Currently 32 million, Canada’s population is rapidly aging. Like many countries, Canada experienced a baby boom in the 20 years after World War II, followed by a period of declining fertility. Throughout its history, this baby-boom generation has had a major impact on society and the economy, and now is poised to transform the size and nature of the workforce.

With the eldest baby boomers having turned 60 in 2006, it is expected that a considerable number of people will retire in coming years. The inevitable wave of retirement will change the general nature of society as a greater share of the population moves from work to activities more typical of retirement. As a result, labour force participation is expected to fall, putting pressure on an already tight labour market (Chart A).

How will the retirement boom affect labour markets?

Although far from a sophisticated approach to labour force forecasting, the following discussion serves to illustrate the impact of the baby boomers’ exit from the labour force.

Because people age and retire, rates of labour force participation are much lower for older people than for younger people. Suppose the current rates of labour force participation by age group stay the same. Under this simple scenario, the labour force participation rate should fall considerably with the aging of the population. The downward pressure has already begun and should continue for at least the next 25 years. From highs around 67.5% in 2004, the rate in Canada could be around 60% within 20 years, all else being equal.

Participation rates in that range would be extremely low for Canada. In fact, they have not been at such a low level since the early 1970s, when women began entering the labour force in large numbers and expanding the labour supply.

Chart A  Unless labour force participation by age changes, the overall rate will decline steadily for years

Scenario 1: Medium population growth, participation by age group constant at 2005 rates.
Scenario 2: Medium population growth, participation among older people rising for next five years then constant.

Whether aging boomers push the relative supply of labour to these lows remains to be seen. A variety of reasons could keep them in the labour market longer than earlier generations. Indeed, the Labour Force Survey has been showing a slow upward movement in the retirement age in recent years, a switch from a long-term downward trend (Chart B). On the other hand, boomers may exit sooner than retirees in the past. In any case, the inevitable exit of a large number of employed baby boomers (over 7.5 million) should put downward pressure on the size of the labour supply.

What would be the effect on unemployment rates, the most popular indicator of the state of the labour market? That would depend on labour demand, which has more to do with aggregate economic conditions and technological change than with demographics, making the answer difficult to predict. If demand for labour were to rise, even marginally, in this upcoming era of labour supply contraction, then unemployment rates could fall. Whatever the eventual labour demand scenario, the unemployed should benefit from job opportunities provided by the thousands of Canadians retiring. The aging of the population should therefore exert downward pressure on the unemployment rate. Indeed, in 2005, as the labour supply contracted (in part because of the aging workforce) and demand boomed, the unemployment rate hit record lows.

**Measuring retirement**

The above discussion is not meant to be a rigorous forecasting of labour market trends. Rather, it is designed to show the potential impact of the inevitable retirement wave. Even though this wave will have significant labour market consequences over the next 20 years, no regular statistics are produced on the retired population.

There are some reasons for this. Only recently has the need for retirement data grown. Secondly, the concept of retirement is fuzzy, to say the least. Retirement can mean different things to different people, and measuring it is difficult for national statistical organizations. Having an international standard would assist in deciding what data or range of data should be produced.

So what is retirement? It is both an event and a state of being. For example, a retirement party is held for someone to celebrate the event. Subsequently, a person enters retirement, a new phase of life.

**Chart B  After a decade of decline, retirement age seems to have plateaued**

![Chart showing retirement age trends](image)

Source: Statistics Canada, Labour Force Survey

Measuring the event of retirement probably has lower priority for statistical agencies. When it comes to labour statistics, measuring life events is perhaps not required to the same extent as measuring the state of human activity. For example, estimates of the number of layoffs or exits from employment (the event) are less in demand than estimates of the number of unemployed (the state, which is a result of the event). Thus, any international standard should perhaps focus first on defining and then measuring the people who are in the state of retirement rather than on counting how many retirements have taken place.

With that in mind, how might national statistical organizations proceed? First of all, household surveys would likely be the main instrument for determining retirement statistics. Supplementing these would be administrative records such as pension or taxation records. Business surveys may provide some important information on human resource preparation for retirement or on retirement events, but are limited by the reality that the retired population will mostly not be working.

**Conceptual difficulties**

A plethora of definitions exist for the state of retirement (Smeeding and Quinn 1997). Because these range from very broad to more precise, the choice of definition noticeably affects the size of the population being measured. For some, retirement means complete withdrawal from the labour force, while for others it entails remaining partly or even fully active in the labour market.

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Some of the complications in measuring the retired population stem from the myriad of work arrangements from which a person may have exited (Table). The concept of retirement is more applicable in some cases than in others. For example, someone who has left a full-time job at older age, is not working, and receives a pension has undoubtedly retired. But what about a self-employed farmer who has scaled back operations in older age but is still farming? Examining a set of similar scenarios could be useful.

Such an exercise is also useful for demonstrating two important facts about measuring the retired population: they should be of an older age, and their previous activity matters (but not for everyone).

To elaborate, younger people by definition ought not to be considered retired since the concept of retirement is typically reserved for older people (exact age being up for discussion). Secondly, although the retired are defined by their previous activity, their current labour market activity also plays a role. For example, an employee who worked for a long period and then stopped working in older age, never intending to work again, should be counted as retired on the basis of past labour market activity and the nature of the exit. But what if such a person were currently employed? Should they still be considered retired?

In reality, many people do not become retired overnight. Rather, a transition occurs as one moves from more intense labour market activity toward relative inactivity. At what point along this gradient should a person be considered retired? At an early stage they could perhaps be considered semi-retired.

Statistics Canada measures

In addition to complications in defining the retired, another reality is that household survey measuring instruments will always have limitations. One could have a very precisely defined concept of retirement, for example, but never be able to measure it. As a result, it may be useful to examine what has already been applied.

The standard definition

According to Statistics Canada’s standard definition, ‘retired’ refers to a person who is aged 55 and older, is not in the labour force, and receives 50% or more of his or her total income from retirement-like sources. Ironically, the person who led the research for this definition, which was instituted in the late 1990s, has since retired. Very little is now known about the background research for this definition.

The definition seems reasonable and perhaps has the advantage of being an objective measure that is not reliant upon personal perceptions. However, it has one important limitation: it can only be applied using household surveys that have both a labour module and an income module. As a result, only two surveys, the Survey of Labour and Income Dynamics (SLID) and the Census can apply this definition. Other key household surveys, such the Labour Force Survey (LFS), cannot.

While SLID and the Census can be very important tools for retirement research, they may be less timely than what potential users of retirement data may demand. Timely statistics may become increasingly important if the retirement wave leads to significant labour shortages.

Survey of Labour and Income Dynamics

In a recent compendium, an article on work to retirement transitions defines retirement as “a condition achieved when a person leaves the labour market for good and receives retirement income (C/QPP, private pension, etc.). Retirement is deemed to have been achieved when a person has spent at least a year out of the labour market, has received retirement income during that period, and does not return to the labour market before the survey ends.”(Deschênes and Stone 2006, 220).
Defining retirement

Like the standard definition, this one is an objective measure. It is intended for use in a longitudinal survey, although retrospective questions in a cross-sectional survey asking when the person last worked could be used to determine who has been out of the labour market for a year or more. As with the standard definition, the definition above requires both labour and income modules and is subject to timeliness limitations.

General Social Survey
The General Social Survey (GSS), an annual survey with rotating topics, asked a series of questions on retirement in 2002. Three types of respondents were categorized as retired: those whose main activity in the last 12 months was ‘retired’; those whose main activity was something else but who said yes to the question “Have you ever retired?”; and those whose main activity was something else and who said they had never retired, but who said yes when asked if they had stopped working for a reason that was deemed to be retirement-related. Unlike the previous definitions, this one is not objective, instead relying on self perception of retirement status.

Some research using this definition has recently been published by Statistics Canada. According to the 2002 GSS, about 1.8 million Canadians were identified as having retired in the 10 years preceding the survey (Schellenberg and Turcotte 2005). These individuals had worked in the past and were 50 or older.

Again, the definition of who is retired seems reasonable. And again, the main limitation is the infrequent production of the data. Although much of the 2002 GSS content will be repeated with the 2007 survey, the rising demand for information on the older population may mean that other potential sources of retirement data ought to be investigated.

Labour Force Survey
It seems natural for a labour force survey to measure the retired population, since all concepts of the state of retirement are defined by a person’s past and present labour force status. However, in Canada this is not done. In fact, the LFS questionnaire pays relatively little attention to the older population. On top of this, very little information is collected on the ‘not in the labour force’ population since the survey focuses on characterizing the employed and unemployed.

Although the LFS cannot measure the number of retired people, it is the key source of data on average and median retirement age. During the interview, all those not working are asked when they last worked. If the date is within the past year, they are asked the main reason they left their last job or business, to which they may respond ‘retired’. The month and year of retirement is assumed to be the same as when the person last worked. Knowing this and the person’s current age means an age of retirement can be estimated. Those who retired under 50 are excluded from the calculation (Gower 1997). Interestingly, these data show that the median retirement age fell from 65.0 in the mid-1970s to 60.6 in 1997—a time when the public sector was offering early retirement incentives to cut payrolls. Since 1997, the age has inched back up and was 61.0 in 2005.

Finally, although one cannot determine the number of retired using the current LFS questions, a mapping of the survey population who are not in the labour force provides some insight. This group can be divided into a number of parts, some of which are more likely to be retired than others. For example, of the 8 million people not in the labour force in 2005, about 3.5 million were 65 and older. Another 1.2 million did not want any work and were 55 to 64. Since 1997, all of the increase in the not in the labour force population can be accounted for by these two groups.

Conclusion
Demand for data on retirement will increase in the near future as the inevitable wave of retirement begins to affect many facets of Canadian life, including the size of the labour supply. The following recommendations may inform the discussion:

- Measuring the state of retirement should take priority over measuring retirement events.
- Household surveys probably provide the best estimate of the retired population. Given the possible use of retirement data in understanding labour shortages, the data should be produced on a timely basis.
- The state of retirement should not necessarily mean economic inactivity. In reality, retirement is a progression toward such inactivity. Selecting a definition of retirement is really about deciding when a person is economically inactive enough to be counted as retired.
- People of relatively young age should not be considered retired.
- Activities should continue toward the development of a standard definition of retirement.
Defining retirement

Note
1 The age groups used in this analysis were 15–19, 20–24, 25–29, 30–34, 35–39, 40–44, 45–49, 50–54, 55–59, 60–64, 65–69, and 70 or older.

References

