

## Business Indicators ♦ February 2005

### The Impact of Upcoming Retirements on the BC Labour Supply

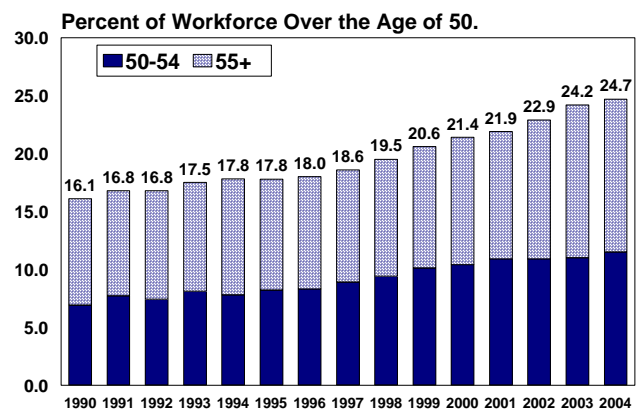
In many collective agreements and employer pension plans in the province, there are contractual arrangements in place for mandatory retirement at age 65. On the basis that mandatory retirement at any age is discriminatory, the practice has been banned in the US, Australia, New Zealand and in several Canadian provinces. According to the 2005 Speech from the Throne, the Government will consider limiting the practice of mandatory retirement in the BC workplace.

Besides the human rights issues associated with mandatory retirement, there are also emerging economic issues that would benefit from a ban on the practice. With "baby-boomers" reaching middle age, most developed countries are dealing with a large component of their population moving out of the workforce into retirement. BC also faces this dilemma, and is at risk of labour shortages in the near future.

The following chart shows that 25 per cent of the workforce today is over the age of 49. If retirement trends continue as they exist today, a very large proportion of that 25 per cent will retire within the next ten years, as well as a substantial number of the 45-49 year olds. Alongside this trend of an increasing older workforce, the number of young flowing into the workplace is declining, so that today the under-30 group is about the same size as the over-49 group

This article will examine what the next 10 to 20 years could bring in terms of labour supply: whether shortages are likely and if so, what our options are to alleviate the shortages.

*In recent history, approximately one in six members of the workforce were approaching retirement. That proportion has recently climbed to one in four*

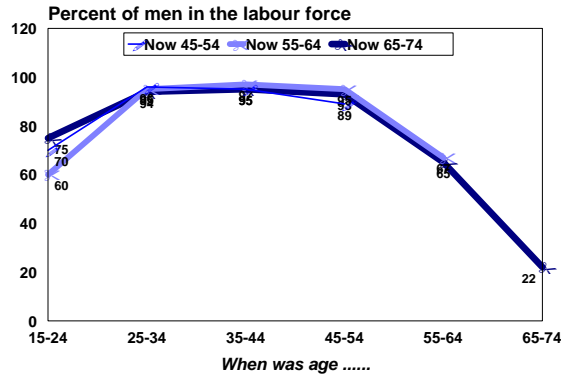


#### Recent History of Labour Market Activity of the BC Population

In order to project what is in store for the labour supply in BC over the next 10 to 20 years, it is necessary to look at the historical participation of men and women in the workforce by age group. From that we will attempt to predict the future labour market behaviour of the younger generations.

The chart below shows the labour market participation of three age cohorts of men who are 10 years apart, specifically those who were age 45-54, 55-64 and 65-74 in 2001. The workforce pattern of these men over their lifetime can be simulated by looking at the decennial censuses up to 2001, to see what each 10-year age cohort were doing every 10 years of their working lives. The chart shows that 10 years difference in age really had no differential impact on the lifetime labour market behaviour of men who are now in their middle age.

Three different 10 year cohorts of middle aged men show virtually no difference in their lifetime labour market behaviour

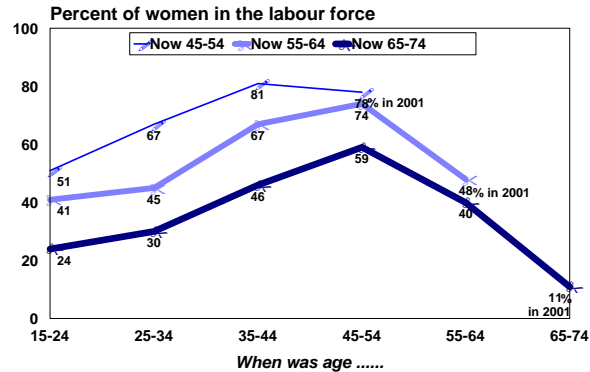


Only the young age group, age 15–24, shows any differences between generations. This finding is consistent with the known sensitivity of this age group to economic conditions—often they will choose school over work when good jobs are hard to come by. Despite this slight variation among the young, it is reasonable to assume the age-specific workforce participation of men, as it stands today, will be a good predictor of future workforce behaviour of the generations that follow.

On the other hand, women now in their middle age who were born 10 years apart have shown huge variations in their lifetime patterns of workforce attachment. Those now age 65–74, lived through the era of starting their families early and being “stay-at-home-mums”. The chart shows that when they were 25–34, less than one in three were working. Yet, among those 10 years younger, one-half were in the workforce at that same period of their lives and those 10 years younger again, two out of three were working. (Currently, four of every five women age 25–34 participate in the workforce.) This large discrepancy between these ten-year age cohorts in their behaviour when they were 25–34 carried on throughout most of their working lives. The older generation attained their most active workforce participation when they were 45–54, but it still only reached 59 per cent.

The interesting thing from this chart on women is how in 2001 there were indications that the labour market behaviour of these diverse generations

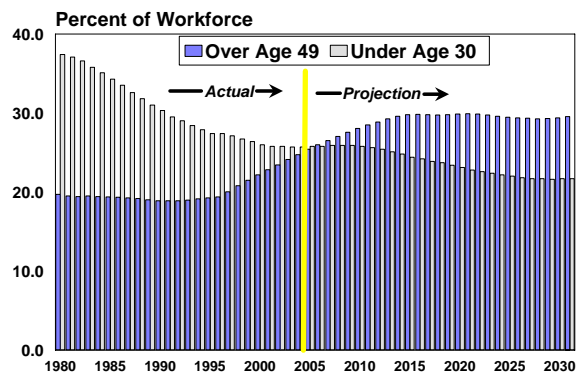
However, among women now in their middle age, 10 years age difference created very different lifetime labour market behaviour. These generational differences are slowly being eroded so that 2001 saw converging patterns between cohorts of women 10 years apart.



have begun to converge. There was only a difference of 4 percentage points between the 55–64 year olds compared to those 10 years younger when they were both age 45–54. By 2004, that gap has continued to erode to a 3 percentage point gap. Similarly, what was an 8 percentage point gap among those 10 years older has been reduced to a 5 point difference currently. So it appears as though the impact of very different social norms for different age cohorts of women in the early years of their lives has finally worked its way through the system. In the future, workforce profiles of different generations of women will likely be quite similar to one another as they currently are between different generations of men. This is the assumption used to project the age structure of the BC workforce as shown in the following chart.

### Projection of the Age Structure of the BC workforce: The Impending Labour Shortage

The long term time trend shows how unusual the current age mix of the workforce is : the ready-to-retire are projected to overtake young employees within the next two years and will continue to do so well into the 21st century.



If women and men continue to participate in the workforce as they did in 2004, the per cent of the workforce approaching retirement will increase up to 2016 at which point it will reach 30 per cent. This means close to one in every three members of the labour force will be on the verge of retirement.

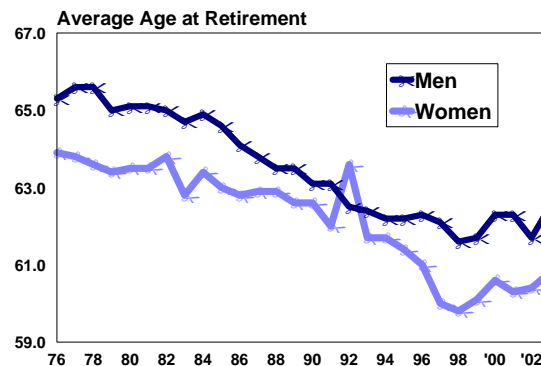
High retirement rates do not necessarily translate into labour shortages. However, alongside the increasing number of retirees, the potential young workforce, those under 30, will be trending downwards. From 2006 on, it is probable that the flow-out of retirees will surpass the flow-in of young replacement workers. This will be the first time this has occurred since 1971 when good labour market data was first collected. And if the status quo remains as is, this imbalance will continue for many years into the future.

Three factors could change this projection of labour shortage:

- One would be an increased inflow of young workers. If there is a labour shortage, the natural labour market mechanism of more job openings and increased wages will encourage more of the young to participate in the workforce. However, such a result could be to the detriment of their education.
- Another is to increase the in-flow of workers from other provinces and/or other countries to fill the vacancies. This traditionally has been a very viable option for BC to meet its labour needs because of the province's advantage in lifestyle compared to much of the rest of Canada. However, Canada and other developed countries will also be facing labour shortages, meaning competition for new workers could be intense. Skilled immigrants from the developing nations could provide relief. Before that can happen, the federal government will have to ensure that qualified immigrants are able to practise their skills in Canada.

- The third factor could be an increase in the age that people retire. Given the current and projected size of the “nearing retirement” workforce, a conservative estimate of the impact of potential retirees postponing their retirement is an increase in the size of the labour force by two to three per cent for each additional year worked. The shortfall of young workers coming on-stream compared to retirees leaving is projected to be approximately 8 per cent of the workforce. Thus, a one-year increase in the average age of retirement would go a long way in reducing that gap.

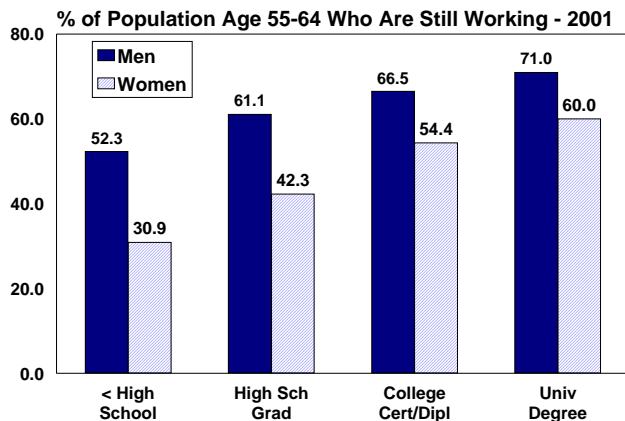
*Since 1976, Canadian men and women have shown a fairly continuous trend to younger and younger retirement. In 1998 that decline bottomed out and currently shows signs of heading back up for women.*



Keeping potential retirees in the workforce for longer than they normally would work is a viable option to address future labour shortages. The chart above shows how the average retirement age in Canada has been dropping at a steady rate since the mid-seventies, partially due to increased coverage of social security programs and partly because of increased wealth. In 1998/99, the average age for retirement in Canada was 61, the youngest it had ever been. Since then it has been creeping back up, primarily as the result of the sharp decline in the stock market in 2001/02. Between 1999 and 2003, the average age of retirement increased by more than 8 months. As well, there is much leeway to increase that age further—the average age of retirement in the 1970's was more than three years older than it is today.

What could bring about an increase in the average age of retirement? As can be seen from the increase in the age of retirement since the reduction in stock market wealth, economic incentive is a strong motivator to discourage employees from retiring. Similarly, the next chart shows how the higher the level of education and hence the higher the salary, the longer employees keep on working.

*The more educated the individual, the less likely they are to take early retirement.*



Employers who face labour recruitment problems could well start to offer higher salaries, more flexible work arrangements and increased pension benefits for those who agree to stay longer. And governments may well step in and remove the disincentives which discourage workers from working past the age of 65, such as mandatory retirement, or re-structure the Canada Pension Plan to provide more lucrative financial incentives to workers who remain in the workforce after the age of 60.