



Policy Brief

**ENGAGING EXPERIENCE: OPPORTUNITIES FOR OLDER PERSONS
IN THE WORKFORCE**

Tammy Schirle*

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Contact: tschirle@wlu.ca

* Associate Professor, Department of Economics, Wilfrid Laurier University.

Note: This policy brief is based on a presentation by Dr. Schirle to the House of Commons Standing Committee on Human Resources, Skills and Social Development and the Status of Persons with Disabilities.

As background, I am a labour economist. My research has often focused on issues surrounding retirement, public policy, and senior poverty and I've published several papers on these topics. In this policy brief, I would like to make four points.

- First, the employment experience of older individuals is quite diverse and constantly changing and we should expect this to continue into the future.
- Second, as a general rule we should allow the markets to work – if employers want the skills offered by older workers, they will offer attractive wages to get them.
- Third, policy plays a role only where the markets fail. Here, we address search frictions – that is the time it takes for an older worker to find an appropriate employer. We also acknowledge statistical discrimination, whereby employers are reluctant to invest in an older worker's training, expecting they will not remain in the workforce much longer. This places older workers at a disadvantage when competing for jobs.
- Fourth, though we are concerned with the well-being of older workers facing involuntary retirement, we should hesitate when considering interventions such as education and training. For example, the average private and social benefits of investing in education for an older worker will not be high enough to cover the costs. Consequently, the main effect of such interventions is to redistribute resources away from younger workers toward older individuals. Alternatives should be considered for those involuntarily retired.

On the first point: the employment experience of older individuals is constantly changing. Older women's participation rates were fairly steady until the mid-1990s, after which they increased (Figure 1). In 2012, 18% of women aged 65-69 were employed. The large increases in older women's labour market activity over the past two decades largely reflects their career experience – the broader trend captures the women who first had access to birth control pills when they were younger. Older men's participation had been falling until the mid-1990s, after which there is a reversal in trend (Figure 2). In 2012, 28% of men aged 65-69 were employed. In 2012, 54% of men aged 60-64 were employed, and while there appears to be a steady upward trend in employment for this group, their employment rates remain below 1976 levels when their employment rate was 64%.

Within these older groups, the employment rates are rising, but those over age 65 remain a very small portion of the workforce (Figure 3). Employees age 65 or over made up less than 4% of all employees age 25 or over in 2012.

With higher life expectancies expected for the future, we can expect these trends to continue (Figure 4). However, it is not clear how many of those continuing in employment are interested in standard employment relationships – that is, working full-time, full-year in career-type employment. Those who continue with paid employment tend to be those near the top of the income distribution (Figures 5 and 6).

Evidence from social surveys is unreliable for gauging labour supply. Many older individuals will report a desire to work under the right circumstances – perhaps with a high wage and flexible work schedules. However, employers may not be offering the work schedules that older workers desire.

Which brings me to my second point. Generally, we want to allow labour markets to work on their own. The labour market has two sides – potential employees that offer their labour for a price and potential employers willing to pay for that labour. I have often heard media reports about impending skills shortage as older workers enter retirement and we lose the skills associated with their experience on the job. However, if employers value that experience and it is productive for them to use those skills, employers will be willing to pay for it. If employers offer a higher wage, many older individuals will be willing to postpone retirement for a while. Without policy interference, we will see an increase in older individuals' employment and wages.

As a caveat, my third point suggests we should have policies that target specific market failures – and I stress that we must clearly identify those market failures before prescribing policy.

One clear market failure is that there are search frictions in the labour market – it takes time for potential employees to find an appropriate employer. This may take even more time for older than younger individuals, whose career experience is more specialized, who may be seeking flexible arrangements or casual employment, and who may have recently migrated following retirement from career employment – either toward rural areas or to another province. I suspect a decentralized approach would be most successful here – that is, we should ensure community groups have the infrastructure in place to help older workers find suitable employment. We can also consider proposed wage insurance policies that would partially subsidize the wages of displaced older workers that take new jobs at lower wages (see Jones 2009 and Riddell 2009).

As another market failure, employers are unable to obtain perfect information about potential employees and will often rely on averages to make an educated guess. The result is what economists call statistical discrimination. When interviewing an older

individual, for example, an employer may rationally assume the interviewee will plan to retire at the average age of retirement. Given there are costs to training these employees, an older worker may be turned down for a job because the employer doesn't expect them to stick around long enough to recoup those training costs. We don't expect employers to act as charities, so this isn't irrational on the part of employers, but it does put older individuals at a disadvantage when applying for jobs.

One of the reasons I stress the identification of market failures when prescribing policy is that I often hear suggestions to extend education and training policies to older workers. Older individuals are not likely to self-finance training simply because the return to that investment isn't high enough. Public subsidies will not change that and it is unlikely that the private and social benefit to training will outweigh the total costs. I would direct you to papers I have published on retraining older displaced workers for more details. I'll simply restate my fourth point – that investments in education and training for older individuals should only be considered on a case-by-case basis and general policies redirecting education and training resources toward older individuals create concerns for intergenerational equity.

Finally, and perhaps contrary to popular belief, economists are primarily concerned with individuals' well-being and I think Canadians are interested in supporting the well-being of its seniors through redistribution policies that promote the engagement of older individuals in productive activities. For example, helping community organizations build infrastructure for mentorship and volunteer programs can facilitate the matching of older workers with valuable skills to those parts of the economy that can use those skills most productively. My comment here is most relevant for those individuals who we might think of as involuntarily retired – they have left their careers because of layoff or a deterioration of their health, but they still desire an opportunity to engage productively in the economy.

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Note: All statistics presented below are publicly available from Statistics Canada, unless otherwise stated. CANSIM Table references are provided.

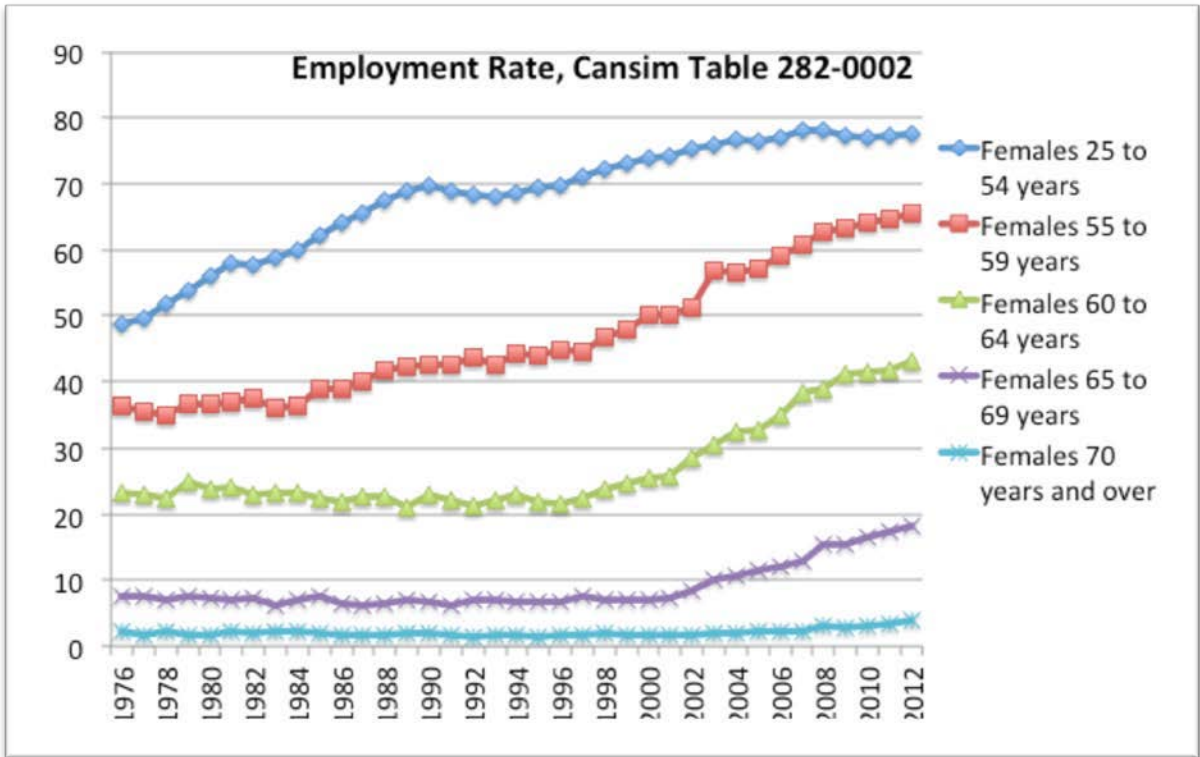


Figure 1. Female employment rates by age group.

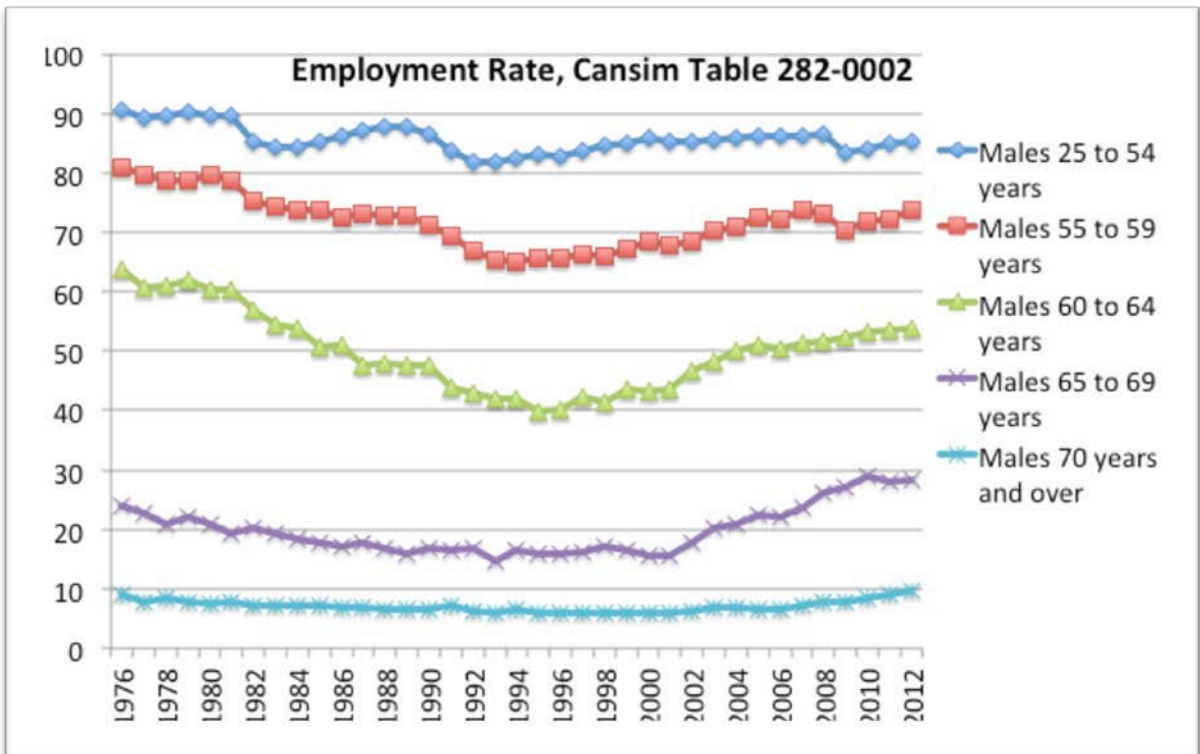


Figure 2. Male employment rates by age group.

Note: the gap between employment and labour force participation tends to close at older ages.

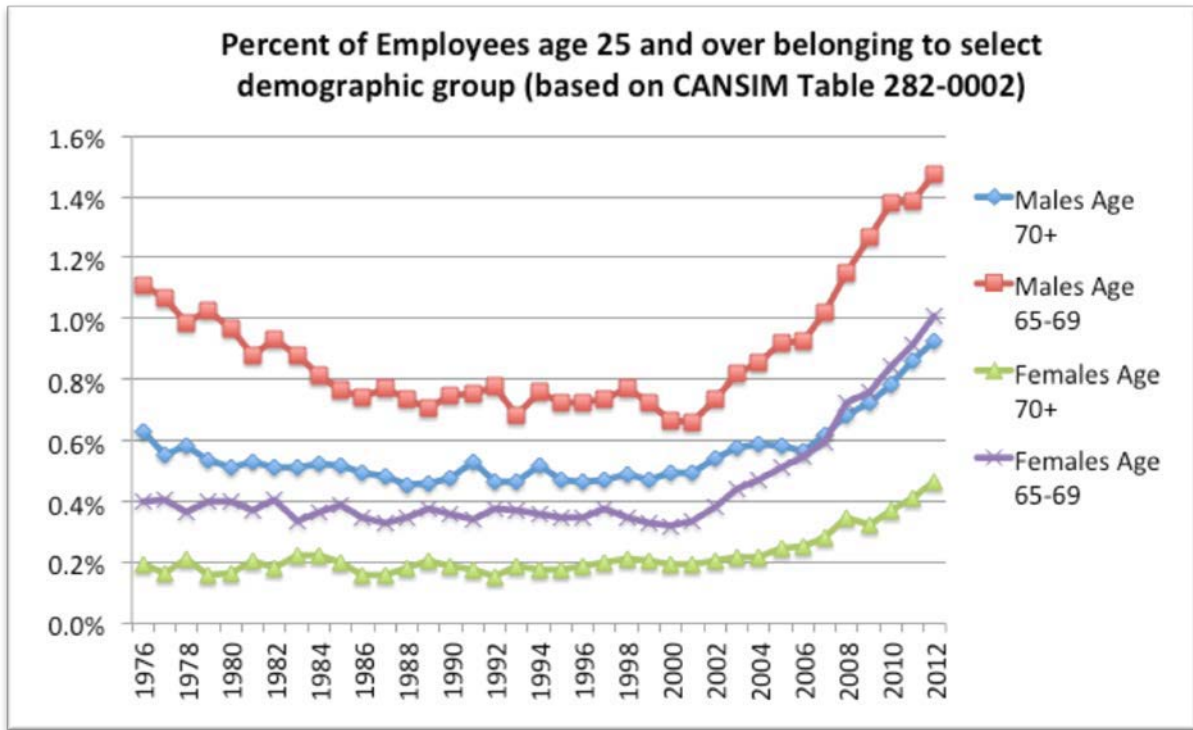


Figure 3. Percent of employees age 25 and over that are in the specified demographic group.

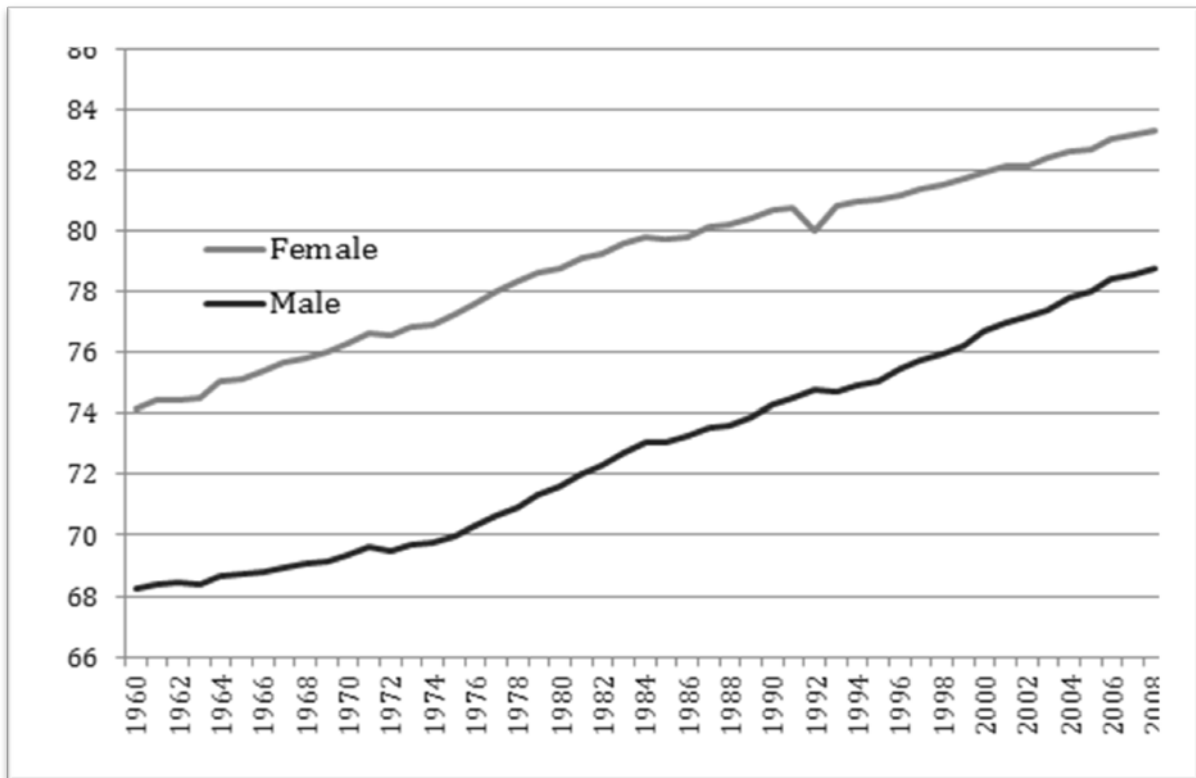


Figure 4: Life Expectancy at Birth in Canada, by Gender, 1960-2008.
Source: Reproduced from Ariizumi and Schirle (2012).¹

¹ Original source is World Bank World Development Indicators. Accessed at <http://data.worldbank.org/indicator>. October 2010.

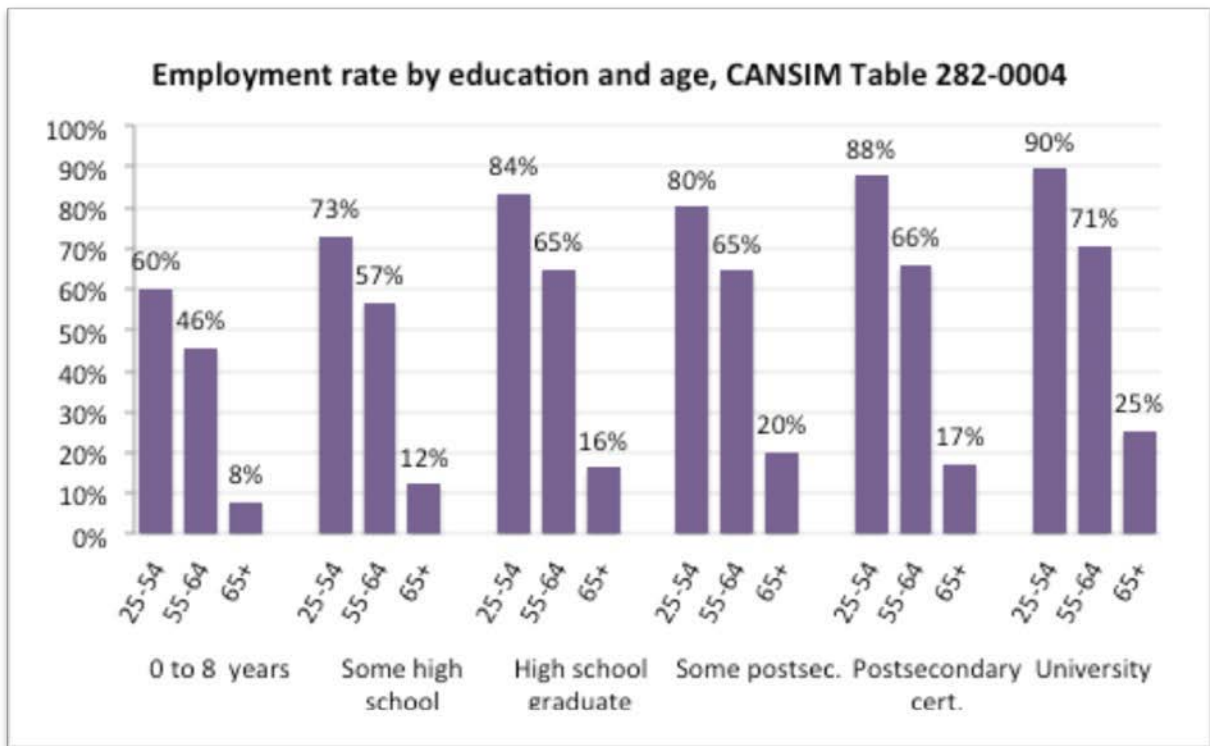


Figure 5. Employment rates of males by age and education group, 2012.

Source: Tabulations based on CANSIM table 282-0004.

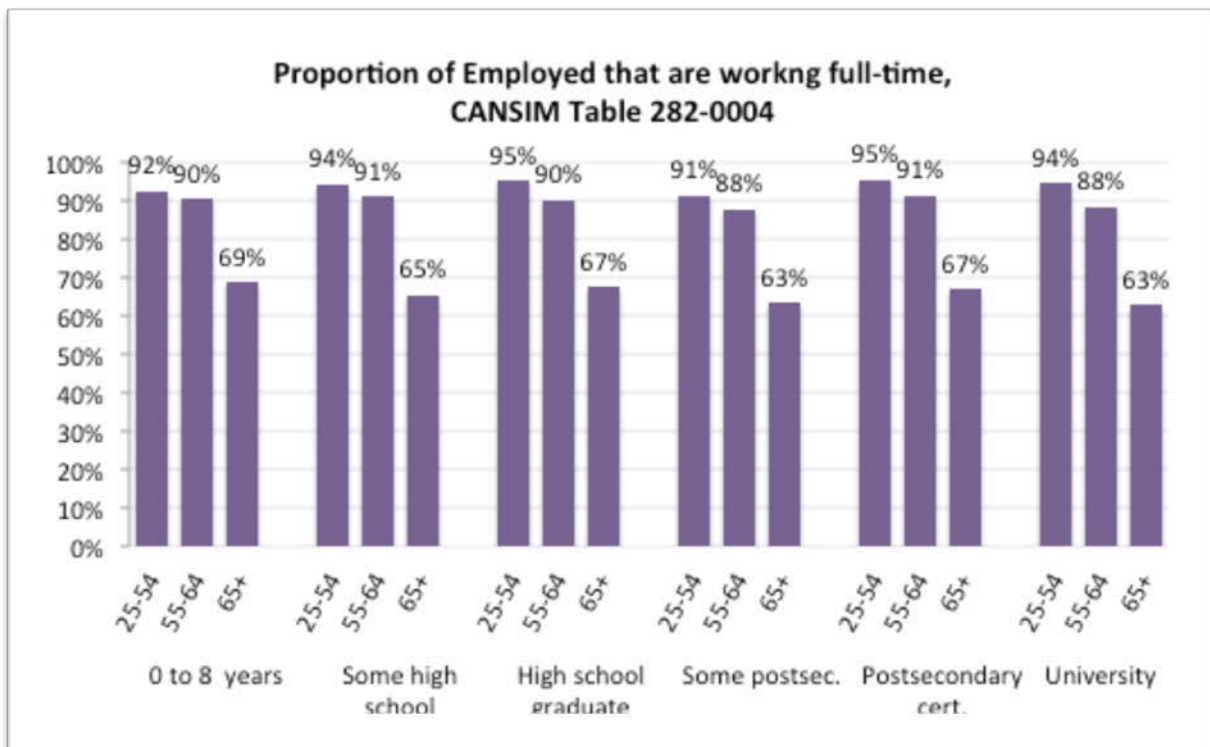


Figure 6. Proportion of employed males that are working full-time, by education and age group, 2012.

Source: Tabulations based on CANSIM table 282-0004.

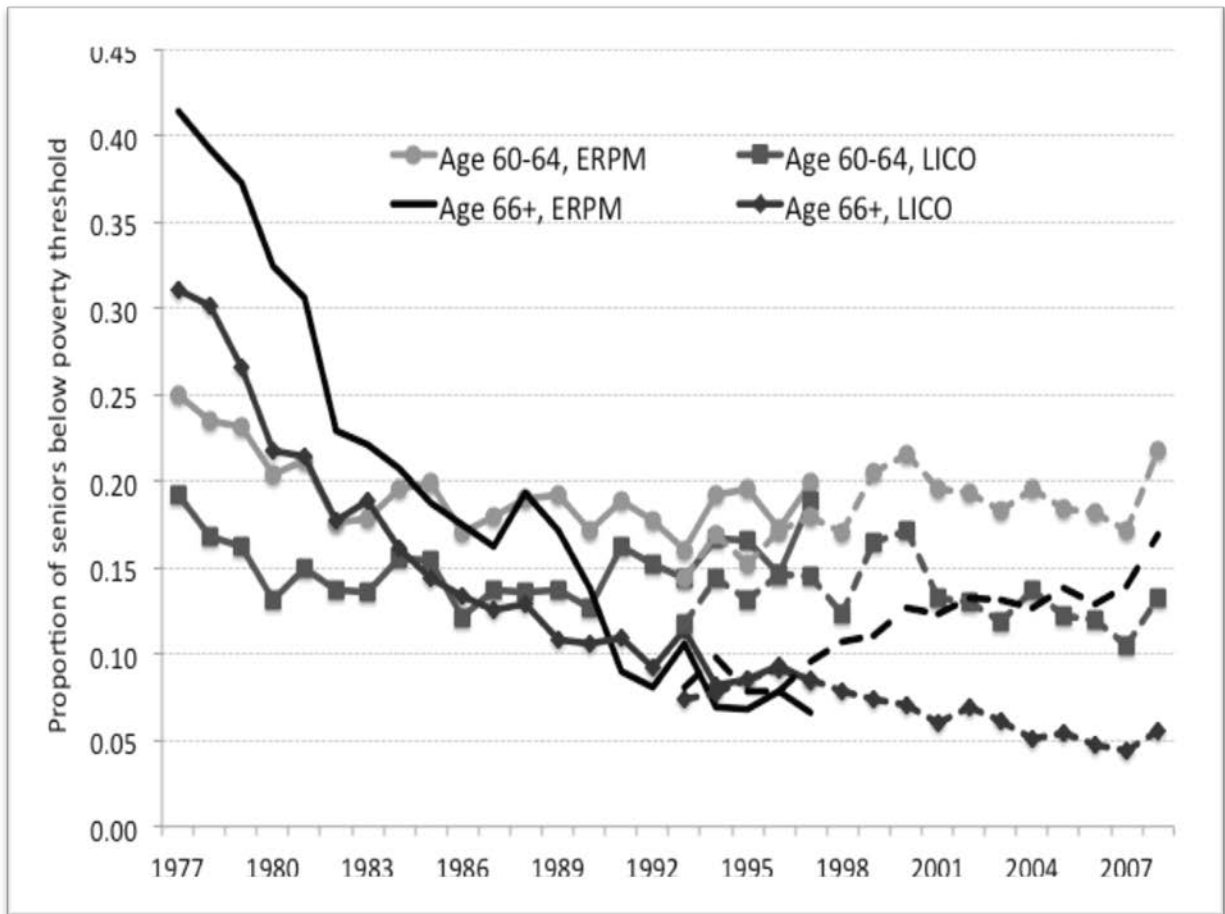


Figure 7. Poverty rates of older individuals, 1977-2008.

Source: Reproduced from Schirle (Forthcoming). Solid line based on tabulations from the Survey of Consumer Finances, dashed line based on tabulations from the Survey of Labour and Income Dynamics. ERPM is the elderly relative poverty measure = $\frac{1}{2}$ the median income of individuals age 25-54. LICO is Statistics Canada's Low Income Cut-off. All figures based on economics family income.