



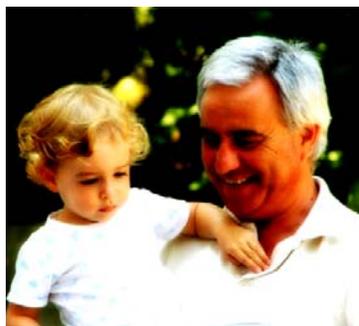
# Labour Market Matters

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## Finding a National Economic Strategy for Aging: Engaging and Accommodating Older Workers

In 2010, the first baby boomers will turn 65, an age traditionally associated with retirement. In another 20 years, given present demographic trends, the entire baby boom generation will be older than 65, and the overall support ratio (ratio of labour force to population) -- which was at an all-time high during the baby boom generation's active working years -- will be 10% lower than it is today. An Expert Panel on Older Workers was established by the Federal government in 2007 to study labour market conditions affecting older workers. The mandate had two key dimensions: (i) to evaluate current and potential measures to address the challenges faced by displaced older workers; and (ii) to examine the broad labour market context for older workers, including the impacts of aging on employment, as well as barriers and disincentives for older worker participation in the labour market. "Older workers" are defined by the Expert Panel as those aged 55 and older. The focus of the Panel's report is how the work force has changed in the last 30 years and how it might change in the next 30 years -- in order to give the government and policy makers a better understanding of the economic conditions that may lie ahead with an aging population. The report was submitted to the federal government in February 2008. Key messages in the report include the need for (a) awareness of the value of older workers in the workplace; (b) choice and flexibility to partici-



The Expert Panel on Older Workers recommends expanding employment options for older workers. Image: Salvatore Vuono

pate in the labour market; (c) better labour market information, research and dissemination; (d) changes to Employment Insurance and the Targeted Initiative for Older Workers to support the adjustment of displaced older workers; and (e) in the medium term, a more fundamental review of the Employment Insurance program. A symposium on Older Workers in the New Economy was organized by Craig Riddell, and recently published in the journal *Canadian Public Policy/Analyses de politiques*. Papers by four academic experts assessed various aspects of the Expert Panel's report. Their assessment of the panel's recommendations follow.

*Population Aging, Older Workers, and Canada's Labour Force*<sup>2</sup>:

The Expert Panel makes a number of recommendations intended to encourage greater participation of older workers. Frank Denton and Byron Spencer (both of McMaster University)

examine the potential impact that increased participation of older workers might have in offsetting any anticipated adverse effects of population aging on standards of living. Denton and Spencer agree with the panel's recommendation to remove "systemic barriers and disincentives to work" in order to enhance the "choices and flexibility for older workers who wish to participate in the labour force and earn income."<sup>3</sup> In terms of the effect of higher participation rates among older workers on the productive capacity of the economy, Denton and Spencer find that given a continuation of recent trends and assuming constant output per worker, total output would be 14.8 percent higher in 2036 than it was in 2006, but at hypothetical higher participation rates at older ages, output would be 21.9 percent higher. They

**"[T]he effect of higher participation rates among older workers on the productive capacity of the economy...by 2016 and every year thereafter, total output would be 6 or 7 percent greater with higher participation than without it"**

project that by 2016 and every year thereafter, total output would be 6 or 7 percent greater with higher participation than without it.<sup>4</sup> They note also that the same benefit would result without any increase in participation if there were even modest gains in productivity.<sup>5</sup>

*The Report of the Expert Panel on Older Workers: How Should Public Pensions be Improved?*<sup>6</sup>:

Michael Baker (University of Toronto) and Kevin Milligan (University of British Columbia) comment on the Expert Panel's recommendation on improving Canada's retirement income security system. Baker and Milligan support the Panel's recommendation of increasing different work options for older workers by removing barriers to continued work for those older workers who wish to continue to work. There are currently a number of policy barriers that impose disincentives on older workers from continuing to work even if they wish to do so. The Panel recommends that the work cessation clause in the Canada Pension Plan (CPP) should be removed. The work cessation clause in the CPP is in place to prevent people from "double-dipping" or working while receiving a pension, but this rule could make individuals vulnerable to poverty in old age, had they taken their pension early (thereby receiving a smaller

monthly pension), and stopped working at the same time in order to comply with the work cessation clause. Following on the recommendation to remove the work cessation clause in the CPP, Baker and Milligan are also supportive of the recommendation to allow older workers to continue to contribute to the CPP if they continue to work after initiating benefits, which will allow older workers to increase their monthly pensions according to a set formula based on contributions.

The Panel also recommends minimizing the work disincentives of the Guaranteed Income Supplement (GIS). The GIS is intended to top up income of those who are aged 65 and older with insufficient retirement income; however, the negative interaction between CPP benefit rules and GIS benefit rules creates a strong incentive for vulnerable lower-income workers to retire earlier. While those who continue to work after age 60 receive a higher CPP pension, each additional dollar of CPP benefits gained by delaying CPP receipt leads to a 50 cent reduction in GIS benefit entitlement, leading to a 50 percent clawback of GIS benefits when CPP benefit income increases. The case for reform in this area is



Some older workers are not financially ready to retire at traditional retirement ages and may need to work longer to ensure a financially stable retirement. Image: Michelle Meiklejohn

strong, as future GIS recipients are those at greatest risk of falling into hardship. While these seniors may prefer to work longer to secure a better retirement income, they are effectively prevented from doing so because the “large effective tax on continued work through the GIS-CPP interaction means that these seniors see little return for continued work and might settle for an earlier retirement with lower future income flows.”<sup>7</sup>

*Older Workers in the New Economy: the Role of Wage Insurance and the Rethinking of Employment Insurance*<sup>8</sup>:

Stephen Jones (McMaster University) examines the Panel’s recommendations relating to displaced workers, Canada’s EI program, and the proposal to implement “Wage Insurance” (WI). The panel report recommends certain changes to Canada’s EI policy: specifically, changes in the treatment of severance pay for some long-tenure workers, extended eligibility for benefits for these long-tenure workers, and improved mobility assistance measures. More broadly, the report “strongly recommends that the federal government engage in a fundamental review of the Employment Insurance Act.”<sup>9</sup> Jones interprets many of the EI reform proposals suggested by the Expert Panel as a form of experience rating, generally favouring long-tenure workers, with a long history of labour market attachment. He notes that this “opens the broad question of which elements of policy should be affected by which individual characteristics,”<sup>10</sup> and proposes serious analysis of this major consideration as part of any fundamental review of EI.

Wage Insurance (WI) for displaced workers, as typically proposed, would top-up some part of the gap between the old earnings level and the new earnings level with the goal of partially compensating displacement-related earnings losses. Jones notes that WI could pose a moral hazard problem, giving incentive for individual workers to accept lower wage jobs rather than engaging in a more thorough job search in order to benefit from the wage supplement. However, WI offers prospects to aid the displaced that training schemes may not be able to match, so Jones seconds the Expert Panel’s proposal for a pilot WI demonstration project. In view of the long-lived earnings losses borne by the displaced, a key design parameter will be the duration of the wage subsidy.

**“[The] large effective tax on continued work through the GIS-CPP interaction means that these seniors see little return for continued work and might settle for an earlier retirement with lower income flows”**

*Review of the Report of the Expert Panel on Older Workers:*

Charles Beach (Queen’s University) commends the report’s emphasis on enhancing choice and flexibility for older

workers. He notes that the report may have already had some impact on policy makers. In May 2009, the federal government announced substantial new funding for an extension of E.I. benefits for applicants in isolated communities, and a recent task-force report for Statistics Canada recommended improvements in labour market data which is consistent with the recommendations of the report. In line with the Panel’s recommendations, the government also raised EI benefits for recipients with long contribution histories. The Prime Minister and the Liberal party also agreed to undertake a review of the Canadian E.I. program, which is another one of the report’s recommendations.

<sup>1</sup> Frank T. Denton & Byron G. Spencer, “Population Aging, Older Workers, and Canada’s Labour Force.” *Canadian Public Policy*. Vol. 35, No. 4 (December 2009): 481

<sup>2</sup> Frank T. Denton & Byron G. Spencer, “Population Aging, Older Workers, and Canada’s Labour Force.” *Canadian Public Policy*. Vol. 35, No. 4 (December 2009)

<sup>3</sup> Denton & Spencer, 482

<sup>4</sup> Denton & Spencer, 485

<sup>5</sup> Denton & Spencer, 486-490.

<sup>6</sup> Michael Baker & Kevin Milligan, “The Report of the Expert Panel on Older Workers: How Should Public Pensions Be Improved?” *Canadian Public Policy*. Vol. 35, No. 4 (December 2009)

<sup>7</sup> Michael Baker & Kevin Milligan, 497

<sup>8</sup> Stephen Jones, “Older Workers in the New Economy: The Role of Wage Insurance and the Rethinking of Employment Insurance” *Canadian Public Policy*. Vol. 35, No. 4 (December 2009)

<sup>9</sup> Expert Panel on Older Workers, *Supporting and Engaging Older Workers in the New Economy*. Available online:

[http://www.hrsdc.gc.ca/eng/publications\\_resources/imp/eow/2008/older\\_workers\\_2008.pdf](http://www.hrsdc.gc.ca/eng/publications_resources/imp/eow/2008/older_workers_2008.pdf) (July 2008): 62

<sup>10</sup> Jones, 509

<sup>11</sup> Charles Beach, “Review of the Report of the Expert Panel on Older Workers.” *Canadian Public Policy*. Vol. 35, No. 4 (December 2009)

## Endnotes

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