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Employer-provided pensions, incomes, and hardship in early transitions to retirement

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Employer-provided pensions, incomes, and hardship in early transitions to retirement

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Executive Summary

Countries around the world are struggling to respond to the increasing cost of their public retirement income programs due to the pressures of population aging. One of the responses pursued in many countries has been an increase in the age of eligibility for retirement benefits. For example, the United States has been slowly increasing the full retirement age from 65 toward a target of 67 for the cohorts born in 1960 and later. Germany has plans to move their retirement age from 65 to 67 between 2012 and 2029. Similar proposals in France in 2010 sparked vigorous demonstrations. 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.

One concern with a move to later ages of eligibility for public retirement benefits is the welfare of those who retire before the age of eligibility. This paper addresses the wellbeing of those making early exits from the workforce by studying the extent, characteristics, and impact of such exits in Canada. In particular, three questions are addressed. First, who retires early? Second, what are the income patterns among early retirees? Third, how do early retirees avoid economic hardship? The paper approaches these questions through the use of the Survey of Labour and Income Dynamics, which contains a rich description of the labour market activity and the incomes of a large sample of Canadians.

Several important findings emerge. Non-work among those approaching the ages of public pension eligibility is not strongly related to demographic or workplace characteristics, although employment related pensions do have some explanatory power. The incomes of those in this age range show an increasing compression as age 65 approaches, but there remain considerable

differences for those who have and do not have employment related pensions. Among those not working, spouses and pensions have the best predictors of having low income or not. Finally, I calculate that around 77 percent of females and 73 percent of males who are not working in these pre-eligibility age ranges 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. Health matters as well. For males, employment related employer-sponsored pension income is also a large factor in avoiding low incomes.

Future work in this area may address more carefully the transitions between near-retirement ages and the ages of full public pension eligibility. Important questions remain, such as how exactly those in low income smooth their consumption on the way to age 60 or age 65, and whether those who are in low income at these earlier retirement ages stay in low income after age 65.