

Intelligence MEMOS



Federal budgets are an annual rite of spring in Ottawa, as is the deluge of advice to the Department of Finance. But budget-making is a yearlong process, and the work is now in progress. Accordingly, the C.D. Howe Institute is presenting a series of Intelligence Memos in the next few weeks, outlining recommendations that we hope will help inform the policy decisions that are being made now.

From: Parisa Mahboubi
To: The Honourable Bill Morneau, Minister of Finance
Date: November 16, 2018
Re: **THE BENEFITS OF ENCOURAGING GREATER LABOUR FORCE PARTICIPATION OF OLDER WORKERS**

The aging of the population has accelerated in Canada during the past decade. This demographic shift causes the labour force to shrink as a percentage of the population and slows economic growth.

Further, this process has implications for government finances, dampening revenue growth and putting pressure on government spending that is sensitive to aging, such as healthcare.

Encouraging greater labour force participation by older workers is an effective and nimble way to respond to these stresses.

The number of people 65 and older relative to population 15 to 64 – known as the Old-Age-Dependency (OAD) ratio – has increased by more than six percent over the past 10 years as baby boomers pass the age of 64. As a consequence, labour force participation of the population aged 15 and over has declined, despite rebounding from the 2008-09 recession. Many Canadian employers are also facing a tightening labour market due to labour shortages, according to Statistics Canada reports on job vacancies.

On the other hand, in the first quarter of this year, Canada's unemployment rate was at its lowest since October, 2007, at 5.8 percent. Low unemployment has made it harder for employers to fill jobs.

Although immigration has been the major source of population and labour-force growth, a C.D. Howe [study](#) shows that its power as a tool to address the economic and fiscal challenges of the aging workforce is much weaker than a later retirement approach.

Seniors today are healthier and living longer than those in preceding generations. Further, delaying retirement may itself contribute to seniors [staying healthier](#). Older workers can remain active in the labour market for a longer period of time by participating in a bridge job, such as part-time employment or self-employment, that offers flexible working hours.

Despite the increasing number of people aged 55 and over who stay active in the labour market, their participation rate is still well below 15-54-year-olds.

A factor that may discourage seniors from delaying retirement or reduce their employability is the absence of adequate skills to adjust to labour market changes. My recent study shows that literacy and numeracy skills erode with age at an accelerated rate, likely due to a lack of investment in continuing learning or not applying existing skills frequently enough. Higher proficiency in these skills makes it easier for older workers to upgrade their existing levels to meet demand.

To tackle age-related declines in literacy and numeracy skills and improve labour force participation, the federal government should encourage active learning and offer more targeted training opportunities for seniors.

To address the impacts of an aging population on the economy, Ottawa should prioritize strategies that encourage greater labour force participation by older workers in Budget 2019.

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