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Displacement of Older Workers: Re- employment, Hastened Retirement, Disability, or Other Destinations?

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“Displacement of older workers: re-employment, hastened retirement, disability, or other destinations?”¹

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Abstract:

The central objective of this study is to investigate the income sources and patterns of prime-age and older workers who suffer a layoff from steady employment. We focus on a set of cohorts who are deemed to have a high degree of attachment to the labour force preceding the event of an involuntary separation. Using a unique data base that merges administrative data marking the job separation, we track all of their sources of income over an interval that spans four years prior to the separation to five years after the separation. Our empirical analysis includes an investigation of the frequency that a laid-off individual will receive income ex post from a given source, a typology analysis of the various configurations of income received, and an econometric analysis of the incidence of certain post-layoff income configurations.

We find that in any given year, approximately 2 % of our sample of workers with stable employment histories experience a ‘visible’ layoff. During the first three post-layoff years, 77 % of the group of laid-off workers (aged 45-64 years old) have non-trivial labour market earnings, and 56-65 % of them depend on the labour market for their primary source of income. This group of workers does experience substantial income losses. During the post-layoff period, approximately 14-19 % of them file a subsequent claim for EI benefits, but few of them depend on the EI regime as the primary source of their income. Very few of these individuals draw on other types of social insurance benefits, such as CPP disability, social assistance, and workers’ compensation. The most common destination state for prime-age and older workers who have not yet reached retirement age are early retirement and continued labour market activity, albeit at much lower earnings. It is rare for them to draw on social insurance benefits, and we find little evidence that disability benefits and workers compensation are functioning as disguised unemployment benefits.

Executive Summary

Due to the demographic phenomenon of population aging in Canada, a greater share of displaced workers, will be over 50 years old. The turnover and displacement of older workers is likely to be distinct from patterns exhibited by younger workers. Such workers are less likely to flow in response to variety of shocks which affect the economy, and involuntary job turnover becomes more costly with age. While older displaced workers typically face much more limited job opportunities than their younger counterparts, they also face a wider variety of labour force options than do younger workers, who are normally expected to search for a new job that is comparable to the one that was lost. In contrast, for the former group, there are several alternative destination states that involve some form of labour force withdrawal, including indemnified early retirement, permanent disability, or partial retirement. The issue of hastened retirement among older displaced workers is relevant to achieving greater labour market participation among older workers. Success on this front involves alleviating the adjustment costs that older workers face resulting from displacement – perhaps by improving employment opportunities so that the wage losses are minimized.

The topic of this paper is the post-separation labor market activity profiles of displaced prime-age and older workers. Including both genders in our analysis, we investigate both the incidence of displacement of this group as well as their profiles after the event of displacement. These profiles can involve a number of alternative destinations and sequences of states, including the simultaneous receipt of payments from any income support programs for which they might be eligible. Most of the studies within the sizeable literature on displaced workers, both Canadian and international, tend to deal with post-displacement outcomes occurring within a short-run time frame, such as the wage of the first newly found job and the length of joblessness immediately following the separation. To our knowledge, there is little research pertaining to any country regarding labour market outcomes - other than wage losses - over a long-term time horizon. We seek to fill this void by measuring and analyzing the entry of older laid-off workers into a number of alternative destination states, which can be categorized into several groups, namely i) the receipt of some form of social insurance, ii) early-retirement, iii) self-employment, and iv) re-employment (at potentially lower earnings).

One of the objectives of this paper is to investigate transitions into the receipt of social insurance benefits, such as subsequent EI claims, repeat use of EI, social assistance, and worker's compensation. The type of social insurance that has received the most attention in the US literature is long-term disability insurance. Some authors claim that this regime has evolved from its original function of insuring workers against earnings loss attributable to a disabling medical event to providing long-term income support for the unemployable – a phenomenon that is labelled 'non-employability insurance'. There is empirical evidence from the US that adverse labour market shocks causing layoffs and

reduced labour market opportunities (for lower-skilled workers) have encouraged a growing and unduly high fraction of displaced workers to withdraw from the labour force and seek disability benefits. In the spirit of those studies, we focus part of our attention on the incidence of receipt of the Canadian equivalent to the US disability insurance program, namely the Canadian Pension Plan Disability (CPPD) Regime and its Quebec equivalent, the QPPD.

Much of the empirical analysis that we generate in this paper is descriptive in nature. Our goal is not to test behavioural mechanisms, but rather to develop a typology of post-displacement labour market activity profiles and configurations for sources of income. The empirical approach consists of following cohorts of workers who were laid off in a given year. The outcome variable takes the form of the absolute or relative number of subjects who were laid off in a given year T that are observed in a given destination state in a later year. As this procedure generates a great amount of empirical detail, an important challenge is to distill patterns that appear to be prevalent over a five-year post-displacement interval. After allowing the data to shape our typology of post-displacement profiles, there are also particular patterns for which we search. We are interested in the case of early retirement, how it is financed (i.e. public or private pension benefits), and whether such workers ever return to the labour market. We also estimate econometric models of their relative likelihoods of occurrence that include correlates.

A secondary objective of this paper is to measure the actual risk of displacement for this segment of the labour force and to analyze how it is associated with a variety of covariates. These results will be compared to results that appear in the existing literature that are based on different data sets. As our findings are based on recent data, it is useful to examine the extent to which the incidence of displacement has changed over time. Although our data set does allow for the estimation of the magnitude of earnings losses that are suffered by laid-off workers, this task has been adequately addressed elsewhere by Morissette (2007), and thus we do not deal with it.

We will draw primarily on the Longitudinal Administrative Database (LAD), which consists of a lengthy panel of annual tax-based data. One important advantage of the LAD file is that it contains detailed and accurate information on the sources of income and the levels that are drawn from these sources, including income from social insurance programs and non-labour income such as self-employment income.

To summarize the results, the most common destination states for prime-age and older laid-off workers who have not yet reached retirement age are reliance on private pension benefits and continued labour market activity, albeit at much lower earnings. For the group between 45 and 59 years of age, the most common destination states are a return to the labour market and privately-financed early retirement in that order, and together those states account for

about 80 % of all cases. Among the older workers, reliance on some form of pension income (be it public and/or private) accounts for about 60 % of the cases. It is relatively rare for them (i.e. under 5 % of all cases) to draw heavily on social insurance benefits, and we find little evidence that disability benefits and workers compensation are functioning as disguised unemployment benefits.