Intelligence MEMOS

From: Kevin Milligan and Tammy Schirle

To: Canada's Pension Administrators and Annuity Providers

Date: August 24, 2018

Re: **DECONSTRUCTING THE LONGEVITY GAP BETWEEN RICH AND POOR**

A longevity gap between rich and poor has persisted over the years in Canada with significant policy implications. In our new C.D. Howe Institute report, the first study of long-term changes in longevity across earnings groups in Canada, we provide new insights into the incomes and life expectancy of Canadians.

We obtained access to the records of the Canada Pension Plan for our study, which allowed us to follow all Canadians born from 1923 to 1955 who have contributed to the CPP. We use 50 years of data, from 1966 to 2015, to line up Canadians' career earnings to their eventual patterns of longevity. This provided a unique opportunity to study longevity in ways previous Canadian studies could not.

Increases in longevity have been brisk for Canadians, with both men and women experiencing longer lifespans past age 50 than the generations before them. With those extra years of life come some costs such as pensions, healthcare, and other age-dependent expenditures. We found the highest-earning Canadian women outlive the lowest-earning women by three years. For men, the longevity gap between the highest and lowest earners is eight years, or more than 10 percent of a lifespan.

We do not have evidence that the earnings-longevity relationship is causal – those with higher earnings may have higher education, different health habits, and other characteristics that drive their longevity more than the income itself. However, longevity is a highly valued aspect of well-being, so its distribution across different types of Canadians matters.

The report highlights that the gap in life expectancy between high and low earners in Canada has not grown over time and improvements in longevity are evident across all earnings levels. This result is in sharp contrast with US longevity growth, which has been concentrated in the top half of income groups. An analysis of American men by family income percentile finds a range of 14 years from bottom to top percentile, far greater than Canada's.

Our data do not allow us to draw conclusions about the causes of the earnings gradient and its uniform shift in Canada and why it is different from the United States. But documenting the facts is an important first step, because these facts have important policy implications.

As one example, the policy impact on pensions is direct. If those who are living longest are the ones with the highest annual pension benefits then the total costs of the pension payouts may be higher than expected. Moreover, differential longevity alters the net balance of pension contributions and pension benefits across high and low earners, which has implications for all pension plans and for the private annuity market.

Kevin Milligan is a Professor of Economics at the University of British Columbia and Tammy Schirle is Professor of Economics, Wilfrid Laurier University.

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