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Labour Market Matters

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Special points of interest:

- Study finds statistical association between the incidence rate of GIS receipt and population density to be strongly negative
- Relative constancy in retirement income replacement rates despite changing cohort income levels and retirement patterns suggests that individuals plan their retirement so as to achieve target income replacement ratios

"Compared to the base category of cities with more than 500,000 residents, the incidence rate in the most rural areas is 17 percentage points higher."

David Gray
(University of Ottawa)

Strong Regional Patterns prevalent in the receipt of the Guaranteed Income Supplement (GIS) in Canada

The income security of retired Canadians has become an increasing challenge for Canadian policy makers. There has been a significant decline in the coverage of workplace pensions in the private sector and a dramatic shift in the structuring of private-sector pensions away from defined-benefit plans and towards defined contribution plans over the past 20 years. Meanwhile, life expectancies are continuing to rise, which implies that pensions and retirement income need to last longer. Retirement income programs are also facing the retirement of 8 million baby boomers leaving the labour force over the next 15 years (out of a labour force of 18.7 million in 2007). These factors can be expected to place severe financial pressures on retirement income schemes, with implications for the economic well-being of oncoming retirees.

The Guaranteed Income Supplement (GIS) benefit is targeted to help seniors with the intention of raising the incomes of those without sufficient resources of their own or from other government sources to an acceptable level. A CLSRN study by Ross Finnie (University of Ottawa), David Gray (University of Ottawa) and Yan Zhang (Statistics Canada) entitled ***"The Receipt of Guaranteed Income Supplement (GIS) Status Among Canadian Seniors – Incidence and Dynamics"*** (CLSRN Working Paper no. 115) measures the incidence of receipt of GIS payment among those over 65 in Canada and the dynamics of entries and exits from this state.

The raw estimates for the GIS incidence rate were found to range from 30.5 % in 2006 to 34 % in 1992. The age profile rises from 31.2 % at age 65 to 32.6 % at age 67, and was found to have a tendency to rise rapidly after age 70. More generally, the study found a large cluster of individuals whose incomes are close to the GIS qualification threshold and who are thus susceptible to falling below the threshold (and thus becoming eligible) in one year but also susceptible to falling above it (and thus losing eligibility) in a subsequent year.

Strong regional patterns also emerged in the analysis. The study found GIS incidence as well as the measure of persistent take-up to be much higher for the five eastern provinces. Compared to the base category of cities with more than 500,000 residents, the incidence rate in the most rural areas is 17 percentage points higher. The effects associated with the area size of residence are not surprising. The impact of residing in small cities and towns is positive, but of lower magnitude. The statistical association between the incidence rate and the population density was found to be strongly negative – people are less likely to be eligible for GIS when they living in more densely populated areas. Overall the regional pattern of GIS receipt is quite sharp.

Yan Zhang
(Statistics Canada)

Researchers find that incomes are lower but replacement rates are stable in retirement

Income in retirement – whether from public or private pensions, savings or employment – is an important determinant of the quality of life for Canadians leaving the workforce. A CLSRN paper entitled ***"How do the level and composition of income change after retirement? Evidence from the LAD"*** (CLSRN Working Paper no. 114), by Ross Finnie (University of Ottawa) and Byron G. Spencer (McMaster University), uses a unique dataset that allows the authors to follow individuals from their prime working years into retirement. They find that while incomes drop sharply at retirement, the longer term rates of income replacement are relatively stable over the retirement period.

Ross Finnie
(University of Ottawa)

However, they find also that while pensions are an important source of income in retirement, more recent retirees are less likely to have private pension income and, among those who do, the level is lower. For example, in the 1982 cohort (those age 50 in that year) about 78 percent of retired 65-year-old males and 75 percent of females had private pension income. Those proportions were some 15 to 20 percentage points lower for the 1987 and 1992 cohorts. For those with pension income, the average amount was about 25 percent lower for those in the 1987 cohort, as compared to the 1982 cohort, but some recovery was evident for those in the 1992 cohort. Enrolment in registered retirement pension plans could be seen as a substitute for other investments, and the researchers do find that members of employer pensions plans generally save less in other forms. They find also that, on average, predicted pension income at each post-retirement age is higher for those who retire later, but the differences are very small.

The analysis is based on data covering the period 1982-2008 and is drawn from Statistics Canada's Longitudinal Administrative Databank (the LAD), a tax-based dataset of tax-filers. The LAD tracks individual income, in total and by source, at each year of age; the present analysis uses information starting from age 50. The focus is on income in retirement, and the authors assess mid-career measures of income, employment, and savings behaviour as early predictors of post-retirement incomes.

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The authors employ a number of measures of longer-run income replacement ratios to find that incomes in retirement are, on average, roughly 60 percent of the level they were in the pre-retirement years for men, and remain steady at this level in the post-retirement years. In comparison, replacement ratios are about 10 percentage points higher for women (depending on the measure).

Byron Spencer
(McMaster University)

Since there is variation across cohorts in income levels and retirement patterns, the relative constancy of the income replacement rates appears to suggest that individuals plan their retirement so as to achieve target income replacement ratios, taking into account their own prior savings behaviour and the income available from publicly provided income sources, including OAS, C/QPP, and GIS.

Taken together, this analysis provides a unique view of retirement incomes in Canada over the last quarter century.

Endnotes

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