

# Risky Retirement and the Role of Public Policy

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Income, Health, and Social Programs in an Aging Population

## Risky Retirement

How well does Canada's RIS protect our seniors against risk?

- 1 Low income at the onset of retirement
- 2 Longevity and loss of a spouse
- 3 Recessions
- 4 Decision-making

Milligan and Schirle (2013)

*Today - focus on health and life expectancy.*

## Risky Retirement

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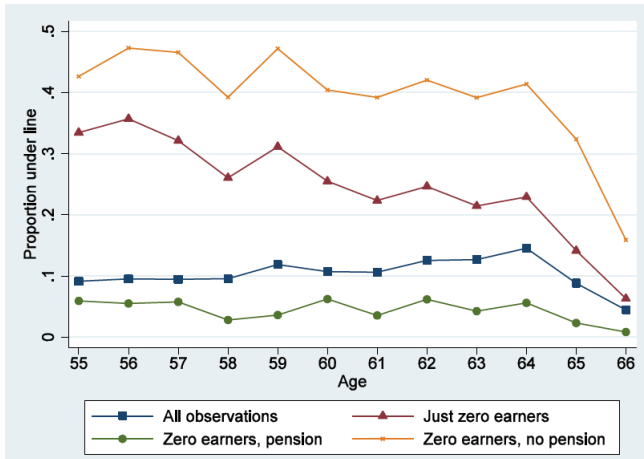
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# The Risk of Low Income at the Onset of Retirement

## Later Retirees (age 65+)

- 6% below after-tax LICO in 2008 (Schirle 2013)
- 30% using GIS (Finnie, Gray, Zhang 2013)
- Lifetime earnings and labour market experience
- Health

# The Risk of Low Income at the Onset of Retirement



Source: Reproduced with permission from Milligan (2013)

# The Risk of Low Income at the Onset of Retirement

## Early Retirees (before age 65)

- Lifetime earnings and labour market experience
  - Education
  - Employer-sponsored pension
- Health
  - Milligan (2013) - among 60-64 year olds, increases likelihood of hardship, particularly among non-earners.
  - Schirle (2010)

## Health and Involuntary Retirement

### Health, Pensions, and the Retirement Decision

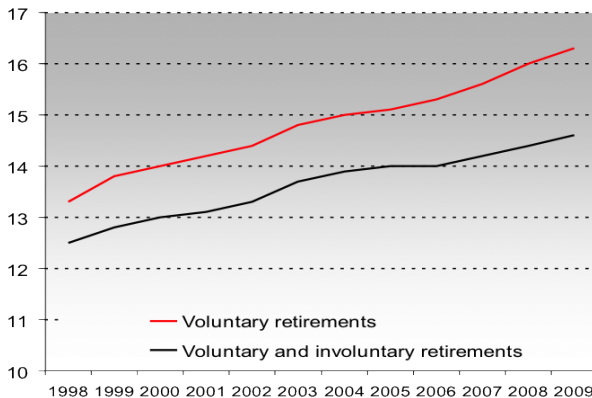
	Poor Health	Poor Past H.	New Disability	Small Shock	Large Shock
Health Indicator	.250	.245	.094	.021	.082
Pension Accrual	-.018	-.018	-.020	-.019	-.019

Covariates include age, province, sex, marital status, spouse's retirement, spouse's health, kids, pension wealth, lifetime earnings and experience. Represents age 50-68, 1996-2001.

*Source: Schirle (2010)*

## Involuntary Retirement

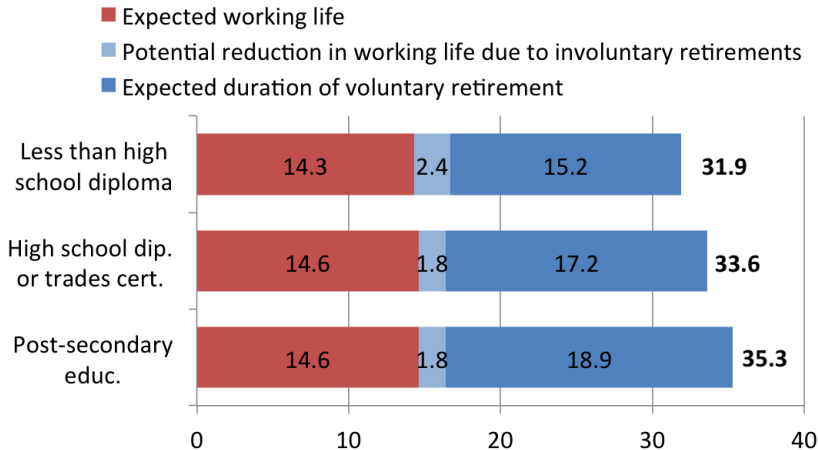
Male expected working life at age 50 (years)



Source: Reproduced with permission from Carrière and Galarneau (2012)  
Involuntary - laid off, sick, disability, care for family member.



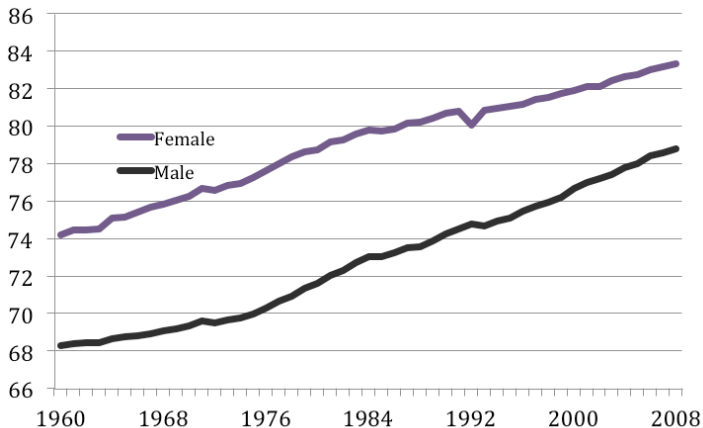
## Who is at risk of involuntary retirement?



Source: Reproduced with permission from Carrière and Galarneau (2012)

## Longevity Risk

Life Expectancy at Birth



Source: Reproduced from Ariizumi and Schirle (2012)

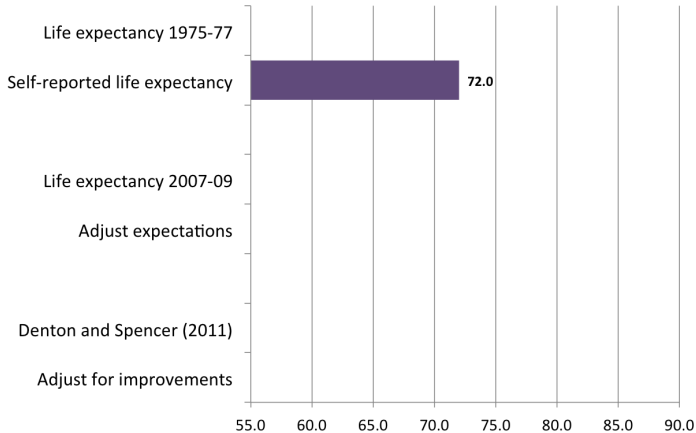
## Longevity Risk

Higher life expectancy  
 $\neq$  Greater longevity risk

- Longevity risk is the risk that mortality outcomes turn out differently than expected.
- Individual - risk of living longer than expected, facing serious poverty if risk isn't covered.

## Longevity Risk

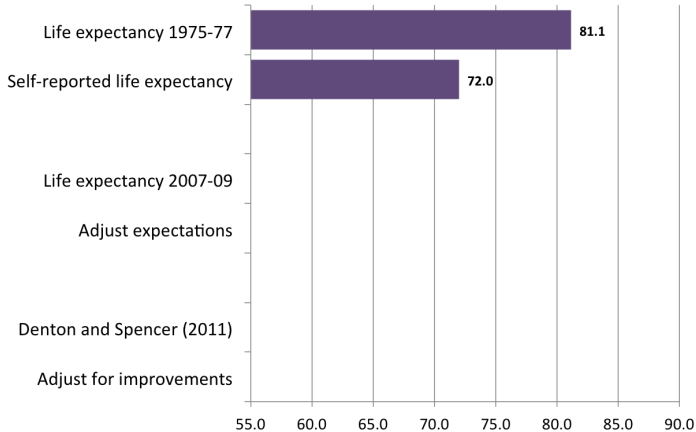
E.g. 55-year-old female:



*Underestimate health relative to others at same age?*

# Longevity Risk

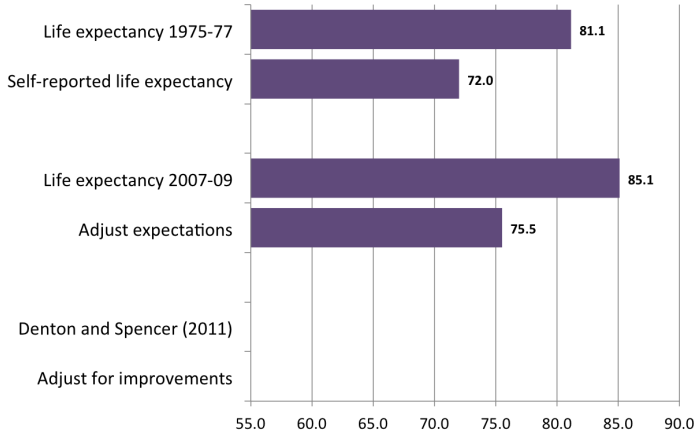
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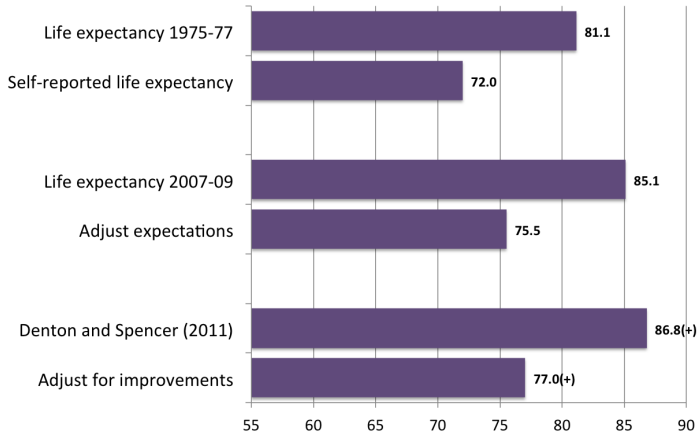
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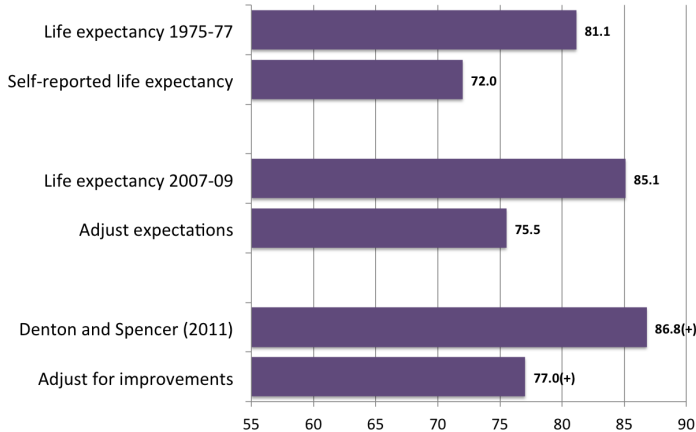
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## Longevity Risk

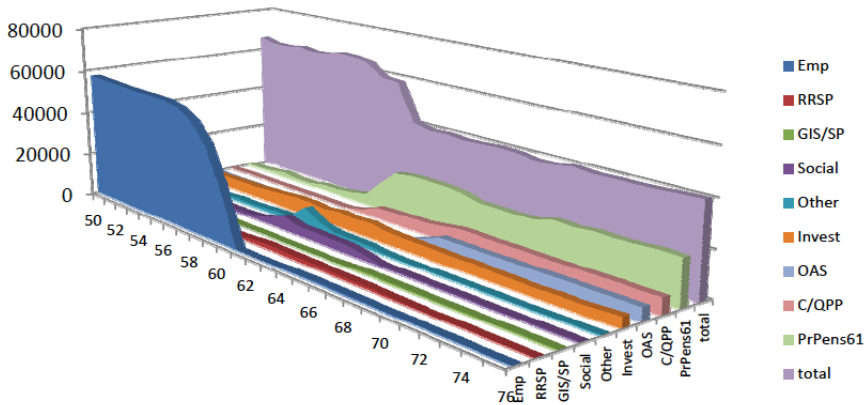
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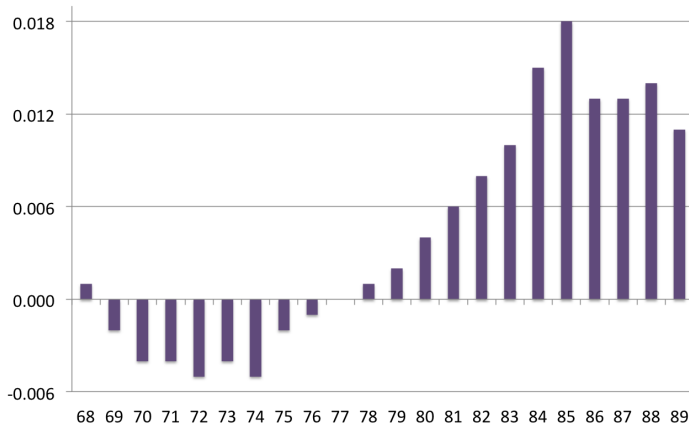
## Evidence of Longevity Risk and Earnings Replacement?



Income by source and total, 1982 male cohort, retirement at age 61.  
Source: Reproduced from Finnie and Spencer (2013).

## Evidence of Longevity Risk & Low Income?

Effect of age on GIS entry hazard



Source: Finnie, Gray and Zhang (2013)

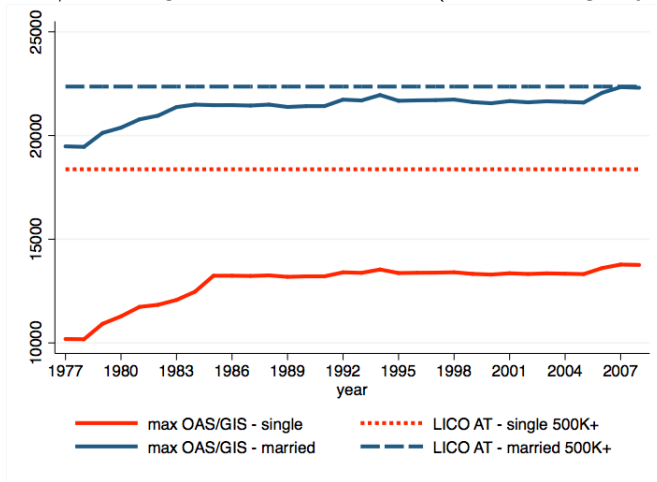
## Risk of losing a spouse

Complete insurance against the loss of a spouse would imply living standards do not change when a spouse dies.

- Married women age 55-59 with zero earnings were 31% pts less likely below LICO than unmarried women, larger effect for men - Milligan (2013)
- Married age 65+ 10% pts less likely below LICO than unmarried - Schirle (2013)
- Controlling for permanent income, single females are less likely than single males to rely on GIS - Finnie, Gray & Zhang (2013)
- Changes to marital status raise GIS entry hazard - Finnie, Gray & Zhang (2013)

## Canada's RIS and these risks

OAS/GIS mitigates risk of low income (at onset, longevity, loss of spouse)



## Canada's RIS and these risks

- GIS protects against low income at the onset of retirement
- GIS partially mitigates longevity risk and loss of spouse by preventing severe hardship
  - Not designed to maintain standards of living
- CPP & defined benefit plans designed to partially cover longevity risk
- CPP disability benefits partially cover health risks (up to age 65)
- Annuities market in Canada needs improvement (Nielson 2012)

## Canada's RIS and these risks

### Policy Questions (*50 years later...*)

Why do some seniors 'deserve' more protection than others?

- OAS/GIS eligibility at age 65 (67)
- OAS universal (except immigrants)
- Age 60-64 spouses, widows, not divorcées
- Home-owners vs. RRSP-holders

Why is the system still designed to favour the single-earner family?

- GIS provisions for spouses and widows
- Pension-splitting
- Cap on CPP survivor + retirement/disability benefits limits insurance against loss of spouse

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