Volume Title: Social Security Programs and Retirement around the World: Working Longer

Volume Authors/Editors: Courtney C. Coile, Kevin Milligan, and David A. Wise, editors

Volume Publisher: University of Chicago Press

Volume ISBNs: 978-0-226-61929-3 (cloth); 978-0-226-61932-3 (electronic)

Volume URL: https://www.nber.org/books-and-chapters/social-security-programs-and-retirement-around-world-working-longer

Conference Date:

Publication Date: December 2019

Chapter Title: The Labor Force Participation of Older Men in Canada

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Chapter URL: https://www.nber.org/books-and-chapters/social-security-programs-and-retirement-around-world-working-longer/labor-force-participation-older-men-canada

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The Labor Force Participation of Older Men in Canada

Kevin Milligan and Tammy Schirle

2.1 Introduction

With few exceptions, the labor force participation (LFP) rates of older men in Organisation for Economic Co-operation and Development (OECD) countries have followed a common trend—after declining steadily for decades, the participation rates of older men started to increase after the mid-1990s (Coile et al., introduction to this volume). In Canada, the participation rates of older men reached record lows in 1995 and have increased steadily since. The purpose of this chapter is to document these trends for older men in Canada and review various factors that might underlie these trends.

In what follows, we begin by documenting recent trends in older men's labor force participation rates as well as the participation rates of older women. We then investigate various factors that we might expect to affect the participation and retirement decisions of older men. We consider Canada's public and employer-sponsored pensions, the Canadian business cycle, improvements in Canadian health and mortality, the rising educational attainment of Canadian men, and finally the importance of joint retirement decisions of married couples and the greater labor force attachment of recent cohorts of older women.

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This chapter is a part of the National Bureau of Economic Research's International Social Security (ISS) project, which is supported by the National Institute on Aging. The authors thank the members of the other country teams in the ISS project for their comments and suggestions. For acknowledgments, sources of research support, and disclosure of the authors' material financial relationships, if any, please see https://www.nber.org/chapters/c14042.ack.

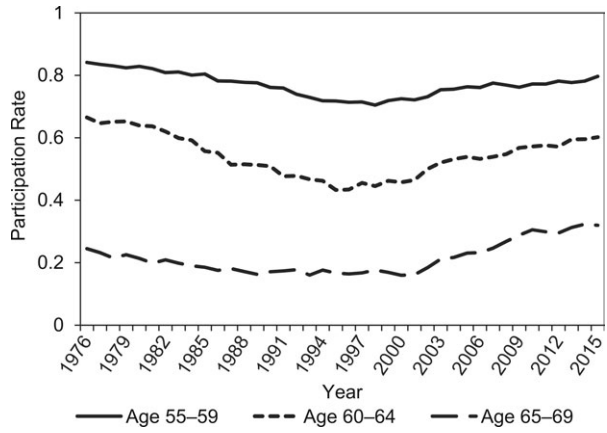

Fig. 2.1 Men's labor force participation rates
Source: Authors' tabulations from the LFS.

Each of these factors will play an important role in individuals' retirement and labor force participation decisions. However, there have been relatively few substantial changes to the setting in which older men are making these decisions. Most key parameters in Canada's public pensions have not changed over the time period we focus on here, and employer-sponsored pension coverage among older cohorts seems to have improved despite the declining coverage for younger cohorts. Recovery from the recession after the early 1990s may have played a small role in increasing participation rates; however, the more recent recession did not result in greater departures from the labor force.

Other factors appear more important. Improvements in health and mortality at older ages as well as higher educational attainment have likely improved the opportunities to remain employed when older. We also suggest that greater labor market attachment among more recent cohorts of older women has driven some of the recent increase in older men's participation as they delay retirement until such time as their wives will join them.

2.2 Trends in Participation Rates

As in many OECD countries, the participation rates of older men and women followed very different trends before the 1990s and have since increased. In figures 2.1 and 2.2, we present the labor force participation rates of older men and women aged 55–64 in Canada since 1976. From 1976 into the early 1990s, the participation rates of older men steadily declined. The decline is most substantial for men aged 60–64, whose participation rate declined from 67 percent in 1976 to only 43 percent in 1995. Thereafter, participation rates have steadily increased, reaching 60 percent in 2015 among

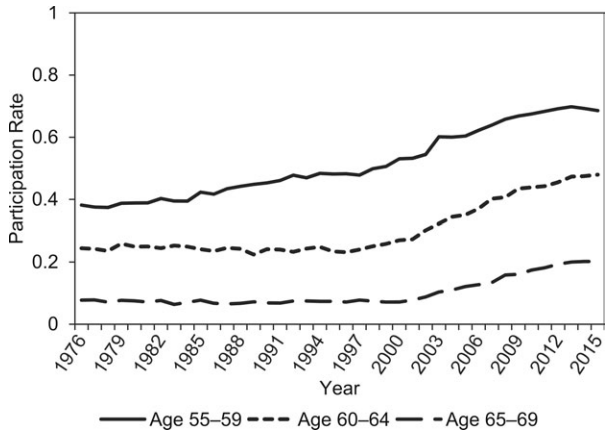

Fig. 2.2 Women's labor force participation rates
Source: Authors' tabulations using the LFS.

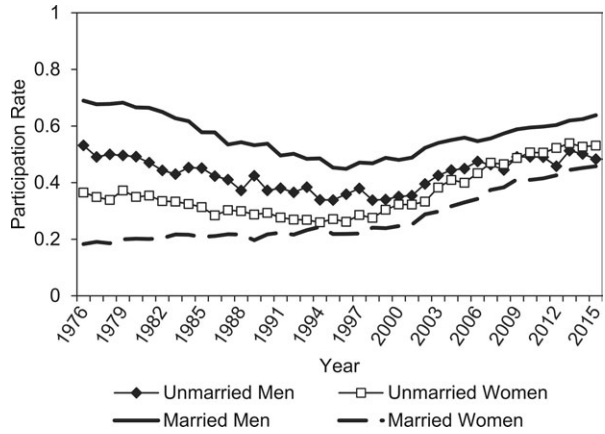

Fig. 2.3 Men's and women's participation rates at ages 60–64 by marital status
Source: Authors' tabulations using the LFS.

60–64-year-old men. The increase in men's participation after the 1990s is most remarkable for those aged 65–69, whose participation rates were only 16 percent in 1993 and reached record levels of 32 percent in 2014 and 2015.

In figure 2.2, we see that trends are quite different for older women, in that their participation rates did not decline before the 1990s as men's did. Participation rates of women aged 55–59 have steadily increased after the early 1980s. Those of older women were stable and then increased substantially after the mid-1990s. In 1996, the participation rate of women aged 60–64 was 23 percent; this rose to 48 percent by 2015.

In figure 2.3, we highlight the fact that trends for older women's participa-

tion rates appear related to marital status. Among married women (which includes women in common-law relationships) aged 60–64, we see the general increase in participation rates over time, with a sharp increase after the mid-1990s. For unmarried women (which includes never married, divorced, separated, and widowed women), we see the U-shaped trend similar to that for men. However, the decline in participation rates before the 1990s is not as steep for women as it was for men. The later increase in participation is much steeper for women than men.

In the next section, we consider various factors that might have driven the observed increase in men's participation rates since the mid-1990s. We first consider the roles of public and private pensions. Next, we explore the importance of the business cycle. We then consider changes in individuals' health and education, as these may influence the opportunities one has to participate in the labor force. Finally, we further consider the joint retirement decisions of couples in light of the differential trends presented for married women.

2.3 Factors Potentially Driving Men's LFP

2.3.1 Canada's Public Pensions

The importance of public pension incentives for retirement in Canada has been studied in past literature. For example, Baker, Gruber, and Milligan (2003) show how the financial incentives for retirement embedded in the Canadian public pension system affect individuals' decisions to retire. Schirle (2010) further examines these incentives and finds corroborating evidence. Baker (2002) examined the introduction of an early income-tested benefit (the spouse's allowance) available to those aged 60–64 whose spouses are aged 65 or older and found a reduction in labor force participation in response. Baker and Benjamin (1999), however, examined the introduction of early retirement provisions to Canada's contributory public pensions and found little immediate effect on labor market behavior despite an immediate effect on pension receipt. Compton (2001) also finds that the parameters of Canada's contributory pensions did not have a significant effect on retirement decisions. Overall, the available evidence suggests we should expect the parameters of the public pension system to affect the timing of retirement among those over age 55.

In figure 2.4 we plot the age of eligibility for Canada's main public pension programs. The eligibility age for Old Age Security (OAS, a near-universal benefit) has remained at age 65 since 1967.[1] The Guaranteed Income Supplement (GIS, an income-tested benefit) has the same eligibility age as the OAS

1. In 2012, the federal government announced plans to increase the OAS eligibility age to 67, phased in after 2023. In 2016, the government reversed this decision. OAS is clawed back at a rate of 15 percent for relatively high incomes.

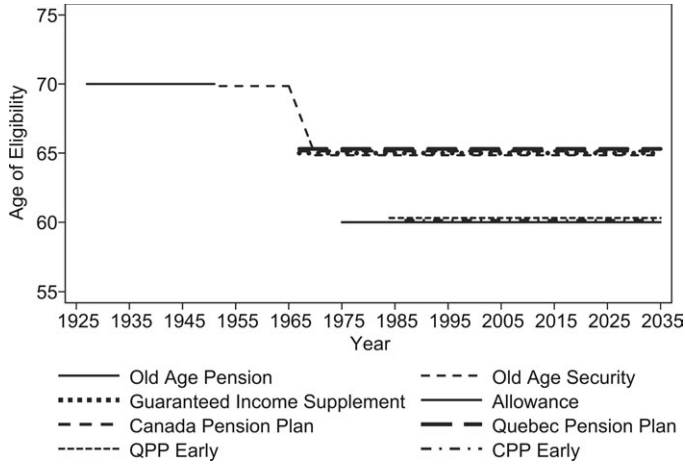

Fig. 2.4 Age of eligibility for public pensions in Canada
Source: Authors' tabulations.

at age 65, and this has not changed over time. A spousal income-tested benefit (the allowance) was introduced for individuals aged 60–64 (if their spouse was aged 65 or older) in 1975. The Canada and Quebec pension plans (CPP and QPP) are contributory pensions intended to replace 25 percent of covered earnings (referred to as the year's maximum pensionable earnings, or YMPE). Both the CPP and QPP set the normal retirement age at 65 (since 1967) and allow for early benefit take-up at age 60 (since 1985 in Quebec and 1987 in the rest of Canada). What is very clear from figure 2.4 is that one of the most important parameters of Canada's public pensions—the age of eligibility—has not changed in the past three decades.

There have been a few small changes to the public pension programs. First, in 1997, the CPP benefit formulas were altered slightly. Prior to 1997, CPP formulas were such that the maximum benefit amount for the CPP had represented 25 percent of a three-year moving average of the YMPE. Changes were phased in so that after 1999, the maximum benefit would represent 25 percent of a five-year average of the YMPE. This reduced only slightly the pension wealth accumulated in the plan and did not significantly alter incentives to retire at each age. Second, eligibility requirements became much more stringent for disability benefits associated with the CPP in 1995. As discussed in Milligan and Schirle (2016), the disability insurance program does not itself have a large effect on retirement decisions in Canada. Third, in 2012, changes to OAS were made so that individuals could choose to defer OAS benefits for up to five years in exchange for a higher monthly benefit. The adjustment is considered actuarially fair. Finally, the income-tested GIS has been made slightly more generous over time, allowing for a larger earnings exemption after 2008 and offering a small top-up benefit (with a higher clawback rate) to the lowest-income seniors since July 2011. Overall,

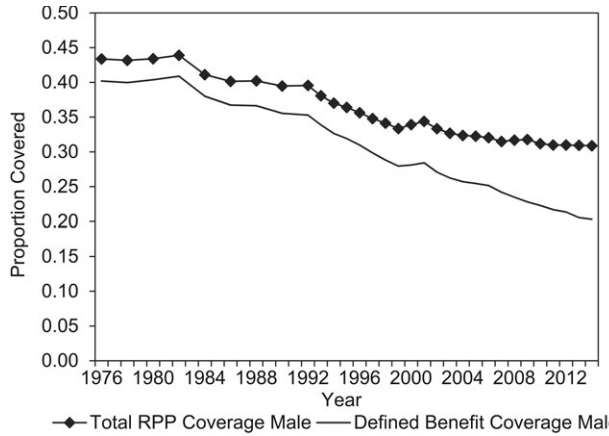

Fig. 2.5 Portion of male labor force participants aged 15 and older who are members of registered pension plans

Source: Authors' tabulations based on CANSIM tables 282–0002 and 280–0008.

we expect that each of these changes may have altered the labor market choices of a small number of individuals; however, policy changes and the expected effects on labor supply would not be large enough to account for the large increases in older men's participation rates.

2.3.2 Employer-Sponsored Pensions

Canada's employer-sponsored pensions are administered independently of the public pension programs, and employers are not required to offer coverage. Among men, the number covered by a registered pension plan (RPP), relative to the number of men aged 15 and older in the labor force, has declined substantially over time. As presented in figure 2.5, the portion of men covered by an RPP declined from 44 percent in 1982 to only 31 percent in 2014. There has also been a shift away from employer-sponsored, defined-benefit pension plans toward defined contribution plans.

It is not clear, however, that this lower coverage among all men reflects the experience of older men during the later 1990s. In fact, among older men, there appears to be greater coverage after the mid-1990s: using data from Canadian tax records, we see that in 1996, 46 percent of men aged 65–69 received "other pensions and superannuation" (CRA 1998).[2] In 2013, 52 percent of men aged 65–69 were receiving pensions (CRA 2015). Despite the increase in pension income receipt, the participation rates of men aged 65–69 increased steadily over this period. We are left with the impression

2. This refers to pension income reported on line 115 of the Canadian federal income tax form and generally represents employer-provided pension income. It will also represent some private savings converted to annuities, which is required for some tax-sheltered savings by age 71.

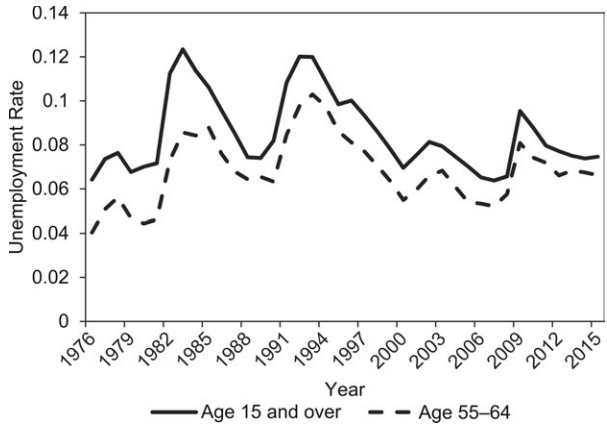

Fig. 2.6 Unemployment rates of men
Source: Authors' tabulations using the LFS.

that declining RPP coverage in the general population of men is not a major factor driving increases in older men's participation after the 1990s.

2.3.3 Business-Cycle Considerations

The initial increase in older men's participation rates coincides with Canada's slow recovery from the recession of the early 1990s. In figure 2.6, we see that the unemployment rates of all men aged 15 and older declined from the early 1990s until 2008. While the unemployment rates of older men (aged 55–64) are generally lower than those of younger men, the trends follow the same pattern. To the extent that this reflects an improvement in men's labor market prospects, we might expect this to be an important factor driving increases in older men's participation after the mid-1990s.

However, when we consider the recession in 2008–9, we see substantial increases in all men's unemployment rates. We do not see a corresponding decline in the participation rates of older men. To the contrary, in figure 2.1, we see the participation rates of older men—particularly those aged 65–69—continue to increase through the recession and up to 2015.

Overall then, we might expect that the improved labor market opportunities of the later 1990s supported the increase in men's LFP rates. However, it is clear that factors independent of the business cycle are also at play.

2.3.4 Health and Mortality

Following the work done in Milligan and Schirle (2017), we explore the relationship between improvements in health over time and increases in employment. In figure 2.7, we see that the life expectancy of older men and women at age 60 has risen dramatically since the 1970s. Between 1970 and 2011, men's life expectancy at age 60 increased by six years. Similarly,

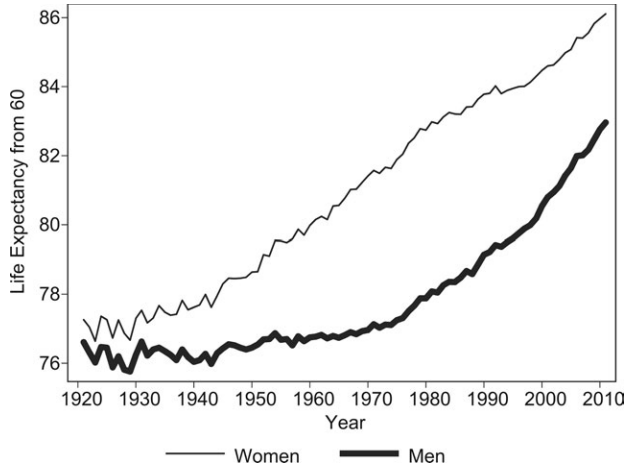

Fig. 2.7 Life expectancy at age 60

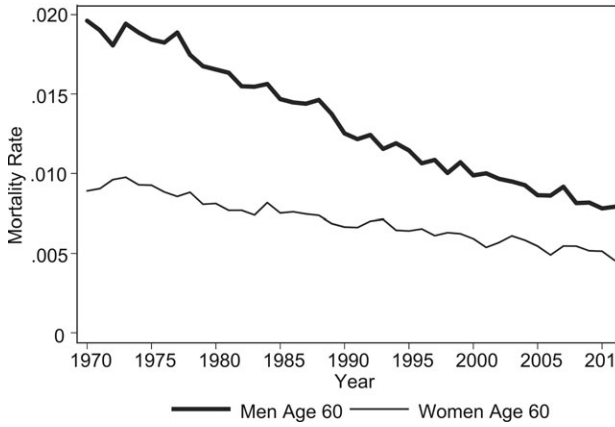

Fig. 2.8 Mortality rates at age 60

in figure 2.8, we see the mortality rates of men and women at age 60 have declined steadily over time.

While we expect improvements in mortality to reflect improvements in health, it is not entirely clear the extent to which this is true. Recent estimates of healthy life expectancy appear to increase at approximately the same rate as life expectancy (Statistics Canada 2012). If we look at self-reports of health among older men (figure 2.9), we see the portion of men reporting fair or poor health did not change over the 1995–2011 period. It is not clear, however, that these self-made reports are comparable over time. The survey question underlying the self-made reports asks respondents to describe their

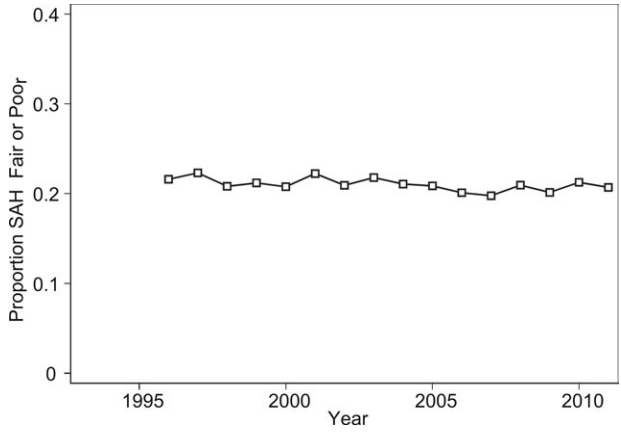

Fig. 2.9 Men aged 55–64 reporting fair/poor health

"state of health" (Statistics Canada 2011), and respondents' reference point is not clear. If the average health of older men is improving over time, and older men are reporting health relative to that average, it would make sense to see no change in this measure.

Clearly, improvements in life expectancy are not going to be the only important factor determining older men's participation rates. If it were, we would have seen increases in participation alongside improvements in mortality over the 1970s, 1980s, and early 1990s. Since the mid-1990s, increases in participation have aligned fairly closely. Milligan and Schirle (2017) have suggested that employment has not quite kept pace with mortality improvements. If they had, older men would be working longer than observed in the data. Specifically, Milligan and Schirle (2017) suggest that if older men in 2011 had remained employed as long as men in 1995 with the same mortality rates, they would be working 1.44 years longer.

Overall we suggest that improvements in health and mortality have facilitated increases in employment among older men since the mid-1990s.

2.3.5 Education

In figures 2.10 and 2.11, we describe how the educational attainment of older men and women has increased over time, specifically the likelihood of having attended high school or completed a university degree (which in Canada is typically a three- or four-year degree and is considered separately from one- to two-year college programs). Older men's likelihood of completing a university degree increased substantially, from 7 percent in 1976 to 13 percent in 1995 and 23 percent in 2015. Women's likelihood of completing university increased at a higher rate, from 3.5 percent in 1976 to 22 percent in 2015.

On one hand, an increase in education should result in higher lifetime

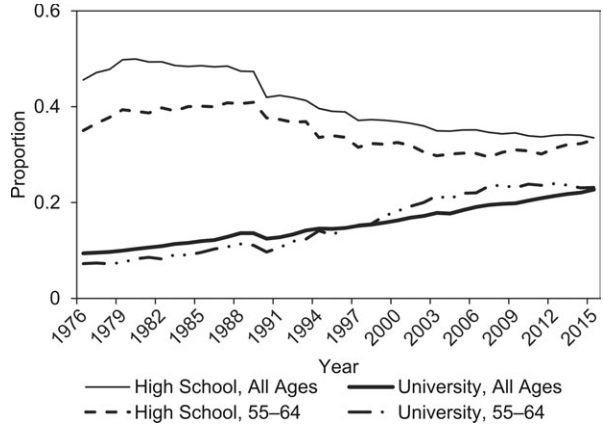

Fig. 2.10 Educational attainment of men
Source: Authors' tabulations using the LFS.

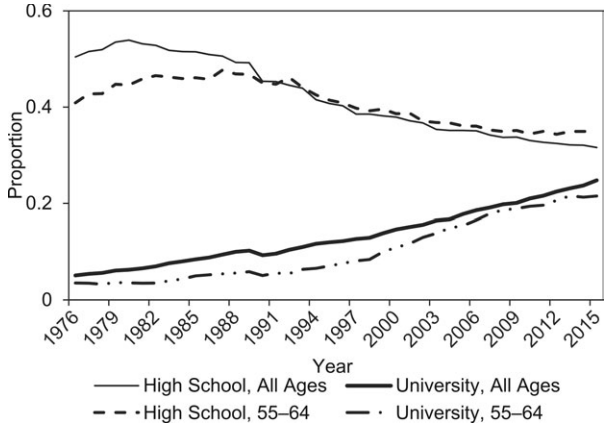

Fig. 2.11 Educational attainment of women
Source: Authors' tabulations using the LFS.

incomes among more recent cohorts of older men and women. We'd expect that to result in earlier retirements, as individuals use their wealth to enjoy more leisure time in retirement. On the other hand, improvements in educational attainment may result in a change in the types of occupations available to older workers—possibly less physically demanding occupations that are more accommodating to worsening health at older ages. In figure 2.12, we present the portion of men working in blue-collar occupations.[3] This has

3. Our definition of blue collar includes contractors and supervisors in trades and transportation, construction trades, other trade occupations, transport and equipment operators,

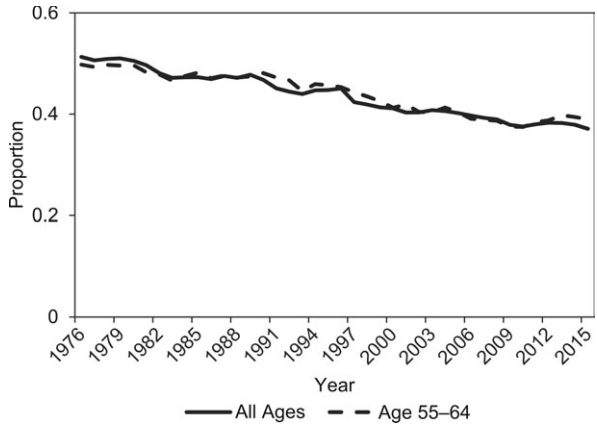

Fig. 2.12 Portion of men employed in blue-collar jobs
Source: Authors' tabulations using the LFS.

steadily declined over time, from 50 percent of all working men in 1976 to 39 percent in 2015.

Schirle (2010) considered the role of education in her examination of older (age 55–64) married men's participation rates since the mid-1990s. However, the role of education was not accounted for separately from other characteristics of men, including age and the number of children in the family. The changes in men's characteristic accounted for 15 percent of the total change in men's participation from 1995 to 2005.

2.3.6 Joint Retirement Decisions and Recent Cohorts of Women

Among the factors affecting the labor force participation decisions of men, we should expect the participation decisions of women—their wives—to be an important factor in the decision-making process. As described in Schirle (2010), there are two routes through which a wife's participation decision might affect a husband's. First, there is an income effect whereby a wife's employment income would reduce a husband's likelihood of participating in the labor force. Second, husbands and wives may have a preference for shared leisure time, especially at older ages. As such, husbands may be more likely to participate in the labor force when their wives are participating in the labor force. Schirle (2010) provides evidence suggesting that the preference for shared leisure time dominates in the retirement decision, in that a husband's participation is positively and significantly influenced by a wife's participation in the labor force. Moreover, a substantial portion (42–46 per-

trade helpers, construction and transportation laborers and related occupations, occupations unique to a primary industry, machine operators and assemblers in manufacturing including supervisors, and laborers in processing, manufacturing, and utilities.

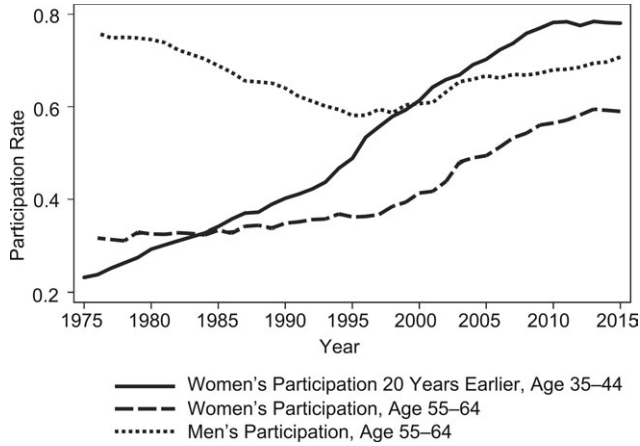

Fig. 2.13 Participation rates of men and women by age

Source: Authors' tabulations using the LFS (1975–2015) and historical documents from Canada's Women's Bureau.

Note: Women's participation 20 years earlier at ages 35–44 depicts for the year in the graph what the participation rates of women aged 35–44 was 20 years prior.

cent) of the increase in older men's participation since the mid-1990s was driven by the response of older men to their wives' increased participation in the labor force.

In figure 2.13, we present the participation rates of men and women at ages 55–64, aligned with the participation rates of the same birth cohort of women 20 years earlier (when they were 35–44 years old). Women's participation rates at ages 35–44 had been rising steadily, with each new cohort of women being more likely to participate in the labor force. For women aged 55–64 in the mid-1990s, rising participation at younger ages (35–44 in the mid-1970s) had accelerated, reflecting greater career attachment that coincided with easier access to birth control and resulting increases in education (see Bailey 2006; Goldin and Katz 2002). This acceleration in women's participation from the 1970s corresponds to the same cohort's increase in participation in the mid-1990s.

With greater career attachment among the cohorts of older women appearing in the mid-1990s, we would expect their husbands (whose wives are typically a bit younger) to have a higher likelihood of participating in the labor force than earlier cohorts of men, as they postpone retirement in the interest of sharing the leisure time with their wives. To characterize the extent to which this matters, we construct estimates using the methods similar to those presented in Schirle (2010).[4] We present a counterfactual

4. Our measures, including age groups, are defined a bit more coarsely given the availability of public-use data files, and we do not account for the number of children.

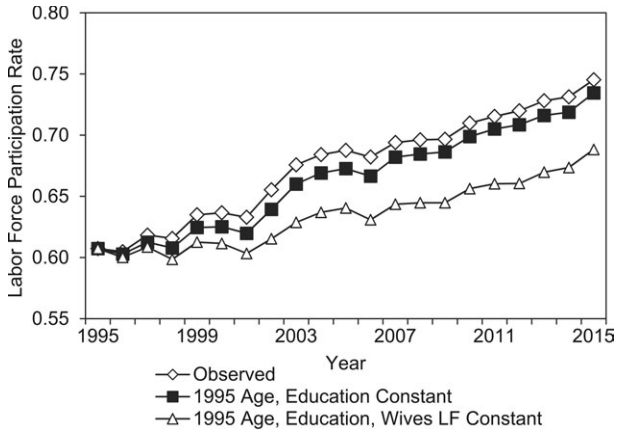

Fig. 2.14 Counterfactual participation rates of men
Note: Authors' calculations based on LFS.

time series for married men's (age 55–64) LFP rates—specifically a counterfactual in which the participation rates of wives did not increase after 1995. We also consider the effects of age structure and education in our procedures. The results are presented in figure 2.14.

Among married men aged 55–64, participation rates increased by 14 percentage points over the 1995–2015 period. Increasing levels of education and changes in the age structure (as the baby boomers moved from being aged 55–59 toward 60–64) explain a small portion of the increase in participation over the 1995–2015 period (only 8 percent of the total increase, or one percentage point). The increase in wives' LFP appears to be an important factor. If the participation rates of wives had not increased over this period, we might expect the participation rates of older married men to be nearly 5 percent lower. In other words, the estimates here suggest that the increase in wives' participation rates over time can explain one-third of the total increase in married men's participation rates since 1995. Despite using the relatively unrefined methods used here, the results align well with those found in Schirle (2010).

2.4 Conclusion

In this study, we have reviewed recent trends in older men's LFP rates and various factors that may have driven these trends. While public and employer-sponsored pensions are an important determinant of the retirement decision, these pensions have not changed substantially for older men over the past two decades. We expect that the recovery of the Canadian economy over the mid to later 1990s contributed to the increase in older men's participation rates but was not a central element driving trends.

Improvements in health and education may have played a larger role in recent trends in older men's participation rates. As education levels increase, there has been a shift away from blue-collar jobs, which tend to be more physically demanding. Combined with improvements in health, older men may now face better opportunities to continue with employment at older ages.

Finally, we expect that continued increases in the LFP rates of older wives have played an important role. The observed increase in participation of older wives reflects long-run trends in women's attachment to the labor market that intensified for younger women in the 1970s. As husbands reveal preferences for sharing leisure time with their (typically) younger wives and their wives are increasingly likely to work at older ages, the labor force attachment of older husbands has increased as well.

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