID Research Paper Series. Catalogue no. 96-10. Ottawa: Statistics Canada.
- Shields, Margot. forthcoming. "Stress and depression in the employed population." *Health Reports* (Statistics Canada, catalogue no. 82-003-XIE).
- Watson Wyatt Canada. 2003. "Addressing mental health in the workplace." *Watson Wyatt Memorandum* 17, no. 2 (June): 4-6.
- Williams, Cara. 2003. "Sources of workplace stress." *Perspectives on Labour and Income* (Statistics Canada, catalogue no. 75-001-XIE). June 2003 online edition.