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E-BRIEF

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The Main Challenge of Our Times: A Population Growing Younger

by

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- A society's aging, or its age distribution, is normally viewed from the perspective of the number of years since birth. In this E-Brief, however, we propose an alternative: measuring age according to the number of years remaining in life.
- Taking increases in longevity into account, a 35-year-old Canadian had a remaining life expectancy of 38.6 years in 1950, but 46.8 years in 2010, a difference of 8.2 years. Viewed so, the Canadian population is not getting older in the traditional sense, but "younger," because many workers are approaching retirement age more able, and willing, to work longer than were previous generations of Canadians.
- Because many older Canadians are already deciding to retire later than the arbitrary age of 65, public policy should aim to provide Canadians with the instruments to better manage retirement decisions.

Population aging: those two words, it seems, inspire fears of different kinds. The number of retirees per active worker is steadily climbing. The problems this could engender are rather obvious: absent a significant increase in productivity, GDP growth is bound to slow down, which would exacerbate the growing stress on public finances, in particular through health expenditures.

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Although these issues are real, population aging is part perspective. Why? Because life expectancies are increasing. Take the example of Joe Leblanc who turned 65 in 2010. Joe has chosen to keep working because he feels much younger than his years. In a sense he is right. At age 65, Joe's life expectancy matched that of a 59-year-old in 1950. No wonder he decided to keep working. Like our fictional Joe, Canadians are experiencing increases in longevity and are willing to work longer than previous cohorts.

Hence, "age" can be re-measured as years to live rather than years since birth. And public policies can be reformulated and redesigned to encourage adaptation, flexibility and innovation among so-called older workers.

Some caveats are in order. This E-Brief is purposely short; it is not a full blown report covering all the important issues relevant to the topic of aging, but enough to launch the debate about the contribution of a growing group of 60-plus Canadians with much to add to the labour force. Tackling the issues will not be easy, as the notion of retirement at 60 to 65 is deeply rooted. Yet policy challenges are emerging to value this significant untapped workforce that should be addressed.

It is unlikely that employment rates for those over 60 will ever match those of younger groups, but employment rates in this age group are increasing – from 13 percent in 2000 to 23 percent in 2011.[1] People may still wish to retire between 60 and 65, in particular when they have the resources to do so, and free choice is paramount: one should not be forced to retire or remain in the labour force.

Our Population is not (Really) Growing Older

Comparing age distributions at different time periods is complicated by changes to longevity. Being "old" has a relative meaning. For instance, being 50 today may appear to be relatively young, while being 50 a few decades ago would clearly be considered relatively old. Fuchs (1984) suggested that it would make more sense to define being old as being closer to death: a 72-year-old in 1984 had the same life expectancy as a 65-year-old in 1935; hence, entry into old age should have been 72 in 1984 if it was 65 in 1935. Sanderson and Scherbov (2005) considered a population median age standardized in different countries for expected remaining years of life and found that such a standardized median is not growing rapidly or even steadily and some countries experience increases in youthfulness. Shoven (2007) arrived at the same conclusion by determining age via mortality risk percentages. He found, "the mortality risk approach to measuring age would have 70 year old women in 2000, 65 year old men in 2000, and 59 year old men in 1970 as all being the same age (page 2)." Determining age as the number of years since birth is easy but clearly not a relevant socio-economic measure when comparing populations at different times, in particular as people become worried about population aging.

In Table 1, we arrive at the real-1950 age of a person by first finding the difference between life expectancy in 1950 and life expectancies in 1970 and 2010 for the same age category. We then subtract that number from the nominal age in 1970 and 2010 to obtain the real-1950 age for those age categories.

1 See Fong (2012). Referring to Statistics Canada surveys, Fong (2012) writes "Older workers did record substantial gains in these rapidly growing sectors [service-based industries such as professional, scientific, and technical services and health care]. However, the one most popular among those individuals was retail (page 1)." Older 65+ workers represent in 2010 about 2.7 percent of total Canadian labour force, more than double the percentage in 2000. This 2010 percentage is quite similar to that of Australia, Norway and UK, but significantly lower than that of New Zealand (4 percent) and the US (4.3 percent) and significantly above that of Finland (1.4 percent), France (0.5 percent) and Germany (1.7 percent). Clearly, people may keep working after 65 and many do.

Table 1: Adjusted Real-1950 Ages, Canada and Other Countries				
		Real-1950 Age, Base Year 1950	Real-1950 Age in 1970	Real-1950 Age in 2010
Canada	Average age of population	29.6	27.2	29.8
		35.0	33.3	26.8
		45.0	43.5	37.3
		55.0	53.7	48.1
		65.0	64.0	59.5
		75.0	74.1	70.9
USA	Average age of population	31.4	28.3	27.2
		35.0	32.8	26.8
		45.0	42.9	37.7
		55.0	53.2	48.6
		65.0	63.4	59.8
		75.0	73.6	71.5
France	Average age of population	34.4	31.9	27.6
		35.0	33.0	25.4
		45.0	43.5	36.1
		55.0	53.2	46.4
		65.0	63.9	58.0
		75.0	74.0	69.9
Germany	Average age of population	33.3	28.6	29.1
		35.0	29.2	23.0
		45.0	40.2	34.4
		55.0	51.3	45.9
		65.0	62.0	57.4
		75.0	73.0	69.8

Note:
The average age as shown is the population weighted average for ages n = 5, 15, 25, 35, 45, 55, 65, 75 with the weight attached to age n being the percentage of population of age n to n+4. This accounts for about half the population, and is representative of the overall average real-1950 age that is relevant to our analysis. For Canada, the average age indicator so computed is 29.6 years in 1950; the average real-1950 age is 27.2 years in 1970 and 29.8 years in 2010. A 45-year-old in 1950 has a real-1950 age of 45 years; a 45 year old in 1970 has a real-1950 age of 43.5 years; and a 45 year old in 2010 has a real-1950 age of 37.3 years.

In Canada, a 35-year-old had a remaining life expectancy of 38.6 years in 1950 but 46.8 years in 2010, showing a difference of 8.2 years. The real-1950 age of such a person in 2010 is therefore 35 minus 8.2, hence 26.8 years. Similarly, a 65-year-old in 2010 is 59.5 years old in real-1950 terms.[2] Although the average nominal age increased by 7.8 years between 1950 and 2010, the rise in average real-1950 age is only 0.2 year, indicating that the Canadian population is, on average, the same age as it was 60 years ago when measured by expected remaining years of life.[3] During the same period, the US average real-1950 age declined by 4.2 years, while it dropped by 6.8 years in France and 4.2 years in Germany. In the US, France and Germany, the 65-year-old group in 2010 is, respectively, 5.2, 7.0 and 7.6 years "younger" in real-1950 terms than it was in 1950.[4]

Retirement Patterns

Retirement age is relatively sticky: following a slow decline over the last decades, the trend seems to be gradually reversing recently (Lefebvre et al. 2012). Many Canadians are likely to stay in the workforce for a longer time, as they realize they are still quite young at 60 or 65 (Hicks 2012). Indeed, we observe a rise in the employment rate after 65 but it remains quite low, at 20 percent for the 65- to 69-year-olds. But people are slowly adapting to a longer life expectancy by working longer.

Numerous reasons or factors have been suggested to explain why most people retire at 60 to 65 years or so in spite of increased longevity: i) the financial incentives of pension plans and public programs; ii) the employment insurance and severance pay regulations; iii) the state of lifelong learning or retraining possibilities. These reasons have been around and discussed for some time now.

The 2006 OECD report on aging and employment policies *Live Longer, Work Longer* states that "Employment and social policies and practices that discourage work at an older age effectively deny older workers choice in when and how they retire. Moreover, in an era of rapid population ageing, they result in a waste of valuable resources that business, the economy and society can ill-afford. Policy reforms are needed to reverse the trend towards ever-earlier retirement."[5] The major social and political urgency of re-evaluating and redesigning social security, medicare and tax laws, in order to avoid discouraging longer careers and bankrupting social safety net

2 Clearly, this linear adjustment rule would not extend to younger ages. It would more generally require a nonlinear rule where age is adjusted in some proportional way.

3 We are aware of the fact that later years may be of lower (health) quality than earlier ones. Clearly, this must be taken into account when proposing new policies. But such is the case also for the years 55-64 compared to those 45-54. No one would claim on such a basis that retirement should start at 55. The key words here are flexibility, adaptability and gradualism from 45-54 to 55-64 to 65-74 and so on. However, the relevant comparison is less between 60+ and 59- groups today than between groups of 60+ today and 60+ in the past.

4 This average linear adjustment method is arguably simple and crude as life expectancy is a function of many factors such as sex, marital status, education, province of residence, medical condition, weight, smoking habits, etc. Nominal age is also simple and crude as different individuals may grow old at different paces.

5 See also the United Nations Population Fund (UNFPA, New York) and HelpAge International (London) 2012 Report *Ageing in the Twenty-First Century: A Celebration and a Challenge:* "Increasing longevity is one of humanity's greatest achievements. Indeed, population ageing is cause for celebration. The opportunities that this presents are as endless as the contributions that a socially and economically active, secure and healthy ageing population can bring to society."

and security programs has been recognized for some time, but reforms are slow to develop and concrete policy actions are scarce.[6, 7]

Improvements in longevity suggest another potential factor behind the popularity of retirement at age 60 to 65: people's decreasing interest in their work.[8] One might imagine that people tire of doing the same or similar work for 35, 40 or 45 years. If that is so, the conventional one-career (broadly defined) path is bound to change for many, if not all; that is, in a systemic rather than idiosyncratic way. The forthcoming generation of elderly will be more educated, which may allow more flexibility and therefore lay the ground for double-career paths. Surveys show that a significant percentage of 50-plus workers would like to embrace an "encore career" in advocacy (36 percent), work with children/youth (32 percent), conservation (31 percent), teaching (31 percent), spiritual/religious (23 percent), or healthcare (17 percent).[9] To better understand the trend of double-careers, more data and research would help answer how many individuals are choosing a double-career path and how many workers would be willing to choose a second career.[10]

In a double-career path, people would typically have the opportunity to complete their first career, start cashing their pension from their first career (if they so choose) as they study and train for their second career. Then, they would continue working, stop pension withdrawals and restart making pension contributions.

What to Do?

No matter how we approach the issue of population aging, new and more flexible labour market arrangements will be necessary if continued labour force participation after ages 60 to 65 is deemed desirable for the individual involved and society. Potential public policy changes are numerous, including the flexible use of pension and retirement funds and facilitation of second-career paths. The following are practical examples:

- Public policy regarding retirement decisions should be neutral. Arbitrary retirement ages for public benefits like old age pensions should be increased and, encouragingly, Canada is set to increase the age of qualification for Old Age Security from 65 to 67 between 2023 and 2029;
- Encourage phased-in retirement with changes to tax and pension rules. These steps could permit workers to work and receive pension benefits while contributing to a pension plan;

6 See Shoven (2007).

7 Although not geared towards older workers, the recent Canada Job Grant program included in the Federal 2013 budget better acknowledges the trend in the number of workers in need of upgrades to their training and skills.

8 Evidence measuring the empirical importance of this phenomenon is scanty, but the emergence of resources aimed at helping a career switch at midlife indicates the potential significance of such situations. See Marci Alboher, *The Encore Career Handbook*, Thomas Allen & Sons, 2013. See also her column in the *New York Times* http://www.nytimes.com/2012/12/09/jobs/switching-careers-at-midlife-to-make-a-difference.html.

9 AARP (2011).

10 The problem we face here is that current behaviour regarding retirement and double-career paths are both very much influenced by the current labour market flexibility or lack of flexibility and by the institutional context relating to retirement. There is a need to launch a research program to estimate changes in behaviour if and when the labour market and retirement institutional context changes.

- Reduce the clawbacks on earned income for Guaranteed Income Supplement recipients, which provide strong disincentives to work;
- Adjust employment insurance programs to better cater to the needs of workers with a long history of service who are laid off late in their careers,[11] in particular for those wishing or willing to switch careers;
- Emphasize comprehensive, lifelong education and training, with policies that are more responsive to the needs of lifelong workers willing to embrace a second career, but who lack the same academic qualifications of most new postsecondary applicants. This could be accomplished, for example, with education entry requirements that take into consideration on-the-job experience rather than strictly academic credentials;
- Ensure flexible severance pay rules that reduce the financial disincentive to leave a job and find a new one. Older workers with lots of service time have little incentive to switch jobs since doing so would mean losing their common law right to a large severance payout should they instead get laid off (HRSDC 1997). But what if this severance payout can be used to finance training for a new career?

Although the specifics of budding public policy changes require fine-tuning and balance, the key characteristics are known: flexibility, adaptability, and modularity.

Conclusion

The traditional way of looking at the issue of an aging society is to consider the average age of the population, measured by the number of years since birth. In this E-Brief, however, we propose an alternative way to broach the issue, namely measuring age by the number of remaining years of life. We conclude that our Canadian population is not getting older in the traditional sense – many workers are therefore approaching retirement age able and willing to remain in the workforce longer. Significant portions of older Canadians are already deciding to postpone their retirement. On this score, public policy should provide Canadians with the proper instruments to better manage their retirement decisions.

11 The HRSDC (2008) Canadian Expert Panel on Older Workers was established in 2007 "as a response to two divergent pressures that threaten the high standard of living that Canadians are currently enjoying. First is Canada's changing demographics. The Canadian population is aging, and that will have significant impact on the Canadian economy and could reduce its growth potential. The second pressure is how to provide for those Canadian workers – in this case, older workers – who are displaced as the economy adapts."

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