

Small business & older workers

A valuable partnership for Western Canada's skills and labour shortage

Janine Halbesma, Senior Policy Analyst

Janice Storozuk, Policy Analyst

Heather Tilley, Policy Analyst

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Introduction

The shortage of qualified labour has become a gripping issue for small- and medium-sized businesses. While the problem is more acute in some regions due to strong economic performance, the ongoing shortage of qualified labour is a national issue and has a lot to do with demographics.

In July 2007 Statistics Canada released new census data that showed Canada's working-age population is becoming increasingly older and that the number of workers approaching retirement has hit a record high:

- ▶ One out of every seven Canadians is now over 65 years of age, a 12 per cent increase since 2001.
- ▶ The number of people between the ages of 55 and 64 has increased 28 per cent since 2001. In contrast, the population aged 15 to 24 increased by only five per cent.

Due to decreasing birth rates and increasing life expectancy Statistics Canada warns, "population projections show that in about 10 years, Canada may have more people at the age where they can leave the labour force than at the age where they can begin working."

Table 1:

Selected demographic data for Western Canada

| | 1 in "x" aged 65+ ⁱ | Increase in population aged 65+ since 2001 ⁱⁱ | Increase in population aged 55-64 since 2001 ⁱⁱⁱ | Increase in population aged 15-24 since 2001 ^{iv} |
|----|--------------------------------|--|---|--|
| BC | 7 | 13% | 33% | 5% |
| AB | 9 | 15% | 34% | 12% |
| SK | 6 | 4% | 21% | (1%) |
| MB | 7 | 1% | 25% | 5% |
| YK | 13 | 32% | 48% | 6% |
| NT | 21 | 21% | 53% | 19% |
| CA | 7 | 12% | 28% | 5% |

As one of the many solutions to the labour shortage, this report will explore ideas to improve the participation rate of older workers, to encourage older workers who have already left the workforce to return and to maximize the contribution of older workers in

the workforce from a small business perspective.¹

"I just hired our first retired employee which made me realize that there is a whole labour force that can be tapped into."

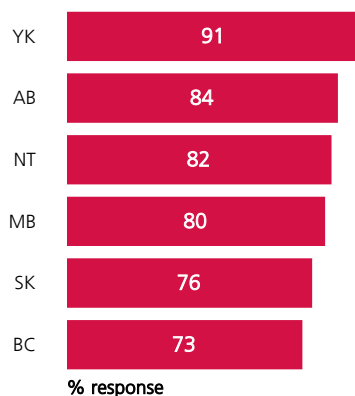
CFIB Member, Saskatchewan

Impact on small business

For many years, the Canadian Federation of Independent Business (CFIB) has heard growing concern from its members about the shortage of qualified labour. In fact, it is now among the top three business issues facing firms throughout Western Canada. In 2005, nearly 80 per cent of members in Western Canada reported they had experienced difficulties hiring in the past three years.

Figure 1:

Percentage of employers experiencing hiring difficulties in past three years



Source: CFIB Western Canada Shortage of Qualified Labour Survey, Jul 2005

Factoring in the demographic reality, it is not surprising that 78 per cent of members in Western Canada expect it will get even harder to find employees in the future.^v

¹ There are many definitions of older workers. The Canadian Federation of Independent Business (CFIB) defines an older worker as anyone over the age of 60.

Labour shortages can be characterized in different ways. A shortage of job seekers with the specific skills, education or experience required by employers can be thought of as a skills shortage. A more general shortage of people to fill vacancies, including entry-level positions, can be considered a labour shortage. Employers may experience shortages of skills, labour or a combination of both.

While there is no single solution to labour shortages, one approach is to improve the participation rate of those groups that are traditionally under-represented in the labour force: immigrants, people with disabilities, aboriginal people, youth, and older workers.

CFIB is looking at the labour market potential of each of these groups from a small business perspective. In 2006, CFIB released a major research report titled *Immigration and Small Business: Solutions to Better Respond to Canada's Skills and Labour Shortage*. CFIB is also exploring best practices in hiring and retaining Aboriginal workers in small firms.

CFIB has been active in pushing many other solutions to the labour shortage as well, including:

- ▶ Urging governments to offer meaningful tax relief so business owners would have more financial resources to dedicate to training, salaries, equipment upgrades, etc.;
- ▶ Ensuring labour laws are flexible and fair to both employees and employers; and,
- ▶ Urging governments to commit to meaningful red tape relief so business owners and their staff would have more time and money to dedicate to value-added activities in the business.

Changing views of older workers

Recently, there has been quite a bit of research and media coverage about the changing views of older workers. Increasingly, older workers are viewing retirement more as a transition to new and different challenges than as an abrupt end to their working careers.

In fact, as the first of the baby boomers reached age 60 in 2006, many had been warning of massive retirements. While the numbers show that reality is certainly coming, some Canadians are choosing to work longer than previous generations.

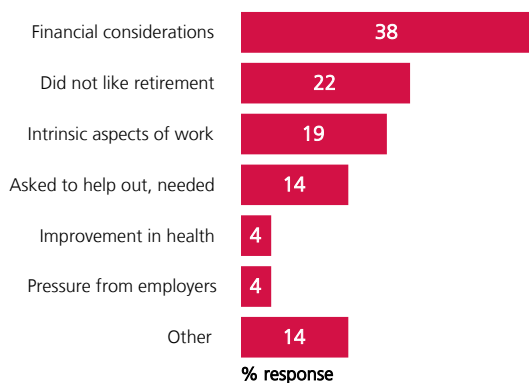
An August 2007 Statistics Canada release showed that the number of people aged 55 to 64 who were employed or looking for jobs has doubled in the past 30 years. Most of the jobs were in the service sector and the majority worked full time.^{vi}

The decision to continue working or to return to the workforce is a complex, personal decision. Some of the factors that older workers consider include: personal finances, health, social interaction, family needs, opportunity to do something new, retirement plans of a spouse, among others. Depending on the situation and the person, each of these factors may be considered barriers or incentives to retire.

In 2002, Statistics Canada surveyed those retirees who had returned to paid employment to ask why they had done so. Financial considerations were cited as the number one motivation, but by less than half of the respondents (38 per cent). This shows that other factors are very much at play in the decision of older workers to return to the workforce.^{vii}

Figure 2:

Reasons to return to paid employment



Source: Statistics Canada General Survey, 2002

Studies also show that self employment is more common among older workers.

According to a recent study by Statistics Canada, 15 per cent of the population aged 25-54 is self employed, compared to 24 per cent of those aged 55-64. While the increase is much more significant for men, the self-employment rate of women also increased for those aged 55-64.^{viii}

The experience of small business in hiring and retaining older workers

As shown in Figure 3, nearly half of small- and medium-sized firms in Western Canada currently employ older workers. Not surprisingly, larger and older businesses are more likely to do so. The sectors with the highest percentage of older workers are: manufacturing, wholesale trade and transportation. Interestingly, a greater share of firms operating out of urban centres employ older workers, compared to those operating in a rural setting.

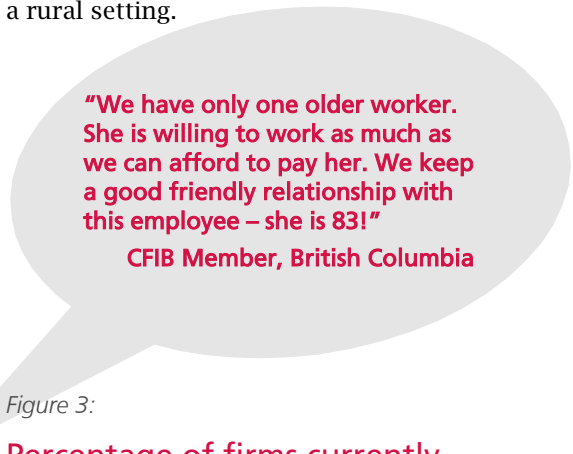
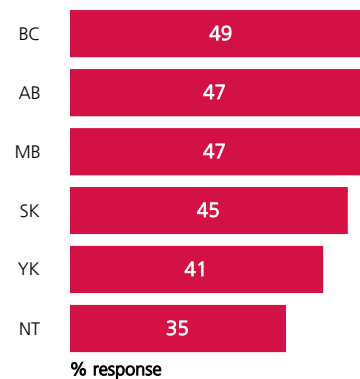


Figure 3:

Percentage of firms currently employing at least one older worker (those over the age of 60)

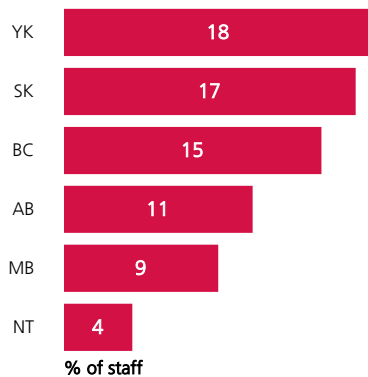


Source: CFIB Older Workers Survey, Feb 2007

To put in context the impact of the baby boomer cohort moving into retirement, consider this: on average, firms in Western Canada expect 13 per cent of their staff to retire in the next five years (Figure 4).

Figure 4:

Percentage of staff expected to retire in the next five years



Source: CFIB Older Workers Survey, Feb 2007

Attraction

The vast majority of small firms (88 per cent) have not taken any steps to specifically target older workers when hiring. However, the industries most likely to do so are: transportation, hospitality and retail.

Of those firms that have taken steps to specifically target older workers, the number one approach was to request referrals from existing staff and contacts. This is consistent with previous CFIB research that shows the most effective recruiting method among small firms is through referrals.

Few firms have tried advertising targeted at older workers, using an agency or association targeted at older workers, or asking recently retired staff to return to the firm.

Benefits

There is clear consensus among the small- and medium-sized business community of the positive benefits older workers bring to the workplace. Ninety per cent of firms cite experience and qualifications as particularly positive benefits of employing older workers (Figure 5). Other attributes that were highly

rated include a strong work ethic and loyalty to the firm.



Figure 5:

Positive traits older workers bring to the workplace



Source: CFIB Older Workers Survey, Feb 2007

Retention

On average, only 19 per cent of firms in Western Canada report struggling to retain existing older workers. This is likely because almost three quarters of firms have embraced innovative and flexible measures for retention as shown in Figure 6.

Figure 6:

Measures taken to retain existing older workers



Source: CFIB Older Workers Survey, Feb 2007

Challenges

Some firms have experienced difficulties hiring and retaining older workers. For example, many business owners said it is also difficult to find older workers who are willing and able to work. Others felt older workers were missing some of the necessary skills and training. Yet others raised the challenge of physically demanding jobs, as well as the impact that older workers have had on their group benefit costs.

**"Just finding them."
CFIB Member, Yukon**

**"Difficulty accepting changes in the way things are done, for example, new technology."
CFIB Member, Alberta**

**"Health premiums are affected by older workers."
CFIB Member, Manitoba**

**"Our work requirements (floor installation), can be challenging for older workers. We use experienced older workers to train younger workers."
CFIB Member, Saskatchewan**

Canadian public policy relating to seniors and phased retirement

As noted earlier, Canadians are increasingly viewing retirement as a transition to new and different challenges, as opposed to an abrupt end to one's working career. There have been some changes to public policy that have contributed to greater phased retirement, such as the elimination of mandatory retirement. However, there are still barriers in Canada's social programs for seniors that may discourage phased retirement.

Mandatory Retirement

In all six Western Canadian jurisdictions, forced retirement based on age is prohibited under its human rights legislation. It is also unenforceable in collective agreements. That is, employers are prohibited from requiring an employee to retire for the sole reason of reaching his/her 65th birthday unless it is considered a bona fide occupational requirement.

Did you know?

Bona fide occupational requirement means that being younger than 65 is determined to be an occupational requirement or qualification based on the nature of the job. Examples of careers with bona fide occupational requirements include police officers, firefighters, military personnel, pilots and bus drivers.

In Saskatchewan, the elimination of mandatory retirement became effective November 17, 2007 and it will be effective January 1, 2008 in British Columbia.

The federal government does not prohibit mandatory retirement under its human rights legislation. It is allowed if the employee has reached the normal age of retirement for employees working in similar positions.

Quebec is the only province in Canada that allows for age discrimination in insured benefit plans or insurance contracts when age is considered a risk factor. In all other provinces, the legislation prohibiting mandatory retirement does not prevent insurance programs or pension and retirement plans from discriminating based on age.

Registered Pension Plans

In the 2007 federal budget, the government announced two key changes that will facilitate greater phased retirement for seniors. Changes to *The Income Tax Act* will allow individuals to receive partial pension payments on a monthly basis from a defined-benefit pension plan while continuing to accrue benefits under that plan.

While this is a positive step towards greater phased retirement, the reality is that defined-benefit plans are most common in the public sector, and for large firms in the private sector. Thus, this change will likely not serve as an incentive for employees in small- and medium-sized firms to continue working.

Did you know?

Under a defined-benefit pension plan, employee retirement benefits are determined by a pre-set formula.

Employers are responsible for funding the plan as well as any shortfalls in order to provide that guaranteed benefit to employees.

Under a defined-contribution plan, employers commit to a specific contribution rate – either a fixed percentage of employee's earnings or a fixed dollar amount per year of service. Benefits are calculated based on the accumulated contribution from employers and employees and the return on investment earned.

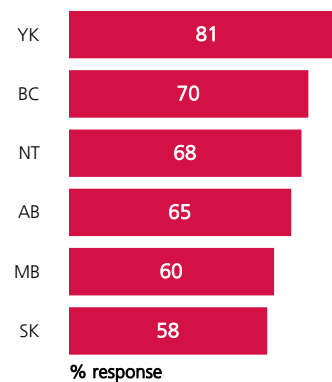
Phased retirement is much easier under a defined-contribution plan.

Individuals can re-enroll in a defined-contribution plan and receive pension benefits at the same time.

The second change is increasing the age at which RRSPs need to be converted into an annuity or Registered Retirement Income Fund (RRIF) from 69 to 71. This is an approach that is favoured by CFIB members in Western Canada. As Canadians are living and working longer, this is a tool to promote retirement savings.

Figure 7:

Percentage of members saying maximum age of RRSP contributions should be increased



Source: CFIB Mandate 222, Jun 2006

Appendix A contains a summary of Old Age Security (OAS), Guaranteed Income Supplement (GIS), Allowance and Allowance for the Survivor, as well as Canada Pension Plan (CPP). Here are some of the barriers that may exist in those programs.

Old Age Security (OAS) Repayment

Full or partial repayment of OAS benefits are required if income is above the annual threshold, which is fully indexed to inflation. For 2007, the threshold is for income from \$63,511 to \$103,101. The amount to be repaid is 15 per cent of the difference in the income and the lower threshold. Full OAS pension is eliminated when income exceeds the upper threshold. This clawback may be a disincentive for people to work at jobs that would bring their earnings up to the thresholds.

Guaranteed Income Supplement (GIS) Repayment

GIS benefits are also reduced or clawed-back at 50 cents per dollar of income a senior receives. According to Statistics Canada, the extent of the reduction likely serves as a disincentive to work among seniors receiving this supplement.^{ix}

In addition, the GIS clawback may be a particular disincentive for low-income individuals between the ages of 60 and 64. A recent report from the C.D. Howe Institute

found that individuals must consider the tradeoff of receiving an immediate, but lower CPP benefit, with delaying retirement until 65 to get full CPP benefits and a reduced GIS benefit at age 65.^x

Another study from the C.D. Howe Institute noted the significant combined impact of the GIS clawback and tax on RRSP benefits.^{xi}

Canada Pension Plan (CPP)

CPP also discourages phased retirement as those aged 60-64 who want to receive their CPP benefits must either: 1) have stopped working by the end of the month the pension begins or 2) earn less than the current monthly maximum CPP payment in the month before the CPP begins and the month it begins. For example, if an early CPP recipients benefits began in April 2007, he/she must have earned less than \$863.75 in March and April of 2007. In this way, early CPP pensioners are required to have a two-month break in employment in order start receiving CPP pension before age 65.

Employment Insurance (EI)

There is currently no age limit for employers and workers to stop paying EI premiums. However, for Canadians who have already retired but then decided to return to the workforce, such payroll deductions are a significant consideration. CFIB is currently surveying members across Canada about whether seniors (those over the age of 65) should be exempt from paying EI.

Conclusion

Concern over the shortage of qualified labour among small business owners in Western Canada will likely continue for many years. While there is no silver bullet solution to this challenge, one solution is to improve the participation rate of older workers, to encourage older workers who have already left the workforce to return and to maximize the contribution of older workers in the workforce from a small business perspective.

Appendix A:

A primer on Canada's social programs for seniors

Old Age Security (OAS)

An OAS pension is a monthly benefit for all Canadians over the age of 65.

Maximum Benefit: For July to September 2007, the maximum benefit was \$497.83 per month. OAS benefits are adjusted each quarter to reflect increases to the consumer price index. Benefits are not affected if the cost of living decreases. OAS benefits are fully taxable.

Eligibility: For those living in Canada they must be a Canadian/legal resident when the pension was approved and have lived here for at least 10 years after the age of 18; For those living outside Canada, they must be a Canadian/legal resident when they left the country and have lived in Canada for at least 20 years after the age of 18.

Myth: To be eligible for an OAS pension, one must have worked at some point or stop working before benefits are received.

Fact: The amount of one's OAS pension is determined by how long he/she lived in Canada and his/her income.

Guaranteed Income Supplement (GIS)

The Guaranteed Income Supplement (GIS) is paid to OAS pension recipients and spouses with little or no income.

Maximum Benefit: For July to September 2007, the maximum benefit for a single person or a spouse of someone not receiving an OAS pension was \$628.36 per month. The maximum benefit for the spouse of an OAS pension recipient or Allowance recipient was \$414.96 per month. GIS benefits are adjusted each quarter to reflect increases to the consumer price index. Benefits are not affected if the cost of living decreases.

Eligibility: To qualify for the GIS, a single person must earn less than \$15,096 annually. The maximum annual income for a spouse of

an OAS pension recipient is \$19,920, and for a spouse of a non-pensioner or an Allowance recipient is \$36,102.

The actual amount of the benefit is based on both marital status and income. Thus, it must be applied for each year either through filling out a tax return (even if no income was earned) or submitting an application.

Myth: GIS benefits are received automatically each year.

Fact: Even though GIS benefits are reported on a personal income tax return, they are not subject to tax.

Allowance and Allowance for the Survivor

The Allowance and Allowance for the Survivor is another income-tested benefit. It is paid to the spouse/common law partner of an OAS/GIS recipient, or whose spouse/common law partner has died. It is designed to help survivors and couples living on only one OAS pension.

Maximum Benefit: For July to September 2007, the maximum benefit was \$912.79 per month for the Allowance and \$1,011.80 per month for the Allowance for the Survivor. Benefits are adjusted each quarter to reflect increases to the consumer price index. Benefits are not affected if the cost of living decreases. OAS benefits are fully taxable.

Eligibility: To be eligible, one must be between 60 and 64 and either receiving or entitled to receive the OAS pension and GIS. In addition, one must have lived in Canada for at least 10 years since age 18 and not earn more than \$27,888 annually for Allowance recipients and \$20,304 annually for Allowance for the Survivor recipients.

Myth: The regular and survivor Allowances are received automatically each year.

Fact: At age 65 most recipients will automatically have their benefits changed to the OAS pension and GIS, if eligible.

Canada Pension Plan

The Canada Pension Plan (CPP) provides monthly pension benefits to those who have contributed to the plan. It is designed to replace about 25 per cent of the earnings on which a person's contributions were based.

Maximum Benefit: For January to December 2007 the maximum retirement benefit at age 65 is \$863.75 per month. CPP rates are adjusted each January if there have been increases in the consumer price index. The maximum pensionable earnings for 2007 was \$43,700 with a basic exemption of \$3,500.

Eligibility: CPP benefits typically begin at age 65. However, individuals aged 60 to 64 can apply to start their CPP at a reduced level. There is a permanent reduction in their monthly benefits of 0.5 per cent for each month they are under the age of 65 when they begin receiving CPP. Similarly, individuals can receive a 0.5 per cent increase in benefits for each month that they defer starting their benefits after 65. Individuals must apply for benefits - it is not triggered by age, retirement or disability.

Myth: If one is receiving CPP and still working, he/she and the employer must continue to pay CPP premiums.

Fact: When receiving CPP, one can earn as much as they want without affecting their benefit amount.

ⁱ Statistics Canada, 2006 Census of Population, Statistics Canada catalogue no. 97-551-XCB2006005.

ⁱⁱ Statistics Canada, 2006 Census of Population Age and Sex Highlight Tables, Statistics Canada catalogue no. 97-551-XWE200602.

ⁱⁱⁱ Statistics Canada, 2006 Census of Population, Statistics Canada catalogue no. 97-551-XCB2006005.

^{iv} Ibid

^v CFIB Point of View on Labour Shortages and Immigration Survey, July 2006, Western Canada data.

^{vi} Marshal, Katherine and Vincent Ferrao. "Participation of older workers." Perspectives on Labour and Income. Vol. 8, no. 8. August 2007. Statistics Canada catalogue no. 75-001-XIE.

^{vii} Schellenberg, Grant, Martin Turcotte and Bali Ram. "Post-retirement Employment." Perspectives on Labour and Income. Vol. 6, no.9. September 2005. Statistics Canada catalogue no. 75-001-XIE.

^{viii} Marshal, Katherine and Vincent Ferrao. "Participation of older workers." Perspectives on Labour and Income. Vol. 8, no. 8. August 2007. Statistics Canada catalogue no. 75-001-XIE.

^{ix} Wannell, Ted. "Cracking the RRSP Nest Egg." Perspectives on Labour and Income. Vol. 7, no. 9. August 2006. Statistics Canada catalogue no. 75-001-XIE.

^x Milligan, Kevin. "Making it Pay to Work: Improving the Work Incentives in Canada's Public Pension System." C.D. Howe Institute, No. 218, October 2005.

^{xi} Poschman, Finn and William B.P. Robson. "Saving's Grace: A Framework to Promote Financial Independence for Low-Income Canadians." C.D. Howe Institute, No. 86, November 2004.

Research Notes: CFIB's survey of members in Western Canada on their experience hiring older workers received 1,671 responses. It is considered accurate within 2.2%, 19 times out of 20.