Retirement and Retirement Ages in Canada Revisited

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Abstract

This paper addresses some of the issues arising from the combination of lower birth rates and increasing life expectancy, which have become more pronounced over the past 40 years in Canada (and many other countries, too). The expected result of these changing demographics, if current trends continue, is for the “senior dependency ratio” to almost double from its current 20 percent level over the next 20 years, and to continue increasing (albeit at a slightly lower rate) after that. In this connection, the term “senior dependency ratio” refers to the proportion of the population at or above the customary retirement age (currently 65) to the number of people in the “working age group” (currently deemed to be 18-64).

The paper examines the effect of a gradual increase in retirement ages in order to attempt to maintain the “senior dependency ratio” at or close to its current level. It concludes that even after allowing for continuing immigration at relatively high levels, the customary retirement age would need to increase to 70 by 2025 in order for this ratio to remain close to its current level. However, further increases would be required after that unless there are significant changes in the demographics. A “customary retirement age” as high as 74 may be necessary by 2050 to maintain a 20 percent ratio.

It is concluded that there need to be some major changes to the concept of retirement in the coming years. In particular, the encouragement of phased retirement programs is felt to be a high priority, as also is the need for a much greater degree of flexibility in retirement arrangements in general. For such processes to succeed, there will need to be some major changes in outlook and attitude by employers and employees. However, even then, the possibility for change will be limited unless government is prepared to make changes to certain of the rules and regulations that govern the operation of pension plans in Canada.