Remain, Retrain or Retire: Options for older workers following job loss

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Overview:

- Options for older workers following job loss
  - Remain in the labour force - face large and persistent earnings losses
  - Retrain for a new career - short time period to enjoy the benefits
  - Retirement - spread retirement savings over a longer period than expected

- Policy Response
  - Income support programs
  - Wage subsidy schemes
  - Job search assistance
  - Education and Training

- Goal - inform that policy debate
The incidence of job loss

**Figure 1: Permanent Layoff and Displacement Rates**

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CHARACTERISTICS OF OLDER DISPLACED WORKERS

Among those displaced from full-time employment over age 50:

- slightly older
- less educated
- private sector
- non-union
- low seniority
- manufacturing vs. health care
**Figure 2: Average Unemployment Duration**

The graph illustrates the average unemployment duration for different age groups and genders from 1997 to 2006. It shows that:

- **Age 55-64**:
  - Men: Generally higher unemployment duration compared to women.
  - Women: Decreasing trend with fewer weeks unemployed.

- **Age 25-54**:
  - Men: Similar trend to women, with slight variations.
  - Women: Trend similar to men, with slight variations.

- **Age 15-24**:
  - Men: Lower unemployment duration compared to other age groups.
  - Women: Lower unemployment duration compared to men.

The data highlights the differences in unemployment duration across age groups and genders, indicating varying labor market experiences for different demographics.
**Table 2: Earnings losses of men by age group**

<table>
<thead>
<tr>
<th></th>
<th>50-69</th>
<th>35-49</th>
<th>25-34</th>
</tr>
</thead>
<tbody>
<tr>
<td>Displaced</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 years before</td>
<td>-2263</td>
<td>-7541</td>
<td>*** -1207</td>
</tr>
<tr>
<td></td>
<td>(6128)</td>
<td>(2249)</td>
<td>(2785)</td>
</tr>
<tr>
<td>1 year before</td>
<td>-85</td>
<td>-4209</td>
<td>** -4901 **</td>
</tr>
<tr>
<td></td>
<td>(3700)</td>
<td>(1939)</td>
<td>(2386)</td>
</tr>
<tr>
<td>year of displacement</td>
<td>-12036 ***</td>
<td>-12625 ***</td>
<td>-11011 ***</td>
</tr>
<tr>
<td></td>
<td>(3635)</td>
<td>(1654)</td>
<td>(1803)</td>
</tr>
<tr>
<td>1 year after</td>
<td>-14565 ***</td>
<td>-16470 ***</td>
<td>-12549 ***</td>
</tr>
<tr>
<td></td>
<td>(2365)</td>
<td>(1740)</td>
<td>(1897)</td>
</tr>
<tr>
<td>2 years after</td>
<td>-10417 ***</td>
<td>-13851 ***</td>
<td>-11375 ***</td>
</tr>
</tbody>
</table>

Standard errors in parentheses.
Figure 3: Earnings losses of men by age group

- Remaining in the labour force - earnings losses

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Remaining in the labour force - earnings losses

**Figure 4: Earnings losses of men, 50-69, by seniority**

- **Male - High Tenure**
- **Male - Low Tenure**

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Remaining in the labour force - earnings losses

**Figure 5: Earnings losses of men, 50-69, by education**

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**Figure 6: Earnings losses, 50-69, by rural-urban**

Remaining in the labour force - earnings losses

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REMAIN IN THE LABOUR FORCE

- Long unemployment spells
- Large and persistent earnings losses
  - Not substantially different across age groups
  - Larger as a portion of income among lower educated, rural workers.
### Table 3: Attending formal education programs

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Currently working</th>
<th>Not currently working and last worked:</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>TOTAL</td>
<td>Less than a year ago</td>
<td>More than a year ago</td>
<td>Never</td>
</tr>
<tr>
<td>All individuals</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>25-39</td>
<td>8.5%</td>
<td>6.1%</td>
<td>22.3%</td>
<td>15.3%</td>
</tr>
<tr>
<td>40-55</td>
<td>3.0%</td>
<td>2.4%</td>
<td>7.9%</td>
<td>4.5%</td>
</tr>
<tr>
<td>55-64</td>
<td>1.0%</td>
<td>0.9%</td>
<td>2.0%</td>
<td>0.9%</td>
</tr>
<tr>
<td>Males</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>25-39</td>
<td>7.5%</td>
<td>5.1%</td>
<td>23.2%</td>
<td>22.2%</td>
</tr>
<tr>
<td>40-55</td>
<td>2.1%</td>
<td>1.6%</td>
<td>6.6%</td>
<td>4.8%</td>
</tr>
<tr>
<td>55-64</td>
<td>0.7%</td>
<td>0.6%</td>
<td>1.6%</td>
<td>0.7%</td>
</tr>
<tr>
<td>Females</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>25-39</td>
<td>9.5%</td>
<td>7.3%</td>
<td>21.5%</td>
<td>12.8%</td>
</tr>
<tr>
<td>40-55</td>
<td>3.9%</td>
<td>3.3%</td>
<td>9.1%</td>
<td>4.4%</td>
</tr>
<tr>
<td>55-64</td>
<td>1.3%</td>
<td>1.3%</td>
<td>2.4%</td>
<td>1.1%</td>
</tr>
</tbody>
</table>

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Figure 7: Likelihood of studying

Currently working
Out of work > 1 year
Out of work < 1 year
Never worked

% pts less likely to be studying
25-29 30-34 35-39 40-44 45-49 50-54 55-59 60-64

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Figure 8: Likelihood of any training

Likelihood of taking a program or course, GIVEN income and age group.
TABLE 4: COSTS AND BENEFITS OF TRAINING

<table>
<thead>
<tr>
<th>Individual characteristics</th>
<th>Age</th>
<th>40</th>
<th>50</th>
<th>55</th>
<th>60</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age</td>
<td>40</td>
<td>50</td>
<td>55</td>
<td>60</td>
<td></td>
</tr>
<tr>
<td>Tenure</td>
<td>6</td>
<td>16</td>
<td>21</td>
<td>26</td>
<td></td>
</tr>
</tbody>
</table>

**Estimated cost of displacement**

| Pre-displacement earnings  | 35,000 | 35,520 | 35,780 | 36,040 |
| Post-displacement earnings | 23,688  | 23,688  | 23,688  | 23,688  |

| Years of working life left | 25 | 15 | 10 | 5 |
| Lifetime income lost       | 196,978 | 141,250 | 103,147 | 56,569 |

**Estimated benefits of education**

| Foregone earnings          | 17,800 |
| Cost                       | 5,000  |
| Total cost                 | 22,800 |
| Annual benefits ($)        | 2,400  |
| Discounted lifetime benefits | 41,200 | 28,300 | 20,200 | 10,800 |
| NPV (individual)           | 18,500 | 5,500  | -2,600 | -11,900 |
| NPV (total, assume no externalities) | 8,500 | -4,500 | -12,600 | -21,900 |

Assumptions:

- Wages
  - Earnings at age 35: 35,000
  - Return to tenure: 52
  - Displacement cost: 11,000
- Retirement age: 65
THE RETIREMENT OPTION

- Discouraged workers - Maestas and Li (2006)
Characteristics of those who retire

Relative to displaced workers who remain:
- Slightly older
- Less likely to have a pension
- Female

Relative to workers who voluntarily retire:
- Slightly older
- Less educated
- Private sector, non-union
- Lower seniority
The policy response - background

**Policy Response**

Targeting displaced workers:
- Program for Older Worker Assistance (1986-1997)
- Employability Improvement Project (1991)
- Targeted Initiative for Older Workers (2006-7)
TARGETING DISPLACED OLDER WORKERS

- Different options available - temporary income replacement vs. bridge to retirement
- Different policy interactions - public pensions
- Different time horizon
The policy response - is targeting older workers appropriate?

**Figure 9: Education levels, 1976-80 vs. 2001-6**

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Reintegration into the labour market

- Education and training - will not compensate for lost earnings
- Potentially low interest among older workers
- Job search assistance and basic skills

Reduce financial hardship

- Income support - tend to reduce labour force participation
- Wage subsidy or insurance schemes - may distort pre- and post-displacement choices

Policy interactions

- Wage insurance - reduced public pension eligibility
CONCLUDING REMARKS

- All displaced workers face large and persistent earnings losses.
- Older displaced workers - low participation in retraining, higher exit from labour force
- Policy options
  - Potential for education and training limited
  - Income support - incentive effects
- Evidence of policy effectiveness limited