Living and Working Longer in an Aging Society: Towards Increasing Inequalities?

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Conference on Population Change and Life Course
Taking Stock and Looking to the Future

Ottawa, 19-20 mars 2015
Overview of the presentation

1 – Trend towards delayed retirement
   - Participation rates at age 55-69
   - Trends that could affect future working life expectancy
   - Working life expectancy at age 50

2 – Justifications for major reforms of RIS (including raising normal retirement age)
   - Canada and elsewhere

3 – Inequalities within cohorts – Taking stock
   - Inequalities in mortality
   - Inequalities in morbidity

4 – Conclusions – Looking into the future
1. Trend towards delayed retirement

Labour force participation rate by age group and sex, Canada 1976-2013

Sources: Tableau 282-0002 Enquête sur la population active (EPA), estimations selon le sexe et le groupe d'âge détaillé, annuel
1. Trend towards delayed retirement

Trends that are likely to have an impact on delayed retirement in the future:

- Delayed early life transitions
- Decreasing RPP coverage
- Trend from defined benefits to defined contributions
- Increasing rate of early RRSP withdrawals
- Debt load of households
- Lower expected return rates
- Tighter labour market
- Decreasing income replacement rate from public pensions (OAS)
- Increase in age of OAS eligibility
- Increasing life expectancy
- Ethnic composition of the labour force
1. Trend towards delayed retirement

Using retirement rates by age from age 50 to 79, we already see the effect, among other factors, on the timing of retirement.

Without any major reforms to the retirement income system since the mid-1990s

2- Justifications for raising normal retirement age

Reasons put forward to adopt major reforms to the RIS revolve around the following issues:

- Increasing the growth rate, or at least slow down the decline, of the labour force
- Increasing GDP growth
- Lowering the contribution rate to the state pension system
- Promoting intergenerational equity
- Compensating for longer life expectancy
- Lowering the risk of a significant decline in the standard of living of future retirees
- Ensuring the sustainability of the state pension system
With or without reforms, the effective age of retirement has been increasing in most OECD countries.

Positive trend in the context of population aging.

However, it does raise questions around the issue of equity, especially if delaying retirement is becoming more and more important to avoid poverty or a significant decline in standards of living.
Turner (2011) identified three groups of vulnerable workers if there is a need to delay their retirement:

1. Those with lower life expectancy
2. Those with lower healthy life expectancy or having harsh working conditions
3. Those who lose their job before normal retirement age

Does everyone have the same opportunity to extend his/her working life?
Can everyone expect to receive benefits for a fairly similar number of years?
### 3- Inequalities within cohorts – Taking stock 1

**Lower income deciles have a much lower life expectancy and are not as likely to reach age 75**

<table>
<thead>
<tr>
<th>Income decile 1991</th>
<th>Remaining life expectancy at age 25</th>
<th>Percent expected to survive to age 75</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Men</td>
<td>Women</td>
</tr>
<tr>
<td>Decile 1 (lowest)</td>
<td>48.6</td>
<td>56.5</td>
</tr>
<tr>
<td>Decile 2</td>
<td>49.5</td>
<td>57.0</td>
</tr>
<tr>
<td>Decile 3</td>
<td>51.1</td>
<td>58.2</td>
</tr>
<tr>
<td>Decile 4</td>
<td>52.1</td>
<td>59.1</td>
</tr>
<tr>
<td>Decile 5</td>
<td>52.9</td>
<td>59.4</td>
</tr>
<tr>
<td>Decile 6</td>
<td>53.2</td>
<td>59.8</td>
</tr>
<tr>
<td>Decile 7</td>
<td>53.8</td>
<td>59.9</td>
</tr>
<tr>
<td>Decile 8</td>
<td>54.4</td>
<td>60.1</td>
</tr>
<tr>
<td>Decile 9</td>
<td>54.8</td>
<td>60.6</td>
</tr>
<tr>
<td>Decile 10 (highest)</td>
<td>56.0</td>
<td>61.0</td>
</tr>
</tbody>
</table>

**Difference D10 – D1**

- **Men:** 7.4
- **Women:** 4.5

**Highest – Lowest schooling level**

- **Men:** 23.3
- **Women:** 15.0

3- Inequalities within cohorts – Taking stock 1

According to a study from the OCA, there is also a gap in life expectancy at age 65, but gap remaining stable (2001-2007)

Life expectancy at age 65 of beneficiaries of Old Age Security, by type of benefits and sex, 2001 and 2007 (in years)

<table>
<thead>
<tr>
<th>Types of benefits</th>
<th>MEN</th>
<th></th>
<th>WOMEN</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>All beneficiaries of OAS</td>
<td>16.6</td>
<td>17.8</td>
<td>20.2</td>
<td>21.0</td>
</tr>
<tr>
<td>OAS and GIS</td>
<td>15.0</td>
<td>16.2</td>
<td>19.0</td>
<td>19.8</td>
</tr>
<tr>
<td>OAS without GIS</td>
<td>17.4</td>
<td>18.6</td>
<td>21.1</td>
<td>21.9</td>
</tr>
<tr>
<td>- without claw back of OAS</td>
<td>17.2</td>
<td>---</td>
<td>21.1</td>
<td>---</td>
</tr>
<tr>
<td>- with claw back of OAS</td>
<td>19.5</td>
<td>---</td>
<td>22.4</td>
<td>---</td>
</tr>
<tr>
<td>Difference (w/o GIS – with GIS)</td>
<td>2.4</td>
<td>2.4</td>
<td>2.1</td>
<td>2.1</td>
</tr>
</tbody>
</table>

3- Inequalities within cohorts – Taking stock 1

Are these gaps increasing or not?

- USA: 1993-2001
- A study of 6 European countries (Finland, Sweden, Denmark, Norway, UK and Italy): 1981-85 to 1991-95

*Increasing inequalities in life expectancy by schooling level*

- In Canada 1971-96 (James et al, 2007)

*Conclude that inequalities have decreased (life expectancy by neighbourhood income)*
Are these gaps increasing or not at age 65?

Few studies in Canada:

1) Office of the Chief Actuary using OAS data
   *Seems to have stayed stable between 2001 and 2007*

2) Adam (2012) using administrative data from C/QPP
   *Gap has been increasing between 1992 and 2007 (60+)*
There is a significant gap in health-adjusted life expectancy, likely to affect the probability of losing a job before age 65.

<table>
<thead>
<tr>
<th>Income decile 1991</th>
<th>Remaining health-adjusted life expectancy at age 25</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decile 1 (lowest)</td>
<td>Men 37,0 Women 42,9</td>
</tr>
<tr>
<td>Decile 2</td>
<td>Men 40,0 Women 45,6</td>
</tr>
<tr>
<td>Decile 3</td>
<td>Men 43,0 Women 48,4</td>
</tr>
<tr>
<td>Decile 4</td>
<td>Men 43,7 Women 49,3</td>
</tr>
<tr>
<td>Decile 5</td>
<td>Men 46,4 Women 49,7</td>
</tr>
<tr>
<td>Decile 6</td>
<td>Men 46,5 Women 51,2</td>
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<td>Men 49,0 Women 52,2</td>
</tr>
<tr>
<td>Decile 10 (highest)</td>
<td>Men 51,1 Women 52,4</td>
</tr>
<tr>
<td>Difference D10 – D1</td>
<td>14,1 Women 9,5</td>
</tr>
</tbody>
</table>

Very limited data for Canada, especially for the population 65+ and for trend analysis.

3- Inequalities within cohorts – Taking stock 2

Few studies elsewhere

1) **Before and after age 65**

- 10 Western-European countries by schooling level (Majer et al, 2011)
  - Age 50-65: DFLE = gap of 2.1 years among men and 1.9 for women
  - At age 65: DFLE = gap of 4.6 years among men and 4.4 for women

2) **Trend analysis (1970 to 1990)**

- USA by ethnic group and level of schooling from 1970 to 1990 (Crimmins & Saito, 2001)
  - Expansion of morbidity among those with a lower schooling level compared to a compression of morbidity among those with a higher schooling level.
4- Conclusions – Looking to the future

- The trend toward delaying retirement should continue in the short to medium term.

- It has happened in Canada without any major reforms of the C/QPP.

- In many OECD countries reforms were often adopted on the principle of intergenerational equity and increases in life expectancy.

- Questions have lately been raised around issues of equity within generations.

- If improvements in life expectancy and healthy life expectancy are increasing the gap by SES, the need to delay retirement is very likely to create greater inequalities within future cohorts of retirees.
  - Healthy life expectancy affects the capacity to work longer and the quality of the retirement years
  - Life expectancy affects the number of years of benefits

- There is a great need for data to monitor life and healthy life expectancies by SES in Canada, especially at age 50 +.