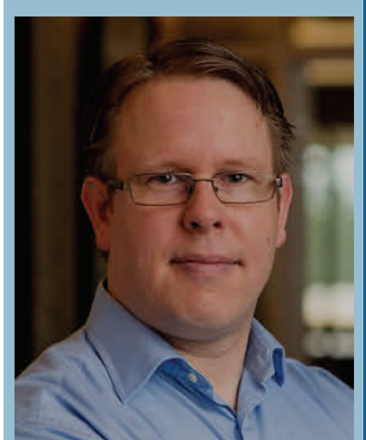
Labour Market Matters

Volume 5, Issue 5 May 2013

Special points of interest:

- For financially vulnerable Canadians who exit the workforce before retirement benefits begin; family support is found to be crucial to prevention of economic hardship.
- While senior poverty in Canada has declined steadily since the 1970s in large part due to the introduction and expansion of retirement income policies, these policies are no longer sufficient for the alleviation of relative poverty.

"With family support, Milligan estimates that 72.5 percent of men and 77.3 percent of women are lifted from the before-tax Low Income Cut-off (LICO) threshold."



Kevin Milligan (University of British Columbia)

Family support critical to prevention of poverty among financially vulnerable Canadians who exit the workforce before retirement benefits become active

As governments around the world struggle to reign in ballooning public deficits, one area that has been targeted for cost savings has been to increase the age of eligibility for retirement benefits. In Canada, the March 2012 federal budget announced plans to make a transition in the age of eligibility for Old Age Security from age 65 to 67, starting in 2023. Similar retirement age reforms in Europe have erupted in large-scale protests and civil disorder. Concern exists that those exiting the labour market before statutory retirement ages may suffer hardship before they can access public pensions.

A CLSRN study entitled ***"Employer-provided pensions, incomes, and hardship in early transitions to retirement"*** (CLSRN Working Paper no. 117) by Kevin Milligan (University of British Columbia) addresses the wellbeing of those making early exits from the workforce by studying the extent, characteristics, and impact of such exits in Canada. Milligan finds that around 77 percent of females and 73 percent of males who are not working are able to avoid low-income status, and that the most important factor for this avoidance is the presence of income from other family members.

Using data from the Survey of Labour and Income Dynamics (SLID) from 1993 to 2008, Milligan finds that having a workplace pension (compared to not having one) decreases the probability of that individual who is out of the workforce before the age of pension eligibility from falling into what Milligan terms "zero earnings", or a state where social and financial well-being becomes state of concern for public policy, by 3.9 percentage points for women and 3.3 percentage points for men. This is a percentage increase of 34.2 percent for women and 36.7 percent for men.

Working fulltime has a much stronger impact on non-work for men than for women. Men are 18.2 percentage points less likely to have zero earnings at ages 55-59 if they are working fulltime at age 54. For women, the difference is only 5.0 percentage points. This means that men with only partial attachment to the labour force at age 54 are more likely to fall right out of work over the next few years than are women with partial attachment. This likely indicates that many people are starting to make a transition out of work as they begin the process of retirement.

For both females and males, having a work limitation or being in fair/poor health at age 59 increases the likelihood of low income in retirement. For those in the "zero earnings" category, Milligan finds that, having a spouse in fair/poor health decreases the likelihood of low income for males while for females the spousal work limitation lowers the likelihood of low income. In both cases, this may be driven by higher lifetime earnings in response to a spousal disability or illness

Family support found to be crucial to the prevention of poverty among financially vulnerable Canadians who exit the labour market before retirement age
Image: Photostock/Freedigitalphotos.net

With family support, Milligan estimates that 72.5 percent of men and 77.3 percent of women are lifted from the before-tax Low Income Cut-off (LICO) threshold. Without employer-sponsored pension income, only 57.6 percent of men would rise above the before-tax LICO. This is 20.6 percent of the total 72.5 percent who were lifted above the before-tax LICO. For males, employment related employer-sponsored pension income is a large factor in avoiding low incomes. The absence of employer-sponsored pension income would cut the proportion of men surpassing the low-income threshold by about 20 percent, but for women the drop would be only 6 percent. For both men and women, the income from other family members is of critical importance to lifting them out of economic difficulty, as measured by low income.

Retirement income policies are important for the alleviation of poverty among Canadian seniors – but no longer sufficient for the alleviation of relative poverty

There had been a dramatic decline in senior poverty rates since the early 1970s in Canada. The introduction and expansion of retirement income programs – including Old Age Security (OAS), the Guaranteed Income Supplement (GIS) and the Canada and Quebec Pension Plans – is often credited with this improvement in the lives of Canadian seniors. A CLSRN study entitled ***"Senior Poverty in Canada: A Decomposition Analysis"*** (CLSRN Working Paper no. 118)* by Tammy Schirle (Wilfrid Laurier University), takes a closer looks at poverty trends in Canada and examines the extent to which other factors might have contributed to changes in senior poverty. While the evolution of characteristics such as education can account for some of the historical reduction in senior poverty, it does not explain very much. Rather, her results support the assertion that retirement income policy is central to understanding senior poverty in Canada.

Using the confidential microdata files for the 1977-1979 and 1994-1996 Survey of Consumer Finances (SCF) and the 1994-1996 and 2006-2008 Survey of Labour and Income Dynamics (SLID), Schirle examines the extent to which changes in seniors' education, demographics, and living arrangements may be associated with changes in senior poverty – measured using the Elderly Relative Poverty Measure (ERPM) and the Low Income Cut-off (LICO).

Tammy Schirle (Wilfrid Laurier University)

Senior's LICO-based poverty rates fell steadily over the period studied – from 30% in 1977 to only 9% in 1995 and 5.6% in 2008. Increases in senior's education over time could account for 9% of the 1977-1979 to 1994-1996 reduction in senior poverty rates. However, changes in other senior characteristics did not drive substantial reductions in senior poverty rates over that period. Instead, we see that factors typically associated with a higher market income for seniors and their economic family – such as higher education, living with extended family or being relatively young – became less relevant as predictors of senior poverty. For example, in 1977-1979, one more year of education reduced a senior's probability of having income below the LICO threshold by nearly 2 percentage points. In 1994-1996 and 2006-2008, the effect of an additional year of education on the likelihood of LICO poverty is less than one percentage point. Age effects also decline over time – in 1977-1979, aging significantly increased a senior's likelihood of having income below the LICO threshold but the effect moves closer to zero (and even negative) over time. While these patterns might reflect some behavioural changes – for example, it might be the case that seniors have become better at managing their own finances – the patterns in the data align very well with the expansion of OAS and GIS programs, leaving Canada's retirement income policy the most likely factor at play.

> ***"Overall, current policy appears effective for alleviating absolute poverty among seniors. It is not, however, adequate for alleviating relative poverty among seniors."***

Canada's retirement income policy, however, is no longer enough to help seniors keep up with the working age population. ERPM senior poverty rates – a purely relative measure of poverty that moves with the median income of the working age population – also fell until the mid-1990s, but then increased over the 1994-1996 to 2006-2008 period, from 8.9 to 14.5 percent. In 1994-1996, being married reduced a senior's likelihood of having income below the ERPM threshold by 13 percentage points. This largely reflects the fact that OAS and GIS benefits are higher for married individuals than unmarried individuals (accounting for the economies of scale that can be achieved within a household) and this basic benefit brings married individuals closer to the ERPM poverty threshold. Over time, however, OAS and GIS benefits remain fairly constant (after accounting for inflation) while the ERPM threshold continued to increase. At the same time, the factors we associated with higher market incomes – including education and living with extended family members – becomes more relevant again for predicting the likelihood of having income fall below the ERPM threshold, and marriage becomes more important for reducing one's risk of poverty. Overall, current policy appears effective for alleviating absolute poverty among seniors. It is not, however, adequate for alleviating relative poverty among seniors.

*This paper is forthcoming in the Canadian Journal of Public Policy

Endnotes

Labour Market Matters is a publication of the Canadian Labour Market and Skills Researcher Network (CLSRN). The CLSRN is supported by the Social Science and Humanities Research Council of Canada (SSHRC) under its Strategic Research Clusters program. Opinions expressed in this publication do not necessarily reflect the views of the SSHRC.

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