



## *An Increasing Age at Retirement May Amplify Socioeconomic Inequalities*

### About this Brief

This Policy Brief is based on « [Vivre et travailler plus longtemps dans une société vieillissante: Vers une croissance des inégalités?](#) », Discussion Paper Series 3(2), Population Change and Lifecourse Strategic Knowledge Cluster.

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### Summary

Population ageing raises questions about the sustainability of the public pillars of the retirement income system and about inter-generational equity. In response to this, a number of countries have raised the normal retirement age in an attempt to reduce projected future expenditures on their state pension system. In this context, private savings and later retirement represent the best ways of avoiding a major fall in living standards when retiring. Increased life expectancy at age 65 appears to justify this policy trend. But there are substantial differences in life expectancy and healthy life expectancy between people of different socio-economic status, and these seem to be widening. There is a danger that in the name of inter-generational equity, we will in fact be moving towards increased social inequality among the pensioners of the future.

### Key Findings

1. Along with population aging, the last 50 years have seen major transformations in the life cycle of individuals, at the personal, familial and professional level. These transformations may very well have had an impact on the observed trend toward delayed retirement since the mid-1990s; a delay that began without any significant changes made to the public pillars of our retirement income system.
2. The Canadian retirement income system has been successful, up to now, at combatting poverty among older people and at preventing a significant fall in the living standards of retirees, while spending less on public pensions than the majority of OECD countries.
3. Many countries have adopted significant reforms of their retirement income system over the last few years, including increasing normal retirement age. In doing so, they wanted to insure the financial sustainability of the public retirement schemes, retain older workers in the labour market, reduce the effect of the continued raise in life expectancy and promote intergenerational equity.
4. As desirable as delayed retirement can be, it raises serious equity issues. For example, there are significant disparities in life expectancy and healthy life expectancy by socio-economic status, before and after age 65; disparities that seem to be widening. The notion of intergenerational equity is often brought up in discussions over population aging. Over the coming years, delayed retirement could remind us that these discussions should not ignore the notion of equity within a generation.

### Target Audience

- General Public
- Researchers
- Graduate students



## Discussion

As of 1 July 2014, there were 5.6 million people in Canada aged 65 or over. In 2036, there will be between 9.9 and 10.9 million. This age group represented about 15.7% of the population in 2014 and will account for between 23% and 25% in 2036, by which time the baby boom generation will be between 70 and 90 years old. A performance review of the Canadian retirement income system, although not without its challenges, would, in many respects, compare favorably to the majority of the retirement income systems in economically advanced countries. It is a system which fulfils its objectives and which, in terms of proportion of GDP, has lower costs than the OECD average.

This brief sets out research findings which shed light on some possible effects of pursuing the drive towards delayed retirement on social inequalities among older people in a context of population ageing and steadily rising life expectancy. This report comprises three sections focussing on this issue.

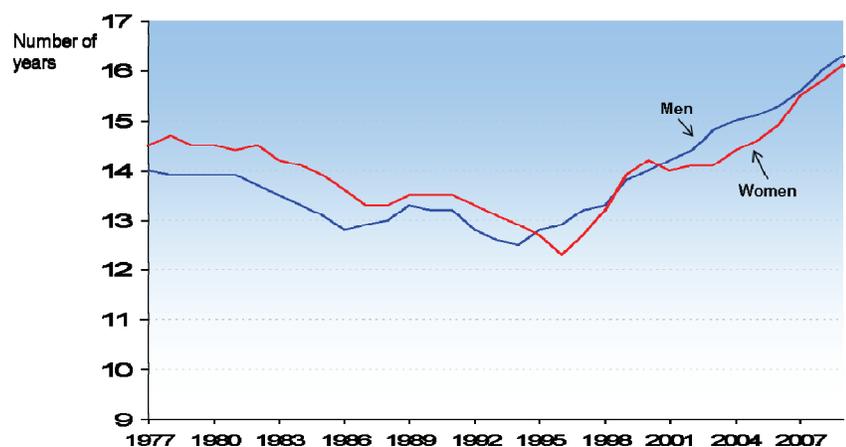
### Part 1: Getting older is not what it used to be!

The main feature of the baby boom generation was its large numbers, a consequence of the sharp rise in fertility after the Second World War. But the impact of these age cohorts was not just one of size. The 1960s saw the beginnings of major changes in Canadian society, whose effect was to delay the transition to adulthood. Young baby boomers stayed at school longer, and delayed their

entry into the labour market. Women entered the job market in unprecedented numbers. Marriage and family formation took place later in life. These couples then had fewer children, and more often saw their union ended in divorce or separation.

In addition to these trends, there were also lower rates of coverage by private pension schemes, rising household indebtedness, decreasing return rates on investment, and other developments which resulted in delayed retirement for these age cohorts. At the same time, Canada made significant progress in reducing poverty in old age, and living standards in retirement were, on average, close to those enjoyed before retirement.

**Figure 1:** Expected working life at age 50 by sex, Canada 1977-2009



Source: Carrière, Y. and D. Galarneau (2011). "Delayed Retirement: A New Trend?", Perspectives on Labour and Income, Statistics Canada, catalogue no. 75-001-X, Winter 2011



## Part 2: Why raise the normal retirement age?

Although raising the normal retirement age is the measure which provokes the greatest reaction, a number of other reforms have been passed or proposed to respond to the challenges of an ageing population. Since the 1980s we have seen a rising tide of discussion about the financial viability of state pension systems. The main arguments raised to justify these reforms are:

- Increasing the growth rate, or even slow down the decline, of the labour force
- Stimulating GDP growth
- Lowering the contribution rates 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

## Part 3: Life expectancy and inequality

The wide differences in life expectancy between social groups mean that, if they retire at the same age, workers from better-off socio-economic groups will be receiving pension benefits for a longer time than those from poorer groups. These differences could be even more pronounced if we take into account the number of years of pension contributions; this is because workers from better-off socio-economic groups usually enter the labour market later in life, following longer periods of education and training. Furthermore, these dispari-

ties may increase still further because the better-off socio-economic groups are tending to enjoy greater improvements in life expectancy.

In general, reforms which aim to relieve the pressure of population ageing on the public finances tend to enhance the role of private savings and delayed retirement in the financial planning of future retirees, and this will also be likely to increase social inequality. The effects of this trend towards privatisation of the retirement income system are also not gender neutral. For example, the degree of coverage by private pension schemes is closely related to a number of characteristics such as age, level of education, income, type of employment, full or part-time status and having dependent children.

Table 1: Remaining life expectancy at age 25, percent expected to survive to age 75, and remaining health-adjusted life expectancy at age 25, by income decile and sex, population aged 25 and over excluding pensioners in institutional establishments, Canada, 1991-2001

Income decile	Remaining life expectancy at age 25		Percent expected to survive to age 75		Remaining health-adjusted life expectancy at age 25	
	Men	Women	Men	Women	Men	Women
Decile 1 (lowest)	48.6	56.5	51.2	69.4	37.0	42.9
Decile 2	49.5	57.0	53.6	73.1	40.0	45.6
Decile 3	51.1	58.2	58.7	76.6	43.0	48.4
Decile 4	52.1	59.1	61.7	78.9	43.7	49.3
Decile 5	52.9	59.4	64.2	80.1	46.4	49.7
Decile 6	53.2	59.8	65.4	80.8	46.5	51.2
Decile 7	53.8	59.9	67.3	81.7	47.4	50.7
Decile 8	54.4	60.1	69.1	82.0	48.4	51.8
Decile 9	54.8	60.6	70.9	83.4	49.0	52.2
Decile 10 (highest)	56.0	61.0	74.6	84.4	51.1	52.4
Difference D10 – D1	7.4	4.5	23.3	15.0	14.1	9.5

Source : McIntosh C.N., Fines P., Wilkins R., Wolfson, M.C. Income disparities in health-adjusted life expectancy for Canadian adults, 1991 to 2001. Health Reports 2009; 20(4): 55-64



## Conclusion

Population ageing and improvements in life expectancy are exerting ever-increasing pressure to raise the normal retirement age. Canada's retirement income system already leaves a considerable role to private savings, and there has been a noticeable movement towards later retirement since the mid-1990s. A number of trends suggest that future pensioners, among them the baby boomers, will have to delay their retirement even further if they want to avoid a significant drop in living standards when they retire. The decision to raise the age of eligibility for the Old Age Security and the Guaranteed Income Supplement benefits from 65 to 67 only reinforces this.

However, Canada is still in an enviable position in terms of its capacity to make reforms to its retirement income system. This relatively favourable position means that decisions can be made in the light of long term considerations of equity, both between and within generations. Such reforms will have to take into account population ageing, its long term and irreversible progression, and also the possibility that life expectancy at age 65 may undergo further unexpected advances, while at the same time recognising that this trend has the potential to widen inequalities between retired people in the future. Delaying retirement may bring important benefits both for individuals and for society as a whole, but it also has the potential to increase inequalities among older people, especially if postponing retirement becomes an unavoidable path to escape poverty or a significant drop in living standards.

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