

# Barriers to the Labour Force Participation of Older Workers in Canada

By Morley Gunderson

Removing barriers to the labour force participation of older workers in Canada is of increasing importance for a wide range of reasons.

These include:

- an aging population with increased life expectancy and a greater capacity for many older workers to continue working;
- the approximate doubling of the senior dependency ratio (ratio of seniors to the working age population) from 20.3 percent in 2010 to 38.4 percent in 2040;
- the banning of mandatory retirement;
- insecurity about the adequacy of retirement income;
- the negative health and cognitive consequences that often accompany abrupt retirement;
- changes in the nature of work that are more accommodating to older workers;
- dealing with the labour shortages from the “great resignations” emanating from the current pandemic.

Of particular importance, given the aging workforce and our current labour shortages, is whether our pension policies create (often unintended) barriers to the continued labour force participation of older workers. Those barriers include features related to:

- age discrimination;
- government pensions to provide minimum income guarantees: OAS, GIS and provincial supplements;
- Canada Pension Plan (CPP);
- the disability component of the CPP (CPP-D);
- Registered Retirement Savings Plans (RRSPs) and Registered Retirement Income Plans (RRIFs);
- personal income tax credit for seniors;
- workers’ compensation for disability;
- private employer-sponsored pension plans and retirement policies.

This paper identifies various barriers to the continued labour force participation of older workers. For example:

- age discrimination initiatives are given less priority than are other anti-discrimination initiatives;
- clawbacks exist in retirement income support programs such as OAS, GIS and provincial supplements. Such clawbacks reduce the payments if seniors earn additional income in the labour market, effectively imposing an additional tax on working;
- the age of 65 for the normal receipt of CPP and for OAS and GIS has not changed despite substantial increases in life expectancy and hence a longer period to receive the pensions. This contrasts with most other developed countries. Actuarial adjustments could also be made more generous for those

who postpone receipt of CPP to provide incentives to continue to work;

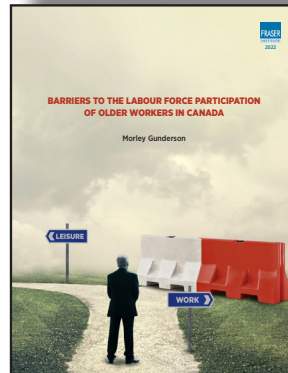
- in the disability component (CPP-D) of the CPP the incentive to return to work is blunted by the risk of losing benefits if earning more than \$6,100, and the pressure to return to work may also be reduced by lax administration of the program;
- the personal income tax has a federal tax credit for people age 65 and over, with a clawback rate of 15 percent for income above approximately \$39,000 in 2021;

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- workers' compensation provides payments ranging from 80 to 90 percent of wage loss, which clearly provides little monetary incentive to return to work;
- RRSPs must be converted to a RRIF or to an annuity, and the benefits drawn down starting in the year an individual turns 71. To the extent that annual withdrawals when combined with labour market earnings would move the recipient into a higher tax bracket, it can discourage employment. As well, individuals can no longer contribute to their plan after age 71, thereby eliminating that benefit from continued employment;
- private employer-sponsored occupational pension plans can contain subsidies for those taking early retirement and penalties for those delaying their retirement, which can discourage continued employment. Later retirement can also be discouraged

if plan members are not allowed to accrue service credits or if there are caps on the earnings base upon which pension benefits are calculated. The same can apply if those who work past certain ages lose benefits like long-term disability, life insurance, and prescription drug coverage.

The emphasis in this report is on facilitating the ability of individuals and employers to make their own choices, without being constrained unduly by barriers that can limit and distort those choices. While there may be rationales for many of the barriers, those rationales should be re-evaluated based on the changing nature of work, including such factors as the desire of many individuals to continue working and perhaps transition into retirement, and the employers' need to address current and looming labour shortages amid Canada's aging population and the current pandemic. Employers can also benefit by using older workers' mentoring capabilities and skills. Policies designed for the previous world of work must be re-evaluated for their applicability to the new world of work. Pension policy is no exception.



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