

Labour Market Recovery with More Full Time Jobs

This issue:

- Gradual improvement in labour market in first quarter of 2011
- Overview of employment in SW Ontario's cities for last 15 years

Special feature:

- Retirement saving: Making sense of the policy options

Labour Market News is published quarterly, providing an economist's view of labour market trends and policy issues.

Canadian unemployment rate stayed constant at 7.7% for the first 3 months in 2011, decreasing from an average level of 8% in 2010. At the same time, the employment rate increased to an average level of 61.8%, slightly higher than the average employment rate for first quarter in 2010 which was 61.4%.

Ontario and South-Western Ontario (Hamilton, Kitchener, London, Guelph, Brantford

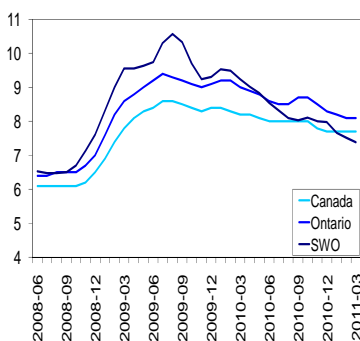


Fig 1. Unemployment rate trends

and Windsor) had more obvious downward trends in unemployment rates. For SWO, the unemployment rate fell gradually overtime, from the peak of 10.57% in August 2009, to 7.38% in March 2011. For the first quarter of 2011, SWO saw a 0.3% decrease in the unemployment rate. In particular, Kitchener's unemployment rate decreased to 6.7% in March 2011, gradually falling from 10.4% in mid 2009 to the pre-recession level of 6%.

Not surprisingly, SWO saw some recovery in employment. The employment rate increased from 60.7% at the end of 2010 to 62% in March 2011. Ontario's employment rate averaged at 61.5% for the first quarter of 2011, a slight decline relative to the peak in mid-2010 but still on an increasing trend compared

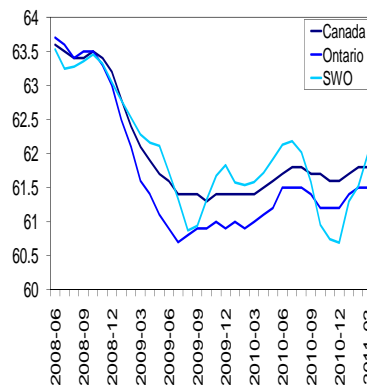


Fig 2. Employment rate trends

to the 4th quarter of 2010 or the average level of 61.2% in 2010.

Most encouraging, there has been a shift from part-time to full-time employment in Ontario. While 58,000 part-time jobs were lost, 63,000 full-time jobs were created. This will result in more hours per worker and therefore higher incomes.

South-Western Ontario Employment Trends: 1996-2011

Between 1996 and 2011, the employment rates of Guelph, London, and Windsor followed the same pattern as the rest of Ontario: employment started to pick up in 1996 and remained stable until the recession in 2008. Since then, some decreases in employment rates occurred. Hardest hit were Guelph and Windsor, despite the fact that Guelph has highest employment rates over this period. Hamilton and Kitchener had the most stable employment rates overtime, averaging 62.3% and 66%.

There are some interesting deviations from the general pattern. The employment rates of Brantford have increased over time, but show the

most variation. Brantford had the lowest employment rates among all six cities from 1996 to 1998. Brantford also had decreasing employment rates over this period. Coupled with falling unemployment rates, however, it appears that many workers became discouraged and subsequently dropped out of the labour force. Windsor's

employment rates have fallen from 58.4% in early 2007 to 56.4% this quarter. The downward trend would relate to plant closures and significant job losses in the automotive manufacturing industry. Therefore not surprisingly, its unemployment rate during this time was the highest among all the cities.

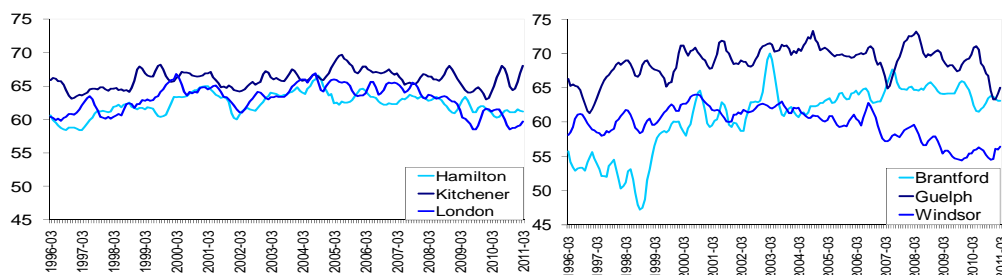


Fig 3. South-Western Ontario Employment Trends, 1996/03 to 2011/03



Labour Market News

Retirement Savings: Making Sense of the Policy Options

The need for policy change

There is healthy disagreement among economists on pension policy, but economists will agree that a typical retiree today is much better off than their parents ever dreamed, and are likely better off than their children can ever hope to be. Research suggests the majority of current retirees have enough income to maintain their pre-retirement living standards. We often see replacement rates well over 100% for the lowest income groups and over 70% for middle and high income retirees.

There is one important gap, however – for modest earners who do not have an employer-provided pension. Representing roughly 20 percent of current retirees, these are typically workers who earned more than \$30,000 per year. For various reasons, markets failed to help these people save enough for retirement. As pension coverage continues to decline in Canada, and private investment options seem more complicated, there are concerns this gap will grow.

General expansion of the Canada Pension Plan

CPP offers all working Canadians a defined benefit pension income, the most secure income most retirees can rely on. Recent changes to the benefit calculation reduce the expected monthly benefit of anyone retiring before age 65, by up to (roughly) \$60 per month. A general expansion of CPP would increase the monthly benefit for all retirees, but also increase contributions. This could fill important gaps. However, this is not needed by many middle and high income retirees, and any increase in CPP benefits will lead to low-income retirees' GIS benefits being clawed back.

Voluntary Supplement to the CPP

Many agree adding a voluntary component to CPP that acts as a defined contribution pension plan (effectively a high interest savings account) is an excellent policy option. The CPP Investment Board achieves a reasonable return on investments and contributors won't pay the high fees required by fund managers in the private sector. It's easy to set up and commit to, with employers submitting additional CPP contributions on behalf of employees. Employers could choose to supplement the employees' contributions. The details are important – we need to prevent a situation where non-contributors subsidize returns when the market isn't performing well.

Pooled Registered Pension Plans

The PRPP involves some legislative changes that would allow small and medium-sized businesses to pool their resources to offer pensions to their employees. This would work through the private sector, with part of the investment return being used to cover the usual fees and commissions of fund managers. It is not clear how many employers would start offering pensions to employees in response to legislative changes. It is doubtful this option will help individual employees whose employers don't want any part of it.

RRSPs and TFSAs

One option is to allow greater tax-preferred savings through RRSPs and TFSAs. While this may increase the disposable income of many middle and high income families, this option would not address the market failures that lead to under-saving among modest earners.

Increasing the Guaranteed Income Supplement

GIS is an income-tested benefit offered to families collecting Old Age Security pensions. Currently, a couple over age 65 with family income under \$21,120 can receive benefits. Benefits are clawed back (at 50 cents on the dollar) for wage, pension, and CPP income. A general increase in the GIS could reduce poverty rates among seniors. While some exemptions for wage income are in place, any increase in CPP benefits will lead to a reduction in the lowest-income seniors' GIS benefits. These clawbacks to GIS benefits should be an important consideration in any pension policy discussion, as they create terrible disincentives to work and save under any of the policy options.

A Voluntary Supplement to the CPP is the best policy option. Without clear policy intervention we can expect the group with inadequate savings to double, from roughly 20 percent of current retirees to more than 40 percent of retirees in 2040. A Voluntary CPP provides a low-cost option to improving the retirement security of Canadians, with relatively small start-up costs. On its own, many middle and high wage workers would benefit from the program. An additional income exemption to the Guaranteed Income Supplement would allow low wage workers to benefit as well, permitting them to save a small amount for retirement without facing serious cutbacks to their GIS benefits.

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