WELCOME

WELCOME TO THE SECOND EDITION OF PENSION POINT OF VIEW, where you will find industry insights and ideas on pension trends and plan design, relevant to the plans we administer.

In our feature article, “Move Over Freedom 55,” we look at the growing trend of continuing to work late in life, a topic that kept coming up at the conferences I attended this year. Here, we take a magnifying glass to the trend’s possible implications.

I hope you find this latest edition a valuable resource in support of your work. Once again, I welcome any comments and suggestions for specific topics you would like featured in future issues.

Aaron Walker-Duncan
Director, Policy Branch
aaron.walker-duncan@pensionsbc.ca

FEATURE

Not all retirees want to—or can—sail off into the sunset. Some get jobs. Should pension plans be doing something about that? READ HERE

FACTUAL SNIPPETS

The numbers have it—let’s put our pension plans in context by looking at 15 years of data from Fortune 500 employer pension plans. READ HERE

STATS AT A GLANCE

If you’ve ever wondered about average contribution and investment revenues per active member in trustee pension plans—private and public sector!—it’s your lucky day. READ HERE
WHY IT MATTERS

Retirement trends may cause us to question existing pension plan design and consider plan options. Obtaining a better understanding of what drives these trends thus seems desirable, if not imperative.

Preliminary research into the growing phenomenon to work later in life reveals most post-retirement employment is distinctly different from earlier main career jobs. This is particularly true for older workers who leave their long-term career jobs with employer-sponsored pension plans to pursue more casual employment opportunities.

These findings suggest this trend to work later in life will largely play out in employment outside of the pension plans we administer. The impact of pension plan design on older workers’ choices is, at best, ambiguous.
Where’s the evidence?

Conclusive data on post-retirement employment is still scant and, at times, seemingly conflicting. This may be due to inconsistencies in applied key research definitions; it is clear there are considerable variations across jurisdictions.

- One EU study found that the employment rate for people aged 65–69 increased from 8.4 per cent in 2004 to 11.1 per cent in 2013.
- According to a Dutch study, approximately 30 per cent of retirees participate in paid work.
- Broader European research indicates just over 10 per cent of European males aged 55–70 in a career job at age 50 moved to a bridge job, compared to 60–75 per cent of older workers in the U.S., depending on age cohort.


Lifestyle choices versus financial necessity

The decision to work after retirement depends on many factors, such as age, health status, the spouse’s employment status, educational attainment (higher education increases the likelihood of working post-retirement), children living at home, debts and whether retirement was voluntary. Importantly, the existence of an employer-sponsored pension plan decreases the likelihood of a return to work, as does public and quasi-public sector employment, albeit with regional variations.

A 2014 survey of Ontario Municipal Employees Retirement System pensioners revealed that 28 per cent continued to work at least part-time, and most in a different second career, to primarily “get out of the house.” In contrast to flexible or phased retirement, motives for more casual and typically lower-paying bridge employment are mostly intrinsic; older workers look for outside stimulation and ways to psychologically ease the transition between life phases.

Financial reasons are more important in the U.S., where a shift over the past 30 years from defined benefit to defined contribution plans and a consequent do-it-yourself approach to retirement have left many Americans vulnerable to fluctuating markets.

The availability of part-time jobs for older workers is another determining factor. Older male Mediterranean workers stay considerably longer in their main career jobs than their northern European counterparts, who enjoy much better access to post-career part-time jobs. A related factor is the official earliest retirement age (ERA). Enticed by the promise of more leisure time,
northern European workers, who have access to less demanding bridge jobs, are more likely to retire from their main career jobs if the ERA is higher.

Early retirement provisions may influence retirement decisions. The Task Force on Retirement, created in 2012 by the Canadian Institute of Actuaries to address the implications of increased life expectancies in Canada, recommends a possible reduction or elimination of early retirement incentives that promote longer working lives but cautions against farther-reaching policies, such as financially penalizing those who choose to retire at their own expense. However, it suggests the trend toward staying longer in the labour force will continue, regardless of public policy.

All of which is to say

Pension plans must consider retirement trends; yet, the lines between policy, plan design and older workers’ retirement choices are blurry. Research indicates that, although choices are influenced by a host of external factors, intrinsic factors—things like “wanting to get out of the house”—may be more important to “retirees” with existing pension plans. For plan members approaching retirement age, lifestyle choices rather than necessity are most likely to drive transitional retirement pursuits which, for all we know, may largely take place outside the plans we administer.

Sources


Older workers look for outside stimulation and ways to psychologically ease the transition between life phases
The following data snippets show our pension plans within the broader context. They chronicle a 15-year evolution of Fortune 500 employer pension plans and share two projections: a comparison of the Age Dependency Ratio in select OECD (Organisation for Economic Co-operation and Development) countries and the distribution of Canada’s 65-plus population.

### EVOLUTION OF FORTUNE 500 RETIREMENT PROGRAMS

Nearly half (48 per cent) of Fortune 500 employers have not changed their retirement plan structure since 1998. Thirty-eight per cent were a defined contribution structure only throughout this period. Only 10 per cent retained the same defined benefit structure from 1998 to year-end 2013.

### AGE DEPENDENCY RATIO

As in other developed countries, Canada’s population is rapidly aging. Increased life expectancy and lower fertility rates following the baby boom have contributed to this effect. Of the countries listed, Canada is the only one whose Age Dependency Ratio—the ratio of those aged 65-plus to the working population aged 20–64—is forecasted to more than double between 2010 and 2050.
DISTRIBUTION OF CANADA’S 65-PLUS POPULATION

The percentage of Canada’s population aged 65 years and older is projected to more than triple between 1971 and 2060. During this same period, the percentage of Canadians aged 75 years and older is projected to see a fourfold increase. The greatest percentage increase is projected for the population segment over 85, rising from 0.5 to 5.7 per cent. The greatest aging shift is projected for the years 2020 to 2040.

Distribution of 65+ population, 1971–2060, Canada (percentage)

Sources: Statistics Canada, CANSIM tables 051-0001 & 052-0005 (medium-growth projection scenario)
BC Pension Corporation
Trusteed pension fund revenues from private sector employee contributions have remained comparatively flat over the years. Average employer contributions per active member within both the private and public sectors rose and fell at similar rates until 2008. By 2012, however, in the wake of the global recession, private employer contributions per active member surpassed those of the public sector.

Public sector investment revenues have been considerably higher than private sector investment revenues—frequently more than double. Higher public sector contributions will presumably have contributed to this phenomenon. In 2012, the combined public sector employer-employee contributions per active member was $10,788 ($6,137 + $4,651). The corresponding private sector figure was $7,385 ($6,519 + $866).

Average Annual Contribution and Investment Revenues per Active Member, Trusteed Pension Funds, Public and Private Sector, Canada, 1992–2012

Sources: Statistics Canada, CANSIM Tables 280-0006 & 280-0008

BC Pension Corporation