Probing the Future of Mandatory Retirement in Canada

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Abstract

The future of mandatory retirement is at least partly driven by the changing demographics. In Canada, these demographics include slowing population growth, rapid ageing, declining rates of labour force participation, and slowing growth of the labour force. After reviewing the demographic trends and considering alternate scenarios in labour force participation, we consider the determinants of early departures from the labour force, and suggest scenarios that might reverse these trends. With a decline in labour force entrants, delays in early life transitions and possible reductions in retirement benefits, a trend to retire later would bring mandatory retirement into question.

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1. Introduction

On May 29, 2003 the Government of Ontario (Canada's largest province) introduced Bill 68: an Act to amend certain provisions respecting the age of retirement. Intended to prohibit mandatory retirement, this bill died on the order paper with the call for an election. With a change in the party of government, the new political leadership of Ontario is committed to a re-examination of mandatory retirement (Mackie, 2004). Adding to the chorus for reform is Canadian Prime Minister Paul Martin's very clear call for a national debate on the merits of mandatory retirement (Chase, 2003).

The efficacy and justice of mandatory retirement provisions in employment contracts have received considerable attention in a large literature. In this paper, we take a different approach by examining how changing demographic and economic forces are altering the political equilibrium that sustains the current policy. By identifying and examining these changes, we intend to better understand the direction and outcome of the current debate.

We begin by examining the legal foundation of mandatory retirement in Canada, and the human rights challenge to this foundation. Following this, we explore how the demographic context that shapes the debate on mandatory retirement is changing. The next section links the changing demographic context to the changing labour market environment. Finally we draw some conclusions concerning the direction that demographic and economic forces are likely to push the debate. We conclude that the aging population and the slow-down in the growth of the working-age population both point toward increasing pressure to prohibit mandatory retirement.

2. The Current Canadian Situation

Mandatory retirement is not a policy of any level of government in Canada. Instead, it exists in the negotiated collective agreements and formal personnel procedures of many Canadian employers. Ending mandatory retirement therefore requires prohibiting contracts that stipulate an age-mandated end to employment. The civil rights side of the debate has focused on comparisons of the social benefits of a right to contract freely versus the social benefits from a right to be free from age discrimination. Other sides of the debate compare the interests of older and younger workers; others are concerned with the evaluation of the productivity of older workers, or the possible moves to undermine pension plans if workers do not need to retire.

For those attempting to end mandatory retirement, the focus has been to strengthen the human rights protection against discrimination on the basis of age. One approach has been to test mandatory retirement provisions under the equality provisions of the Canadian Charter of Rights and Freedoms. The Supreme Court of Canada has ruled (several times) that while the practice of mandatory retirement does violate equality rights, this was a reasonable limitation of these rights in a free and democratic society.[1] The failure of these charter challenges has forced opponents of mandatory retirement to try to affect change by altering provincial employment standards legislation, or provincial human rights legislation.

Human rights legislation in every province explicitly prohibits age discrimination. The prohibition, however, is not absolute. Several provinces have an age cap that grants protection from age discrimination only to age 65. Several other jurisdictions have no age cap, but exempt pension plans with explicit retirement dates from the legislation. Only two provinces have effectively banned mandatory retirement. Manitoba has no age cap, and Quebec has banned mandatory retirement through its employment standards legislation. The federal government has also eliminated mandatory retirement for federal civil servants. The result is a patch quilt of regulation that amounts to a social experiment on the impact of the elimination of mandatory retirement.

In addition to the unusual jurisdictional variation on the admissibility of mandatory retirement, there is substantial variation in the use of mandatory retirement clauses in

[1] Gunderson (2003) provides a good discussion of attempts to affect change through legal challenges using the existing federal and provincial human rights legislation.

employment contracts. Only about 50% of Canadian workers face mandatory retirement provisions in their employment contract or collective agreement (Pesando and Gunderson 1998, 33). Of those who have retired, only between 12% (Gomez, Luchak and Gunderson 2002) and 21% (Shannon and Grierson 2003) report that retirement was triggered by a mandatory retirement clause. Of those who expect to be forced out at 65, only 18% of men and 3% of women would like to continue beyond 65 (Gomez, Luchak and Gunderson, 2002). This implies that extending the ban on mandatory retirement will not have much impact on the overall age of retirement for most workers. Indeed the Manitoba and Quebec experience suggests that the elimination of mandatory retirement will likely have a small impact on the employment and retirement of older workers (Shannon and Grierson, 2003).

3. The Changing Demographic Context

The question of mandatory retirement is at least partly driven by changing demographic realities. In the Canadian context, the demographic reality is one of slowing population growth, rapid population ageing, a declining rate of labour force participation and a slowing rate of labour force growth.

On July 1st, 2003, Canada's population was estimated at about 31,630,000 inhabitants, up by about 0.9% from the previous year (Statistics Canada, 2004). While many Canadians think of this as relatively slow growth, this rate is actually greater than in most other developed nations and only slightly down from the rate of growth that characterized Canada throughout the last several decades. For example, the average growth rate of Canada's population over the full period 1971-1991 was 1.2% annually, only to drop slightly to 1.0% over the 1991-2001 period (Statistics Canada, 2002). In drawing some international comparisons, the annual growth rate for all of Western Europe in 2003, taken together, was only 0.24%, less than a third of the current Canadian growth rate (International Data Base, 2004).

While Canada's population is growing more rapidly than in Europe, its pace of growth is comparable to its neighbor and major trading partner, the U.S. This is true even though fertility is significantly lower than in the U.S. – at about 1.5 births per women in comparison with about 2.1 births in the U.S. (Statistics Canada, 2003a; Census Bureau, 2004). In explanation, the relative impact of immigration on both countries is fundamental. Much attention has been given to the large numbers who migrate to the U.S., which in absolute terms admits more immigrants than any

other receiving country. Yet in demonstrating the relative importance of immigration to Canada, the 2001 Census indicated that over 18.4% of its population was foreign born (Statistics Canada, 2003). There are very few countries in the world that accept more immigrants per person than Canada.

While Canada's fertility fell below replacement as far back as 1972, its population continues to increase through both international migration and natural increase. As replacement fertility corresponds to 2.1 births, the Canadian public is somewhat confused as to why Canada continues to experience a positive rate of natural increase. Fears of imminent population decline have been voiced by those not fully familiar with the underlying dynamics of population growth (Baxter, 1998). As an example, much of the media exposure surrounding the 2001 Census argued in a sensationalist manner that Canada's population was on the verge of population implosion. Canada's national newspaper, the Globe and Mail, reported on its first page that Canada's population would likely begin to decline by as early as 2010, an assertion that mystified Canadian demographers (Globe and Mail, 2002: A1).

Population growth is expected to slow considerably, although there is a lack of consensus as to the extent of this slowdown and its timing. Due to Canada's population momentum, past growth will continue for some time to come, despite below replacement fertility. In effect, births in Canada continue to outnumber deaths as the relative number of adults at ages when mortality is low outnumber by a substantial margin those in their latter years of life where the risk of death is high. Even though Canadian women are having fewer births than needed for replacement, the relatively sizeable cohorts at reproductive ages have ensured more births than deaths.

According to Statistics Canada's medium growth population projection, births will continue to outnumber deaths in Canada until 2025 (see Figure 1). This scenario is considered realistic, as it assumes that Canada's fertility and immigration will continue at current levels (at about 1.5 births per woman and an annual immigration target of about 225,000). According to this scenario, Canada's population is expected to increase by about 20% over 4 decades prior to stabilizing, which is much lower than the growth experienced over the previous 4 decades (as Canada's population grew by about 70%). In other words, while demographers do not anticipate eminent population decline, the pace of population growth is expected to slow considerably.

INSERT FIGURE 1 HERE

In addition to the slowing in population growth, Canada's population is ageing. Population aging typically takes the form of an increase in the numbers of the old, a fall in the number of children and young persons. This ageing of Canada's population is represented in Figure 2, which presents the population pyramids for Canada in 1981, 1991 and 2002. In inspecting these age pyramids, there are a few features that are particularly striking, including (i) the relatively large size of the baby boom cohort (currently in their 40s and 50s) and (ii) the rather pronounced shrinkage that has recently occurred at the bottom of the age pyramid.

Due to its mere size, the baby boom cohort has had a major impact on all sorts of societal institutions. Figure 2 demonstrates that the large cohorts born during the baby boom passed through their young adult years in 1981, were well established in the labour market and family life by 1991, and in 2002 were moving into and through "middle age". The shrinkage at the bottom of the population pyramid is seen in the 2002 pyramid, by comparing the relative number of teenagers to the number of preschoolers. This major contraction that is currently occurring at the bottom of the age pyramid has received far less attention than the baby boom, partially due to the simple fact that Canadians have not thought through the long term implications of this decline in births. In addition, the U.S. has not experienced this contraction in the number of births.

INSERT FIGURE 2 HERE

Annual births in Canada has been steadily falling for well over a decade. Since 1989, this number has fallen by almost 20%, from about 403,280 in 1989 down to 327,187 in 2002 (Statistics Canada, 2003). This is fully 32% less than the 479,275 births that characterized the height of the baby boom in 1959. With the passage of time, both of these features of Canada's population pyramid (i.e. the baby boom and the contraction at the bottom of the population pyramid) will have several ramifications on the society. As merely one example, consider the fact that the 1959 cohort will be reaching 65 round about the same time as the 2002 cohort enters into the labor market (in 2024).

In Canada, immigration is often considered a way of countering the effects of ageing and low fertility, particularly among those who are concerned with sustaining a viable and growing labour force. The public discussion has never paid enough attention to the true causal factors responsible for population ageing and the reality that immigration has little effect on the age

structure. This was seen, for instance, in the Globe and Mail article (Canada's national newspaper) that reported the 2000 total fertility rate, down to an unprecedented low at 1.49 births (Jang, 2002). The third sentence of this article indicated that these low births "reinforce government assertions that increased immigration is necessary to maintain a viable work force." Similarly, with the release of the first age/sex data from the 2001 Census, then Prime Minister Jean Chrétien reacted by stating that the federal government is trying to attract more immigrants to solve the ageing population problem (CBC, 2002).

Both immigrant arrivals and the receiving population have been aging, but arrivals remain younger on average. However, the overall effect is rather small given that immigrant arrivals represent a small part of the total population. Other measures confirm that immigration has only a small effect, as for instance, simulating population change after 1951 as a function only of births and deaths produces a 1981 population with an average age that is only 0.5 years older than the actual average observed in that year (Le Bras, 1988:12). As another example, with no international migration over the period 1951 to 2001, median age in Canada would have been only 0.8 years older than it actually was (Denton et al., 2001). The Statistics Canada (1990) population projections based on the 1986 census produce a median age in 2036 that is almost two years younger under high immigration than under zero immigration. This means that the arrival of 200,000 immigrants per year for 50 years would reduce the average age by only two years. In comparison, the median age of the Canadian population increased by 2.3 years between 1996 and 2001.

In drawing a few international comparisons, population aging is at a more advanced stage in Europe, where Chesnais (1989) speaks of an 'inversion of the age pyramid'. At the turn of the century, the proportion over 65 is already over 18 per cent in Italy and 16.4 per cent in Germany (Table 1). The figure for Canada (at 13%) is lower than the average for the more developed countries, and it is not expected to reach 18 per cent until after 2016. Nonetheless, the Canadian change is now as rapid as that of European countries, and it will be more rapid once the larger baby-boom generations move into retirement ages. Whereas just over one in ten people were over 65 in 1986, some fifty years later, in 2036, the medium projection suggests that almost a quarter of the population will be at these ages. Along with a median age of some 45

years, and more than 12 per cent of the population aged 75 and over, this will make for a rather different demographic profile.

INSERT TABLE 1 HERE

4. Slowing Growth in the Labour Market

Just as Canada is not facing an immediate population implosion, so too the size of its working-age population is also projected to continue growing for several years. Yet just as overall growth is expected to slow, so too will the pace of growth in the working-age population. According to Statistics Canada's most recent series of projections, the population aged 18-64 is projected to grow at least until 2016, and perhaps for many years beyond this (Statistics Canada, 2001). The impact on the labour force will of course depend on labour force participation decisions. As the majority of Canadians aged 18-64 are members of the labour force (i.e. about 4 out of 5 persons are either employed or looking for work), this growth in population is expected to translate into labour force growth (Statistics Canada, 2004b). Yet in a more careful manner, the extent to which this will occur is far from clear, given ongoing uncertainty with respect to future labour force participation rates and the manner in which these vary by age and sex.

While immigration is another fundamental source of recruitment to the labour force, it is important not to exaggerate its importance. It could be argued that depending excessively on immigration leaves for a negligence in encouraging other sources of recruitment, i.e. a failure to make the necessary investment in education for labour force entrants and/or on-going training or re-training for older workers. Similarly, this can lead to a neglect of population groups that have historically had low labour-force participation. As about 20% of Canadians aged 18-64 have no involvement in the labour force, there is room for increasing overall participation rates. Older Canadians in particular are underrepresented, as for example, only about 55% of persons aged 55-64 participated in the workforce in 2003 (Statistics Canada, 2004b). Among Canadians aged 65+, the proportion involved in the labour market plummets, as only about 1 in 14 persons are classified in this manner, most of whom continue to work only on a part-time basis (Statistics Canada, 2004b).

Figure 3 demonstrates the relatively low participation rates of older Canadians, by presenting age/sex specific labour force participation rates for the period 1951-2003. In examining trends in labour force participation over the last half century, there have been some

rather dramatic changes for both men and women. Particularly striking is the phenomenal increase in the labour force participation of women, supplemented by more modest reductions experienced by men. For example, the participation rate for women aged 25-44 reached an all time high in 2003, up to about 81%. Among women aged 45-54, participation rates have continued to increase through to the present, up to an all time high of 79%. This substantial rise in female labour force participation has more than offset trends in the opposite direction for men. Participation rates by gender have tended to converge across all age groups. Women now make up almost half (or 46%) of Canada's workforce in 2003, although they continue to be significantly more likely to be working part time (with about 1 in 4 employed women doing so relative to fewer than 1 in 10 men).

INSERT FIGURE 3 HERE

While participation rates are up for women, they have declined slightly for younger men. Among women aged 45-54, participation rates have continued to increase throughout the 1990s, whereas for younger women, these rates have largely leveled off. Among Canadians aged 55-64 and 65+, Figure 3 demonstrates the relatively low participation rates, true of both men and women. Among older men (aged 55-64), there has been a substantial decline in participation rates, from about 87 percent in 1951 to only 59.1 percent in 1998 – only to rebound somewhat to 65% in 2003. Among Canadian men aged 65+, about 40 percent were in the labour force in 1951, dropping to about 11 percent by 2003. Among women aged 55-64, the participation rate has reached an all time high of 46% in 2003, albeit continuing to be much lower than among younger age groups. Among women aged 65+, labour force participation has always been extremely low, and has for several years been at about 5%.

While these labour force rates demonstrate the extent that Canadians wind down their commitment to paid employment as they move into their latter 50s and into their 60s, it is precisely these older age groups that are now set to grow at a dramatic pace over the next decade. For example, according to the aforementioned medium growth projection by Statistics Canada (2001), the number of persons aged 50-59 is expected to grow by 42.6% between 2001 and 2011, whereas the 60-64 age group is expected to grow by fully 55.8%. This is the by product of the front end baby boomers moving towards retirement, i.e. due to the ageing in the middle of Canada's age structure. Over this same period, only modest growth is projected for

Canadians of labour force entrance age, as growth is comparable to Canada's overall growth rate.

This change in composition should result in a decline in aggregate participation rates, unless it is offset by major shifts in age/sex specific rates. Briefly, Canada's labour force is now older than ever before, with further population ageing placing downward pressure on overall participation rates. In light of these changes, most labour force projections into the 21st century suggest slow or negligible growth beyond 2011 (Denton and Spencer, 1998; Denton et al, 2000; Chief Actuary of Canada, 2003). As to whether or not this leads to labour shortages is difficult to forecast, although the Chief Actuary of Canada (2003), responsible for managing the Canadian Pension Plan (CPP), has recently emphasized that population ageing and resultant labour shortages will likely be one of the most fundamental challenges to be faced by both the private and public sectors as we move into the 21st century.

In this context, the extent to which older Canadians involve themselves in the labour market will have several important ramifications. Younger cohorts will not necessarily behave in a similar manner to those currently moving through middle age and retirement. Tomorrow's older Canadians will not be the same as today's older Canadians, since they will have had very different life histories (Cheal, 2003). In particular, their early life transitions have been delayed, making it reasonable to think that they will work longer at the other end of their lives (Beaujot, 2004). Consequently, any derived forecasts that merely assume a continuation of current age/sex specific participation rates into the future will in all likelihood be off the mark.

Table 2 provides three alternate forecasts on future labour force growth for the period 2001-2011, demonstrating the extent to which future labour force growth can potentially be influenced by changes in age/sex specific participation rates. While all three forecasts are derived projections (based on the medium growth projection of Statistics Canada), the first assumes no change in current age/sex labour force participation rates (column 5), the second assumes a return in male participation rates to those as observed in 1981 (column 6), whereas the third also assumes that women obtain parity with men in terms of this involvement (column 7).

INSERT TABLE 2 HERE

For the 2001-2011 period, Canada's population 15+ years is projected to increase by about 11.6%, whereas the size of its labour force is projected to increase by about 6% when

assuming constant rates, 10.5% when assuming the higher rates for men, and 24.3% if women obtain parity in this context. While these latter two scenarios may not be that realistic, they do demonstrate one very important point in this context, i.e. the extent to which Canada's labour force can potentially grow by increasing the involvement of population groups that currently have relatively low levels of labour force participation. Whether or not recent trends toward earlier retirement will be reversed anytime soon will have very important ramifications in this context.

5. Reasons for Declining Participation Among Older Workers.

Great uncertainty lies in forecasting the labour force participation of older Canadians. This involves coming to terms with why the labour force participation of older workers and the average age of retirement has declined so dramatically over the last 30 years.

The analysis of why older workers leave the labour force is far from straight forward, and even on a descriptive level, there are major obstacles to accurately documenting the pattern (Pyper and Giles, 2002; Leblanc and McMullin, 1997; Rowe and Nguyen, 2003). Probably the largest obstacle is methodological, in empirically distinguishing retirement from other forms of early labour force exit For example, the Canadian Labour Force Survey directly asks respondents why they left their previous job, with reasons broadly classified as either voluntarily (retirement, personal or family responsibilities, dissatisfied with job, and other reasons) or involuntary (laid off or experiencing illness/disability). The problem in relying on this definition is that in many cases, the act of withdrawing from the labour force is far from straight forward and may in fact involve a combination of several of the above mentioned factors. In addition, there are also questions relating to validity in measurement, as not everyone is necessarily going to be entirely forthcoming regarding their real reasons for leaving their previous job.

A proportion of all older Canadians leave the labour market on a voluntary basis, while for many others, it is not a matter of choice. Many Canadians decide to retire early in light of cumulated wealth and savings, while others leave paid employment as a result of health problems, disability, or perhaps difficulties in maintaining a job or finding a new one if they are unemployed. Some older workers lose their last job through layoffs and/or some other form of forced exit from the labour market, never to successfully re-establish themselves in the work force. Some workers may retire from a job, begin to draw their pension, yet for whatever reason, continue to work on a part-time basis. Others may retire early, only to decide to return to the

labour market after a period of retirement. Merely asking respondents via a cross sectional survey whether they "retired" over the previous 12 months does not capture the wide range of experience that characterizes this transitional period.

In conducting research on retirement, many cases of permanent withdrawal from the labour force will never be classified as retirements. As people approach retirement age, many enter into an extended transitional stage, characterized by periods of employment (full time and/or part time) interspersed with periods of unemployment and non-employment. Increasingly, researchers are coming to appreciate that retirement might be better thought of as a process rather than a well-defined event that occurs at a specific point in time, and is subsequently not easy to operationalize in empirical research (Osberg, 1993; Blau, 1994; Statistics Canada, 1998; Habtu, 2002). Retirement is not easily defined, which presents difficulties in providing an explanation of recent trends, let alone providing a forecast of future trends.

As Osberg (1990) has pointed out, a reliance on "self definition" can potentially provide misleading information, particularly in light of the stigma that often accompanies being laid off or unemployed. While this stigma persists, there is an increasing acceptance of "early retirement" among Canadians, even among those who could potentially continue to work for many years. In a situation whereby older workers lose a job, Osberg has suggested that a certain proportion may misreport the reason for exiting the labour force, and identify themselves as "retired" rather than "involuntarily unemployed". In this manner, an analysis of the labour force participation of older workers may miss a form of "hidden unemployment" that in the survey data resembles retirement. Schellenberg (1994) has pointed out how older workers seem to be overrepresented among discouraged workers (i.e. those who have abandoned their job search) and also tend to be unemployed for longer periods of time. If an older worker loses his or her job, without the skills for easy re-entry into the labour market, might this same worker report that they have retired – to preserve self-esteem.

In examining the experience of several cohorts of older workers, Rowe and Nguyen (2003) document a relatively high level of job turnover, which directly contradicts a widespread impression that the last several years in the career of older workers is a period of relative stability. Counter to expectations, older workers were found to experience similar rates of job turnover to that of younger workers, but on the event of losing a job, were much less likely to be re-

employed, with many leaving the labour force entirely. With considerable job turnover, a significant proportion of all job separations were in fact involuntary (i.e. involving a layoff). In following cohorts who reached their 65th birthday during the early 1990s, Rowe and Nguyen (2003) estimate that only 51% of men and 30% of women had ever reported "retirement" in leaving their last job. While "retirement" seems to express a clear "intention" to voluntarily withdraw from the labour market, most of the other reasons listed in the Labour Force Survey suggest an involuntary exit from paid work. The high level of job turnover suggests that barriers or disincentives to re-employment for older workers may be an important issue into the future. In recognizing this fact, there may be considerable interest among older workers to continue with paid employment, if provided proper incentives and real opportunities for re-entry. It also suggests that the elimination of mandatory retirement provisions is likely to have a very modest impact on the timing of the movement to retirement from regular attachment to the labour force.

Research by Baker, Gruber and Milligan (2003) add a further complication associated with impact of public pension entitlements. Unlike earlier studies, (Compton, 2001; Baker and Benjamin, 1999, Baker, 2002) they find clear evidence that improvements to these entitlements have had a large impact on the age of retirement. The resulting conclusions that can be drawn is that the retirement decision is the result of a truly complex set of interacting factors that include changing labour market opportunities, private pension benefits, public pension entitlements, technology, and attitudes to work and leisure.

Beyond labour market events, many careers have ended by illness or disability. Yet with improvements in population health, the risk of morbidity and serious disability has declined in quite a pronounced manner for older workers over recent decades. The likelihood of heart disease has declined, as has high blood pressure, arthritis, among other chronic conditions that serve to place limitations on activity (Crompton, 2000; Chen and Millar, 2000; Hogan and Lise, 2003). Among Canadians reaching their 65th birthday, only about 15% report a disability that affects the ability to work that could clearly justify the end of a working career (Michaud et al., 1996). The lower participation rates of older men over recent years does not appear to be a function of poor health or physically demanding work, because both health and working conditions have improved.

Life expectancy at birth has been steadily increasing in Canada – up to 82.2 for women and 77.1 for men – more than 2 years longer than in the United States (Statistics Canada, 2002b). In a similar manner, "disability-free" life expectancy has risen, i.e. the number of years on average one could expect to live in good health and without serious disability (Martel et al., 1999). Recent improvements in the state of population health serve to highlight the rather arbitrary character of the marker typically associated with the beginning of "old age" or "normal" retirement, i.e. the age of 65. In light of better living conditions, life style and quality of health care, the average 65 year old (or even 70 year old) is not as "old" today as 30 years ago. As Denton and Spencer (2002) have argued, this marker for old age should be moved upward, to the extent that we succeed in retarding what is inevitable, i.e. the ageing process.

While we have witnessed these gains in terms of longevity, the median age of retirement has continued to decline, down to about 60.6 years in 2002 from about 65 in the 1970s (Statistics Canada, 2004b). With a declining age of retirement and a climbing life expectancy, Canadians experience, on average, a longer period of labour force inactivity in relatively good health. With longer lives yet shorter careers, the majority are no longer in the work force when they reach this somewhat arbitrary "retirement age" of 65. Yet while 65 has become a much less popular age to retire, it does continue to remain the most common, as the intensity of retirement peaks at this age (Kieran, 2001). For those who work in organizations with a mandatory retirement policy, there is little choice in working beyond 65, which partially explains this pattern.

The evidence regarding the extent to which workers may prefer to continue, yet are forced to retire, is very limited and increasingly dated (Economic Council of Canada, 1979). As estimated by the Federal government in the early 1990s, only about 1 in 5 men who were subject to mandatory retirement may have preferred to continue working, and fewer than 1 in 10 women (Department of Health and Welfare, 1993). Consistent with recent research on retirement intentions, the majority of Canadians do not plan on working beyond the age of 65, implying that we should not overstate the importance of legislation relating to mandatory retirement (Cranswick, 2003). Regardless of what happens in terms of mandatory retirement in Canada, there appears to be many powerful incentives and reasons for early labour force exit. An uncertain proportion of workers leave the labour force at a relatively young age as they have accumulated the necessary wealth and pension benefits. An uncertain proportion leave the labour

force due to factors that are against their will, never to successfully re-establish themselves in paid work. A minority of all workers are in fact forced from their job at 65 due to mandatory retirement provisions.

Looking back over the last 30 years, the increase in 'early' retirement is truly remarkable given the increase in life expectancy. While research is not yet conclusive about the cause of these changes, three factors stand out: a weak labour market for older workers; a strong capital market for savers; and improving public pension entitlements. The very rapid growth in the labour force discussed earlier no doubt contributed to the stagnant wage growth and weaker tenure faced by workers. With impending slowdowns in the growth of the working age population, many observers are expecting labour market conditions to improve for workers. The strong returns in capital markets were historically unprecedented, and the impending retirement of many aging boomers itself reduces the likelihood of such levels of return in the future. As a result, without the pension surpluses and the unexpected wealth windfalls, it seems unlikely that early retirement will be as enticing as it has been. Finally, the trend in public pension improvements is likely at an end, with the challenge to sustain the largely pay-as-you go public pension system. All three factors suggest that the trend to earlier retirement might begin to reverse. Certainly such a reversal has already been seen the in the U.S.

6. Discussion

A little over twenty years ago, Kingsley Davis introduced the idea that population aging, in and of itself, could serve to seriously disrupt traditional accommodations across generations (Davis and van den Oever, 1981). He argued that as the demographic weight of the elderly increased, intergenerational conflict over resources would lead inevitably to resolutions more favorable to the interests of older families. Subsequent demographic research has moderated such claims (Hicks, 2003; Cheal, 2003). Nevertheless, shifts in Canada's age structure are expected to have a profound impact on the evolution of the political equilibrium that sustains current policies. If changing demographic and labour market realities have a predictable impact on the interests of those sustaining the political equilibrium, it may be possible to predict the direction of change in the equilibrium – or at least the areas where changing interests are likely to matter.

The federal government has for some time indicated that it would prefer movement towards eliminating mandatory retirement. As previously mentioned, the government has eliminated mandatory retirement for its civil servants and the Prime Minister of Canada has called for a national debate on this issue. One possible reason for this is concern over rising public pension liabilities. Another may have to do with worry over the increasing fiscal burden of a growing population of retired Canadians who contribute less tax revenue than if they maintained their attachment to the labour force. Certainly many advocates for the abolition of mandatory retirement have pointed to the coming demographic crunch as a reason for enlightened government to make policy interventions in labour markets to restrict the use of mandatory retirement clauses.

The problem with such an assessment is that pension liabilities, and the associated fiscal burden, are not likely to be greatly altered by changing a rule that only affects a very small percentage of retirees who might prefer to continue working past 65. Moreover, there exist much more effective policy instruments for addressing these concerns. For instance, the federal government has increased payroll taxes and made other changes to make the Canada pension plan a more sustainable program. The U.S. federal government has adopted a different solution by moving to delay social security entitlements to 67 from the current 65 years of age. In short, changing provincial rules to prohibit mandatory retirement will do little to solve the problems the federal government faces with an aging population. A more likely explanation for federal lobbying for provincial action is the ideological preference of the governing Liberal party for the rights of individuals to enjoy freedom from age discrimination over the rights of labour and business groups to freely contract.

By contrast, Industry Associations and the Labour Movement in Canada have been generally critical of attempts to prohibit mandatory retirement in collective agreements and company policy. For instance, Buzz Hargrove, president of the Canadian Auto Workers and one of the most influential leaders in the Canadian Labour Movement, has argued that there are fundamental societal benefits associated with mandatory retirement. (Hargrove, 2003). Ian Howcroft of the Canadian Manufacturers and Exporters, a leading Canadian business lobby, has also indicated that his group backs mandatory retirement for companies that need it (Faulder, 2004). This unusual situation of both labour and business groups coming together on this issue

can be explained by what are perceived as resultant social benefits shared by both employers and employees.

Lazaer's (1979) analysis of retirement clauses in labour contracts, written over a quarter century ago, is one of the most widely cited studies consistent with this idea that there are "social benefits" associated with mandatory retirement. Basically Lazaer's argument begins with the presupposition that employers tend to offer a pattern of wages and pension benefits that underpay their workers early on in their career - relative to their productivity – only to overpay them during their latter years - again, relative to productivity. The basic idea is that the adoption of "deferrals" creates a loyalty on the part of the employee, as deferred compensation provides an incentive to continue to work at the same place. In reducing job turnover, the employer can invest more in training, has more motivated employees, and need not invest nearly as much in monitoring productivity. Without a termination date, wages could potentially exceed productivity for an extended period – throwing into jeopardy the existing pay structures and management strategies. By maintaining a maximum age of employment, employers have a non-contentious means of ending the employment of overpaid older workers, with the termination of employment much less likely to lead to any sense of disaffection. In addition, age at retirement is obviously relevant to many pension plans, which by their very nature require considerable actuarial planning and predictability in the retirement of employees. When pension plans work with the premise that retirement is mandatory at age 65, this sets a ceiling on the level of benefits available, dependent on final salary and years of service.

Although most unions and business lobbies remain opposed to prohibiting mandatory retirement, the opposition is not especially vigorous. One possible explanation for the muted tone of business may be due to the trend to earlier retirement that has lead to workers choosing to voluntarily limit their period of over-payment. One possible explanation for the lack of fire on the part of labour might be due to the considerable evidence that the elimination of mandatory retirement has not demonstrably eliminated retirement rights of its members in jurisdictions where mandatory retirement has been abolished. Both groups may rethink their positions if retirement trends reverse or if the continuation of public pension benefits at their current levels begins to look unsustainable.

Ultimately, the political equilibrium depends on more than the lobbying of special interests. The voting public is ultimately decisive. The likely outcome of an aging population on the debate over mandatory retirement is difficult to predict, but several factors can be expected to be important. For young families, support for mandatory retirement often includes the argument that such agreements "help considerably in ensuring orderly employee turnover, and providing the opportunity to allow younger to replace older workers" (Hargrove, 2003). The problem with this argument is that it is a variant of the 'lump of labour' fallacy which posits the existence of a fixed number of jobs that need to be rationed. The argument suggests that eliminating older workers, there is therefore more work for younger workers. While this is not a convincing argument for economists, it may have had some traction with the voting public. If the growth slowdown in the working age population does in fact improve the labour market prospects of young families, the appeal of this argument will likely decline.

The demographic context has dramatically shifted over the last several decades, and this will have major ramifications as we move further into the 21st century. In turn, this shift in age structure has had and will continue to have a major impact on the supply of labour, as well as existing pay structures and management strategies. Regardless of what happens in terms of mandatory retirement, this shift in age structure has implications that swamp any impact of change in retirement policy. In this context, it is surprising that there has been somewhat of a dearth of research into why older Canadians are leaving the labour force earlier rather than later, typically well before the age of "mandatory" retirement. Yet for the rising number of older families facing retirement, support for a ban on mandatory retirement is often presented as support for a right to live without ageist restrictions on individual freedom. For the last twenty years, the fact of early retirement may have contributed to a lack of urgency in the push to extend such rights. If the trend to earlier retirement reverses, the increasing share of older families and their high voter turnout may cause the equilibrium to shift away from the collective rights of contract towards the individual's right to be free from ageist restrictions.

7. Conclusion

The demographic context has changed dramatically over recent decades, to such an extent that the debate on mandatory retirement is necessarily modified. The context is now one of slowing population growth, population ageing, a slowing in labour force growth, and relatively low

labour force participation rates among older Canadians. It is anticipated that the public debate on mandatory retirement will increasingly be shaped by an awareness of these trends, particularly given that international migration has a negligible impact on population ageing.

Labour force growth is expected to slow considerably over the next decade or so, as the sizeable baby boom cohorts move into age groups that have hitherto been noted for relatively low labour force participation. This is a very different situation from the labour market conditions that characterized the North American economy several decades ago when Lazaer put together his widely cited paper on the benefits of mandatory retirement. For example, Canada's labour market is realistically projected to grow by about 6% over the 2001-2011 period (Table 2), in stark contrast to the 35% growth over the 1971-1981 period. As Canadians adapt to this new reality, the political equilibrium may result in an eventual abandonment of mandatory retirement.

In a context of potential labour shortages, it could easily be argued that it makes sense to translate gains in terms of population health into a lengthening of the working life, which implies further investment in the upgrading and maintenance of skills throughout the life cycle. Changes introduced today in how we define "old age" can have very important consequences over the longer term. The public debate which focuses in on the advisability of "mandatory retirement" can be very useful in this regard. Yet regardless of what happens in terms of mandatory retirement, future trends in terms of population ageing will swamp any impact of change in retirement policy, particularly since the overwhelming majority of Canadians seem to have little interest in remaining in the labour force beyond 65. It is far from certain as to whether future labour market conditions and potential changes in terms of the work incentives for older workers will significantly effect the labour force participation of older workers.

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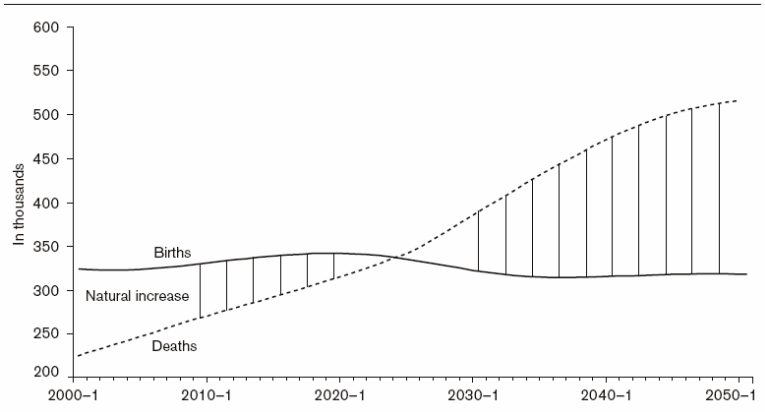
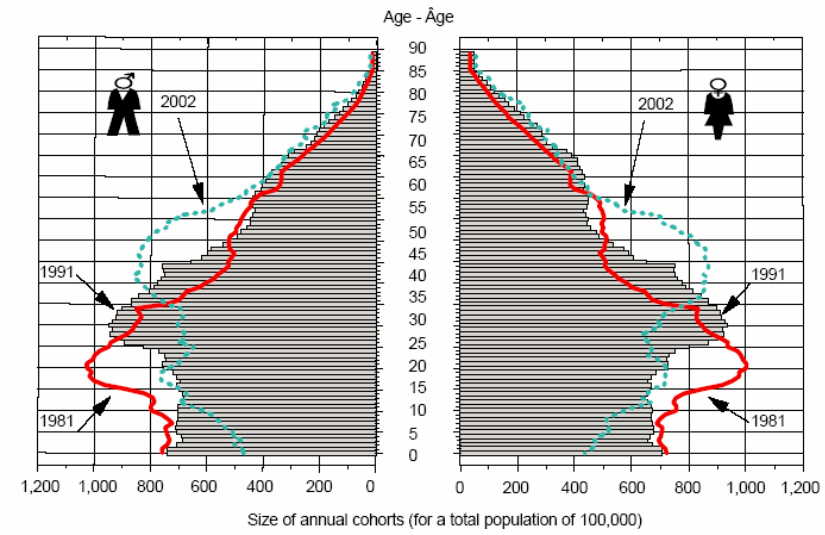
Figure 1. Births, Deaths and Natural Increase, 2001-2051, Statistics Canada's Medium Projection



Source: Statistics Canada, 2001.

Figure 2. Age Pyramid of the Population of Canada, July 1, 1981, 1991 and 2002



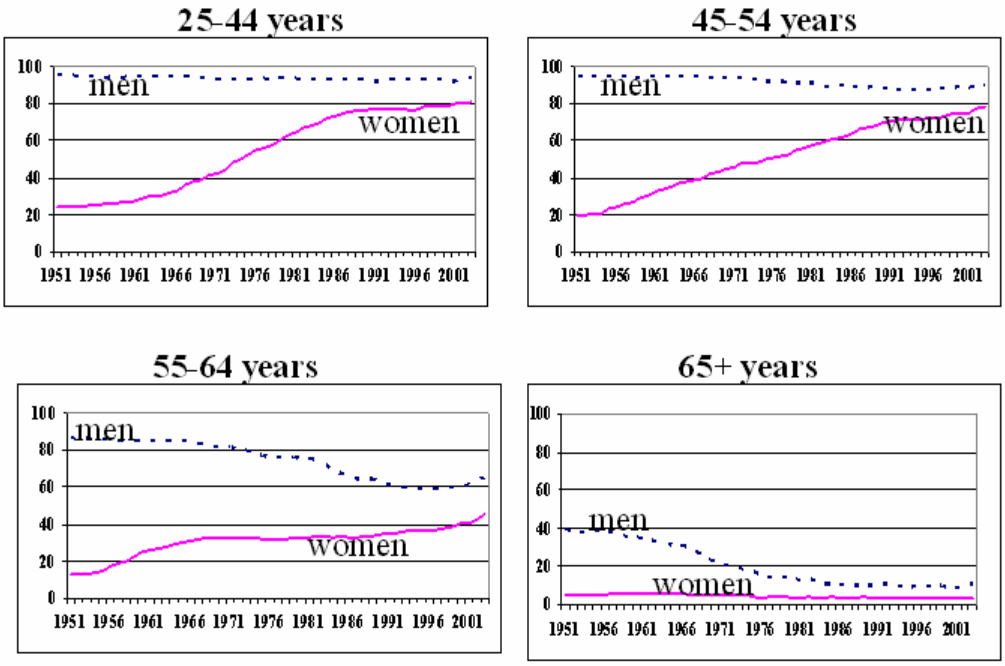
Source: Statistics Canada, 2003.

Table 1. Selected Age Distribution Indexes, Canada and Selected Countries, 2000 or 2001

	Median Age (in yrs)	0-19 %	65+ %	20–64 %	Median Age 20–64 (in yrs)	Ratio 20–39: 40–59	Ratio 15–24: 55–64
Canada (2001)	37.6	25.9	13.0	61.1	41.3	1.0	1.4
Other countries (2000)							
United States	35.5	28.7	12.3	59.0	40.5	1.1	1.6
Germany	40.1	21.1	16.4	62.5	41.5	1.1	0.8
France	37.6	25.3	16.0	58.7	40.8	1.1	1.4
United Kingdom	37.7	25.2	15.8	59.1	40.7	1.1	1.2
Italy	40.2	19.6	18.1	62.3	40.7	1.2	1.0
Japan	41.2	20.6	17.2	62.2	42.7	1.0	1.0
Russia	36.9	26.1	12.5	61.4	41.0	1.1	1.6
Australia	35.2	27.6	12.3	60.1	40.1	1.1	1.6
Mexico	23.3	43.4	4.7	51.9	34.1	2.1	4.0
World	26.5	39.1	6.9	54.0	36.8	1.6	2.7
More developed countries	37.4	25.1	14.3	60.6	40.9	1.1	1.3
Less developed countries	24.2	42.5	5.1	52.4	35.7	1.8	3.3
Least developed countries	18.1	53.9	3.1	43.0	33.7	2.2	4.9

Source: Statistics Canada, 2002

Figure 3. Labour Force Participation Rates by Age and Sex, 1951-2003.



Sources: Denton and Spencer, 1998; Statistics Canada, 2004

Table 2. Alternate Forcasts of Canada's Labour Force, 2001 - 2011

Age	Population 2001 [1]	Projected Population 2011	Population % change	Labour Force 2001 [2]	Projected labour force 2011		
					Using 2001 constant participation rates	Using 1981 rates for males	Using 1981 rates for males parity for females
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
15-19	2,081.0	2,175.0	4.5	1,378.6	1,136.6	1,211.5	1,287.6
20-24	2,097.0	2,241.4	6.9	1,730.1	1,726.0	1,812.9	1,954.5
25-29	2,100.3	2,263.5	7.8	1,791.9	1,940.4	1,978.3	2,130.0
30-34	2,252.5	2,293.0	1.8	1,911.6	1,975.4	2,012.6	2,201.3
35-39	2,641.7	2,278.1	-13.8	2,205.4	1,965.2	2,006.6	2,189.3
40-44	2,659.1	2,370.3	-10.9	2,303.1	2,060.6	2,099.9	2,263.6
45-49	2,384.9	2,681.7	12.4	1,978.6	2,292.6	2,331.8	2,523.5
50-54	2,114.7	2,637.4	24.7	1,677.8	2,097.9	2,154.5	2,397.4
55-59	1,625.9	2,318.3	42.6	1,007.8	1,453.2	1,566.6	1,908.0
60-64	1,291.1	2,011.3	55.8	456.0	744.0	911.3	1,287.2
65-69	1,137.8	1,495.8	31.5	127.9	176.4	205.2	300.7
70+	2797.3	3350.1	19.8	92.4	93.2	120.9	268.0
Total	25,183.3	28,115.9		16,661.2	17,661.4	18,412.1	20,711.0
participation rate (15+ years)				***67.6***	***62.8***	***65.5***	***73.7***
percentage increase			**11.6**		**6.0**	**10.5**	**24.3**

1. These Population Figures are derived from Statistics Canada's most recent round of Population Projections, using the Medium Growth Scenario (Statistics Canada, 2001).
2. These labour force estimates correspond to July 1st, 2001.
3. Column (5) is a projection of the labour force using the Medium Growth Population Scenario and Constant age/sex specific 2001 labour force participation rates.
4. Column (6) uses the same population projection scenario and introduces 1981 age specific labour force participation rates for males.
5. Column (7) uses the same population projection scenario, 1981 age/sex specific labour force participation rates for males and females (i.e. assumed parity in LFP).