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Working while receiving a pension: Will double dipping change the elderly labour market?

Kevin Milligan
Department of Economics
University of British Columbia
kevin.milligan@ubc.ca

and

Tammy Schirle
Department of Economics
Wilfrid Laurier University
tschirle@wlu.ca

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1.0 Introduction

Receiving a pension while working often attracts great public controversy, especially when it involves tax dollars. A recent episode in Ohio has generated several strongly-worded reactions, such as this one:

> *"I find the whole practice by and large very offensive, and there is no shortage of people in Hamilton County who I think have frankly scammed the system for their own benefit, which is just wrong," Commission President Todd Portune said.*
>
> Cincinnati Enquirer, Tuesday August 28, 2007

So-called 'double-dipping' is also controversial in Canada. In 2005, a Toronto MP complained about former MP and Royal Canadian Mint President David Dingwall:

> *Toronto MP Jim Karygiannis said Dingwall already gets an MP's pension and that's all he deserves. Dingwall sat in Parliament from 1980 to 1997 as a Liberal MP and cabinet minister. "He was in here for 16, 17 years. He's got a pension. We can't double-dip. It's a healthy pension," Karygiannis said.*
>
> CTV News, October 5, 2005.

There are three potential sources of the public outrage over double-dipping. First, there may be a concern that the total lifetime pension payout to these recipients may be higher than if they waited to initiate their pension until they stopped working. Second, some might worry that a pension recipient ought to retire in order to 'free up' a job slot for a new employee. Third, if one views a pension as a gift of a beneficent employer, then continuing to work could be seen as an abuse of the payer's goodwill. No matter whether these arguments survive more serious scrutiny, they do appear influential in determining public opinion.[1]

Many economists, on the other hand, might view 'double-dipping' from a less critical perspective. In the standard personnel economics view, pensions are a form of deferred compensation.[2] Once rights to the deferred compensation have accrued to the employee, the timing of the payments is for the most part irrelevant.[3] That is, the decision of when to consume the accumulated wealth of deferred compensation in theory should be largely irrelevant for decisions about how much and whether to work.

In a fascinating turn of events, recent changes in the labour market appear to have swung policy pressures in the direction of the standard economists' position. Persistent, low unemployment levels combined with the coming retirement of the baby boom generation have led to concerns about labour shortages. One policy response to perceived shortages is to attempt to extract more labour supply from the existing population, through means such as encouraging later retirements or more work in the pre-retirement period. Previously in bad taste with the public, double-dipping has now become the flavour of the month.

[1] The first concern is irrelevant if pensions are actuarially adjusted for early uptake or if a worker who has reached her maximum pension entitlement returns to work when the alternative would be to draw the same pension while not working. The second concern represents the classic 'lump of labour' fallacy and should be dismissed. The third concern suggests that pensions are something other than deferred compensation; that employees did not already implicitly pay for their pensions through lower wages when younger. The empirical evidence (e.g. Hutchens 1987) supports the notion of deferred compensation.

[2] See, for one example, Lazear (1990).

[3] One argument for paying pensions only after retirement is to ensure worker effort in the final years of employment (e.g. Carmichael 1989). However, if pension rights already have been accumulated based on past performance, they will be received independent of worker effort going forward. So, for pension rights that are unconditional on future performance, the timing of payment is irrelevant in the absence of liquidity constraints.

The recent federal budget embraced this approach. Citing a need to plan for an aging workforce and to keep experienced workers in the labour market, the 2007 federal budget announced plans to change the regulations to allow what was called 'phased retirement.' One channel through which the federal government affects pension provisions is the Income Tax Act. Only those pension plans satisfying the requirements set out in the regulations to the Act may qualify for the advantaged treatment of a Registered Pension Plan. Until now, the regulations have prohibited benefit accruals after the day of retirement.[4]

The proposal for new regulations aims to change this prohibition. Although the budget was released on March 19th, 2007, the new regulations had not been made public at the time of writing of this paper.[5] According to the Canada Revenue Agency (2007), the new regulations will have the following features:

- New regulations will only apply to defined benefit plans.
- Accruals while working will now be allowed under certain conditions.
- No limit on how much work – full time or part time.

[4] Section 8503 (3) b of the Income Tax Regulations reads:

> *"Benefits are not provided under the provision . . . to a member in respect of a period that is after the day on which retirement benefits commence to be paid to the member under a defined benefit provision of . . . the plan . . ."*

Moreover, the first item in Section 8502 describing the Primary Purpose of the section reads (emphasis added):

> *"The primary purpose of the plan is to provide periodic payments to individuals **after retirement** and until death in respect of their service as employees."*

[5] The Budget Implementation Act (Bill C-51) received Royal Assent on June 22nd. However, the new 'phased retirement' regulations were not included in this Act. On the Canada Revenue Agency website, it is suggested that there will be "an appropriate period of consultation on the technical aspects of this measure," and suggests that new measures will not be implemented until 2008. (Canada Revenue Agency 2007)

- Employees must be at least 55 years of age and be in a Registered Pension Plan that would provide a full, unadjusted pension if the employee retired.
- The maximum pension would be 60 percent of the full pension that would be payable if the employee retired.
- Not mandatory—an employer may choose to offer this or not.

While these new regulations might give employers some additional flexibility, it is not clear how wide the impact of these measures will be. Only 32.6 percent of the labour force is current covered by a Registered Pension Plan, and a growing (although still small) proportion of these are in a defined contribution plan. Moreover, the law firm McMillan Binch Mendelson (2007) noted in their review of the 2007 budget that only a "… limited number of plan sponsors . . . provide full unreduced pensions at age 55."

To directly evaluate the impact of this policy change, one would need detailed information on pensions, work, and preferences about retirement. We don't know of any data that would allow that depth of analysis. Instead, in this paper our goal is to provide some analysis on the potential impact of the policy more indirectly. We do this by attempting to answer the following three questions: How much do the elderly actually work? How strong is the current joint incidence of work and pension receipt? Do the retired actually want to work more? The answers to these questions may be useful in understanding the extent to which changes in pension regulations may increase employment among the elderly and near-elderly. In what follows, we provide evidence on each of the three questions. The paper then closes with a discussion of the evidence and the prospects for pension policy to influence the broader labour market.

2.0 Long run trends in elderly employment and pension coverage

We begin by laying out the long-run trends in elderly and near-elderly employment. Using the Labour Force Survey, we construct a consistent time series of employment rates for males and for females from 1976 to 2006. We use three age groups: age 55-59, age 60-64, and age 65-69. Figure 1 displays the graphs for males. All three lines follow the same broad U-shaped trend with a trough in the mid-1990s. Schirle (2007) finds that a leading explanation for the rebound in male employment is a desire for joint retirement with spouses. For the age 55-59 group, employment rates decline moderately from over 80 percent down to around 70 percent. The decline among the 60-64 year olds is stronger, as the employment rate drops by more than one third from 64 percent in 1976 to 40 percent in 1995. Finally, while there is also a slight rebound for the 65-69 year old men, the overwhelming impression from this graph is that few men work past age 65.

Figure 2 shows the employment rate for females in the same three age groups. The female employment rates are everywhere lower than males of the same age. The time trend in all three age categories is quite flat until the mid-1990s. Schirle (2007) shows that this increase in female employment largely reflects cohort differences in lifetime labour market participation—the women arriving in near-elderly ages in the late 1990s were those who were at the vanguard of the increase in female labour market participation in the 1960s and 1970s.

Next, we turn to the trends in pension coverage. We graph the proportion of the labour force (age 15+) who are currently members of a Registered Pension Plan (RPP), and then break out the proportion in defined benefit plans and defined contribution plans. The result appears in Figure 3. From 38.5 percent in 1978, the coverage rate has dropped to 32.6% in 2006. While the large majority of members are in defined benefit plans, the proportion in defined contribution plans has more than doubled over the last 30 years. It is important to remember that this measures membership at one point in time. Milligan (2005) shows the cross-cohort pattern of pension coverage using the 1999 Survey of Financial Security. In that data, coverage peaks when workers are ages 49-51 at a little over 50 percent. Moreover, around 10 percent of the sample had pension entitlement from a past employer.

3.0 The joint receipt of pension income and earnings

How strong is the current joint incidence of work and pension receipt? Using the 2003 Survey of Labour and Income Dynamics (SLID), we present the proportion of individuals with positive income in the form of wages or retirement pensions at each age, from age 55 to 69, in Figure 4. Consistent with the employment rates presented in Figures 1 and 2, the proportion of individuals earning a wage or salary declines steadily with age. As these individuals leave employment, many pick up a retirement pension. On average, 11% of individuals age 55-69 received both retirement pension income and wage income in 2003.[6] The joint receipt of wages and pensions appears most likely between the ages of 61 and 65.

[6] It is important to note that the variable recording retirement pension income in SLID (pen42) includes income from registered pension plans and superannuation and annuities. This excludes RRSP withdrawals and includes RRSP annuities and RRIF withdrawals. As such, we might be slightly overstating the proportion collecting a retirement pension from an employer, in particular if individuals under the age of 69

This does not imply, however, that 11% of these individuals are simultaneously receiving wage income and retirement pension income. Rather, it partly reflects the fact that incomes are reported on an annual basis and that people enter retirement throughout the year. That is, employment and retirement may be sequential but in annual data for the transition year both employment income and pension income will appear. In Figure 5 we display a series of monthly labour force participation rates within the sample of individuals who received both wages and pensions in 2003.[7] In January 2003, their participation rate was nearly 50%. By December 2003, the participation rate of this group had fallen to under 40%. This suggests that the actual proportion of Canadians receiving both employment income and pensions is on the order of 0.40*0.11 = 4.4 percent. Based on recent population estimates, this represents less than 211 thousand individuals or less than one percent of the Canadian population age 15-69.[8]

What characterizes the individuals likely to receive both wage and retirement pension income? In Table 1 we present the results of a simple logit model used to predict the likelihood of joint wage-pension receipt among 55-69 year olds. The dependent variable here is a one-zero indicator for having both wage and pension income. Reported in the table are both logit coefficients and the implied marginal effects. The marginal effects can be interpreted as the change in the probability of having both types of income associated with each of the regressors, relative to the excluded category.

The results yield few surprises. Consistent with the results in Figure 4, individuals between the ages of 61 and 66 were most likely to receive both pensions and wages in

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are converting their RRSPs to RRIFs. Comparisons made with evidence in other surveys suggest this does occur, but quantitatively the occurrence is negligible for the purposes of this study.

[7] As a measurement issue, the monthly participation rates represent a great deal of churning in the labour market as well as individuals staying in permanent employment through the year.

[8] Based on the 2006 population estimates from Statistics Canada (2007)

2003. At age 65, individuals are predicted to be 10.4 percentage points more likely to have joint pension and wage income than are 55 year olds. Education is also a significant predictor of joint wage and pension receipt, as individuals with a university degree were 12 percentage points more likely than individuals with less than high school graduation to receive both pension and wages in 2003. Similarly, men and native-born Canadians are more likely to receive both forms of income, in part reflecting the higher likelihood of these groups to have access to a pension. Across provinces, individuals in British Columbia are the least likely to receive both pension and wages while those in Ontario are the most likely.

4.0 Do retirees want to work?

The previous section reported evidence that only around 4 percent of Canadian elderly workers are currently receiving both employment income and a pension. This may suggest that new policy initiatives in this area will not meet with large-scale demand. On the other hand, it is also possible that many who are currently retired or currently working in this age range would have chosen a phased retirement if it had been available. If given the opportunity to enjoy their pension while continuing in employment, how many retirees would want to continue working? While it is impossible to quantify this precisely, we have turned to the 2002 General Social Survey which asks retirees of their preferences for retirement and the circumstances under which they would have continued working for an employer instead of retiring. A similar analysis by Schellenberg, Turcotte, and Ram (2005) of the same data focused on why those who returned to work did so. They find that the plurality (38 percent) of respondents returned to work because of financial considerations. They also find that 45 percent of those who did return to work did so on a part-time basis.

We focus in our analysis on three questions: why respondents retired, the circumstances under which they would have continued working, and the desired intensity of post-retirement work. The responses are summarized in Table 2.[9]

When asked why they retired, the most popular reasons among retirees indicates that most people really want to leave their jobs. The most common reason for retiring is that individuals simply want to do other things (63% of 60-64 year olds). Many retirees appear to wait until they had enough years of pensionable service to collect their pension (over 47%) or retirement was financially possible (over 69%).

There is some indication that not all retirements are entirely voluntary. For example, 25% of 55-59 year olds retirees were offered early retirement incentives and 27% of 65-69 year olds left their jobs because there was a mandatory retirement policy. Over one fifth of retirees left their job because their health required it. These individuals did not have the opportunity to enjoy any double-dipping arrangements.

When asked about the circumstances under which retirees would have continued to do paid work, there is some indication that a minority of individuals are interested in some sort of phased retirement or double-dipping arrangements. Roughly one quarter of retirees report they would have continued to work if they could work fewer or shorter days without affecting their pension. Similarly, roughly one quarter reported they would have continued working if they could work part-time. The behaviour of these retirees appears to be consistent with their stated preferences. Among those who stated they

[9] The sample includes any individuals who report they have ever retired. Rather than using their age in 2003, we code the age at the date of their first retirement. The responses provided are related to individuals' first retirement only.

would continue working if they could have worked part time, 39% of 55-59 year olds were either in employment or looking for employment at some point after their retirement. This participation rate is reasonably higher than participation among individuals who did not express interest in continuing to work part time.[10]

5.0 Discussion

In this paper, we have investigated the empirical relevance of double dipping—collection a pension while still working. We find that employment among the elderly and near-elderly is not currently very high, although it has been growing over the last decade. Pension coverage, in contrast, has been falling. Among those with earned income, we find that the share also collecting a pension is quite small; on the order of four percent of the elderly labour force. Finally, in survey responses on attitudes about work and retirement, we find that most expressed a preference to stop work when they retire and many of those who wanted to continue would seek a part-time arrangement.

We are now in the position to offer a tentative answer to the question posed by the title of the paper. Even if a reform such as the one featured in the 2007 federal budget were to double the proportion of elderly workers who double-dipped, the impact on the elderly labour market would not be large. This is further diminished by the reported desire of those who might seek continued work to do so only on a part-time basis. From the data we have available, therefore, we conclude that the 2007 budget measures will

[10] To note, those who said they would have continued work if they could work fewer days were also more likely to claim they would continue work if their health were better.

have at best a very modest impact on the elderly labour market and almost no impact on the aggregate labour market.

The reform, however, is a step in the right direction. If one views pension entitlements as deferred compensation or wealth, individuals are made better off by having access to it to consume as they wish whether they continue to work or not. Increases in labour market flexibility for the elderly may indeed help to expand the work capacity of the Canadian population. If successful even on a small scale, the reform may clear a path for a more substantive liberalization of pension rules.

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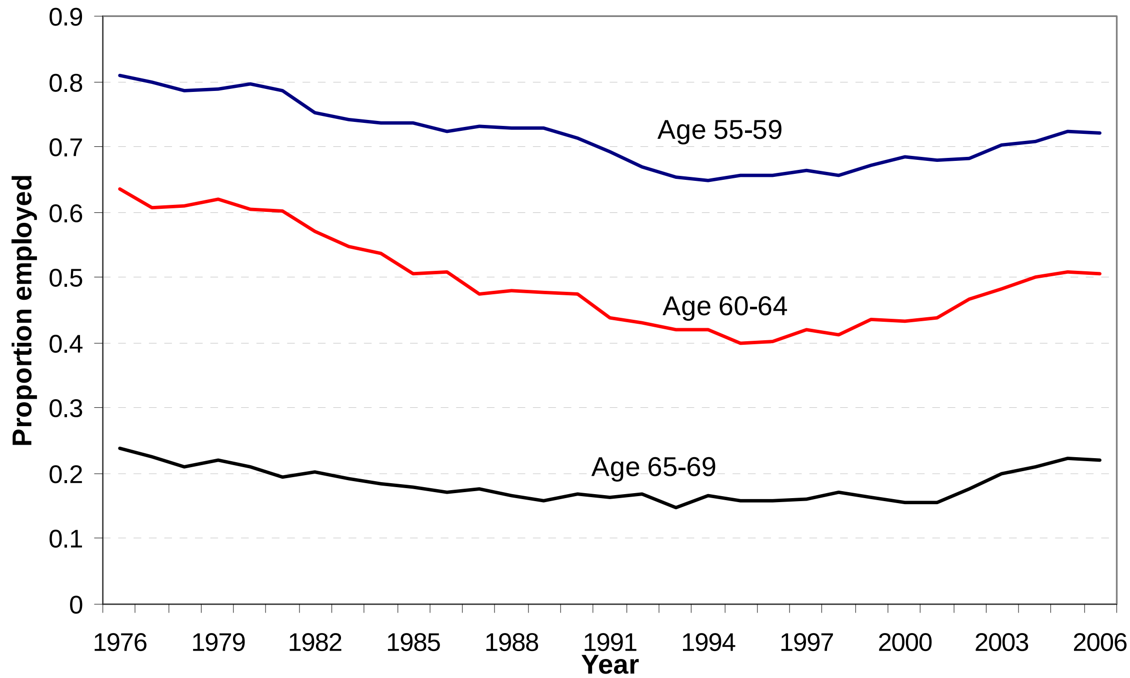
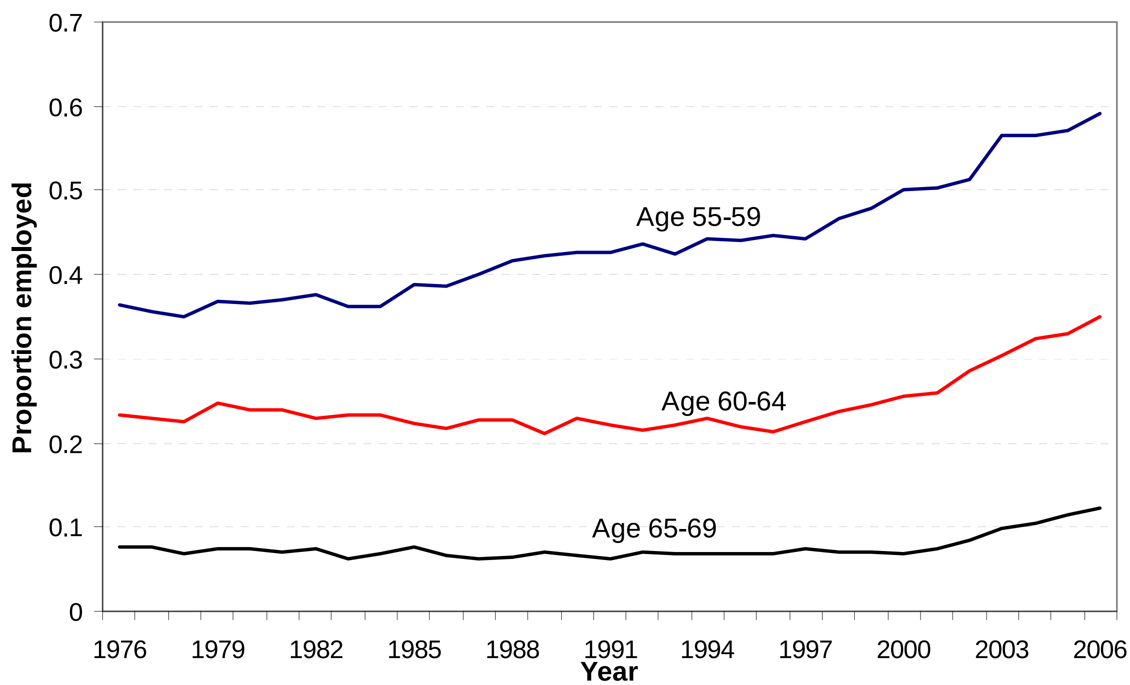
Figure 1: Employment Rates of Men, by Age Group, 1976-2006



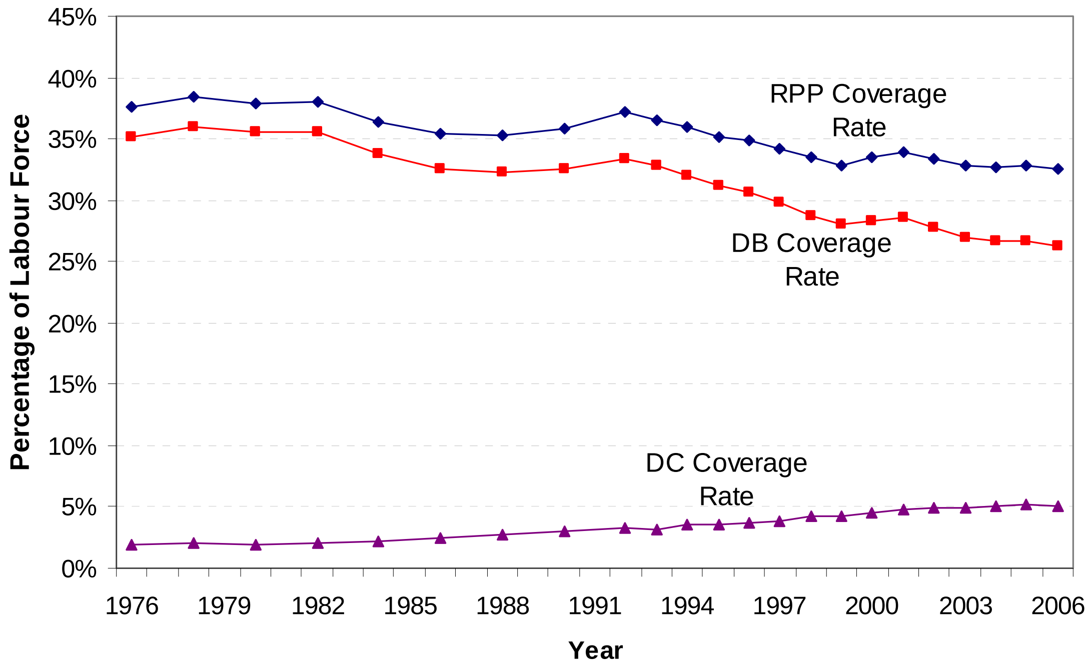
Source: Labour Force Survey, authors' calculations

Figure 2: Employment Rates of Women, by Age Group, 1976-2006



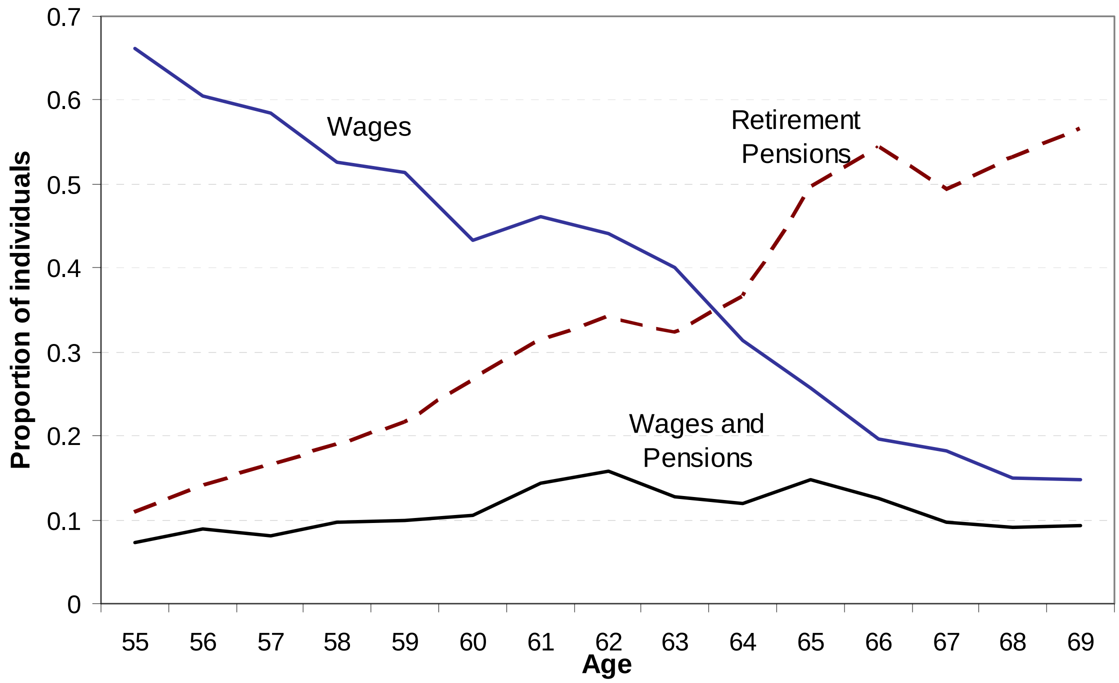
Source: Labour Force Survey, authors' calculations

Figure 3: Percentage of the Labour Force Age 15-69 Covered by Registered Pension Plans



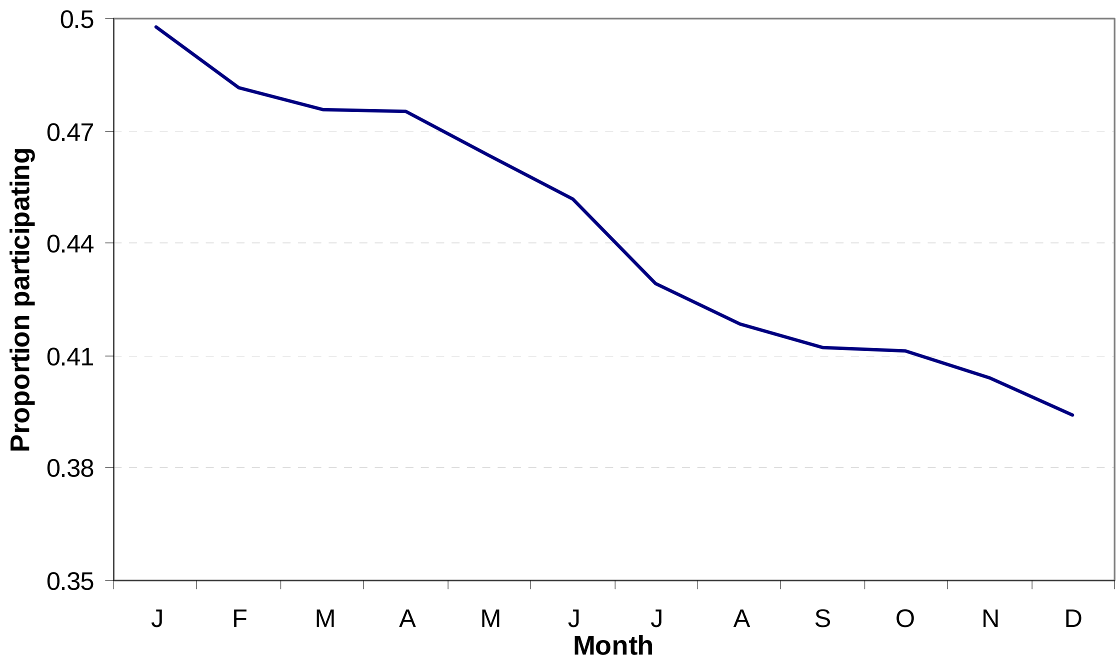
Source: Authors' calculations using CANSIM II series V2062810, V31200437, V31200455 and V31200461

Figure 4: Wage and Retirement Pension Receipt, by Age, 2003



Source: Survey of Labour and Income Dynamics, authors' calculations.

Figure 5: Monthly Labour Force Participation Rate, Individuals Age 55-69 Reporting Wages and Retirement Pensions, 2003



Source: Survey of Labour and Income Dynamics, authors' calculations.

Table 1: Logit results
Dependent variable: Individual reports both wage and pension income

	Coefficient	Marginal effect		Coefficient	Marginal Effect
Age			*Education*		
56	.274	.033	High School Graduate	**.527**	**.047**
	(.221)	(.027)		**(.132)**	**(.014)**
57	.133	.015	Post-Secondary	**.661**	**.091**
	(.230)	(.026)		**(.105)**	**(.020)**
58	.406	.051	University degree	**.825**	**.120**
	(.237)	(.031)		**(.131)**	**(.027)**
59	.419	.053	*Region*		
	(.222)	(.029)	Atlantic	.128	.015
60	.444	.057		(.152)	(.018)
	(.229)	(.030)	Quebec	.433	.055
61	**.821**	**.119**		(.155)	(.024)
	(.222)	**(.034)**	Ontario	**.483**	**.044**
62	**.912**	**.136**		**(.143)**	**(.013)**
	(.222)	**(.036)**	Prairies	.226	.027
63	**.758**	**.108**		(.155)	(.020)
	(.224)	**(.034)**	Male	**.767**	**.062**
64	**.686**	**.095**		**(.088)**	**(.012)**
	(.232)	**(.034)**	Immigrant	**-1.058**	**-.077**
65	**.923**	**.138**		**(.176)**	**(.016)**
	(.224)	**(.036)**	Married	.039	.004
66	**.734**	**.104**		(.102)	(.011)
	(.232)	**(.035)**	Constant	-3.773	
67	.567	.076		(.252)	
	(.250)	(.036)			
68	.419	.053			
	(.253)	(.034)			
69	.527	.069			
	(.246)	(.034)			

Notes: The sample is from SLID 2003, including individuals age 55-69. N=10607. Standard errors are in parentheses. Marginal effects are evaluated for a 55 year old married male in Ontario with high school graduation. For indicator variables, the omitted groups are: Age 55; Education: less than high school graduation; Region: BC.
Bold indicates the coefficients are significant at 1% level.

Table 2: Retirement Preferences

	Age of first retirement 55-59	60-64	65-69
Why did you retire?			
- employer offered an early retirement incentive	.25	.16	.03
- employer had a mandatory retirement policy	.10	.12	.27
- new technology was introduced	.05	.05	.04
- health required it	.26	.25	.20
- completed years of service for pension	.47	.48	.49
- were unemployed and could not find a job	.06	.05	.03
- retirement was financially possible	.67	.69	.66
- needed to care for a family member	.09	.09	.08
- wanted to stop working	.57	.63	.62
- no longer enjoyed your work	.15	.13	.09
- wanted to do other things	.43	.41	.40
- job was downsized	.15	.11	.05
Would you have continued to do paid work if…			
- you were able to work fewer days without affecting your pension	.26	.22	.26
- you were able to work shorter days without affecting your pension	.24	.20	.24
- you vacation leave was increased without affecting your pension	.17	.13	.19
- your salary was increased	.19	.16	.21
- mandatory retirement policies had not existed	.09	.10	.22
- your health had been better	.25	.24	.19
- you could have worked part time	.25	.23	.28
Post-retirement labour force participation			
- would have continued part time	.39	.28	.32
- would not have continued part time	.21	.13	.12
- would have continued with fewer days	.40	.28	.25
- would not have continued with fewer days	.21	.13	.16

Note: GSS samples of individuals who had ever retired.