Mandatory Retirement Rules and the Retirement Decisions of University Professors in Canada

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Abstract

We examine the impact of mandatory retirement on the retirement decisions of professors in Canada using administrative data. Estimation of a discrete time hazard model indicates that faculty members at universities with mandatory retirement at age 65 have exit rates at age 65 that are around 30 to 38 percentage points higher than those of their counterparts at universities without mandatory retirement. This overall difference in exit rates is found when the sample is restricted by discipline, professional rank and type of university. Similar results are found for both men and women; however, the magnitude of this effect is somewhat smaller for women. Restricting the analysis to include faculty members who received their highest degree at age 34 or older does not affect the magnitude of the difference in exit rates between faculty at universities without mandatory retirement and those at universities with mandatory retirement. The estimated survival probabilities indicate that only 22.7% of faculty members employed at age 64 at universities without mandatory retirement will continue to be employed at the same university at age 72.

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1. Introduction

The aging of the population in many western countries has fuelled the debate regarding the elimination of laws that force retirement at a specific age. Although mandatory retirement has been banned in the US, Australia and New Zealand, mandatory retirement is still allowed in many countries. In particular, given the requirement of European Union countries to eliminate employment based age discrimination (by December 2006), there has recently been a large amount of debate in Europe about the legality, as well as the merits, of mandatory retirement laws.

The changing age structure has particularly strong implications for the university sector. In countries such as Canada and the United States, professors, hired initially to teach the baby boom generation, are now reaching retirement age. This aging trend is fuelling an ongoing discussion in universities in Canada which are allowed to enforce retirement at 65 about whether mandatory retirement should be abolished. Consequently, it is crucial to have a complete understanding of how the elimination of mandatory retirement rules affects the retirement propensities of professors.

Due to a general lack of suitable data, the retirement decision of university faculty members has not received a great deal of attention in the economics literature. An important exception is the study by Ashenfelter and Card (2002) of US faculty retirement patterns. The data employed by Ashenfelter and Card originate from a special survey carried out on 16,000 older faculty in the US called the Faculty Retirement Survey (FRS). These data combine payroll records from individual institutions with pension information from the TIAA-CREF pension plan. The survey is based upon older faculty at a random sample of four-year colleges and universities in the mid-1980s. The faculty members are followed for 10 to 11 years overlapping the period of the elimination of mandatory retirement in the US in 1994. They find strong evidence that the abolition of mandatory retirement (at the age of 70) in the United States led to a substantial increase in the fraction of university professors still working into their seventies.
In particular, the retirement rates of 70 and 71 year olds fell by two thirds to a level comparable with those of 69-year-old faculty members. They conclude that American universities and colleges will experience a rise in the number of older professors in the future due to the elimination of mandatory retirement.

Using the same econometric approach as Ashenfelter and Card (2002), Clark and Ghent (2008) explore the robustness of these results using data from the University of North Carolina system. Consistent with the findings of Ashenfelter and Card (2002), the elimination of mandatory retirement for university faculty is found to result in a sharp decline in the probability of retirement for university faculty. They find that the drop in retirement rates at age 70 and 71 after the elimination of mandatory retirement was greater for faculty who were participating in the state defined benefit pension scheme than for those in the defined contribution scheme.¹

Despite being an important policy issue, there is little research on the impact of mandatory retirement on the age of retirement of academics outside of the two US studies cited above. One exception is the study by Labini and Zapperi (2007) who show that in Italy where the mandatory retirement age can be as high as 75, almost 25% of faculty are 60 years of age or older, while in the UK, France and Spain, only 7 to 12% of faculty are in this age range.

Our paper makes a number of important contributions to this literature. First, the overall estimation approach follows that of Ashenfelter and Card (2002) and represents an investigation into the overall robustness of their findings when applied to the case of a similar country over a similar time period. Second, the analysis sheds light on the likely impact of the elimination of mandatory retirement policies when the forced retirement age is below the age of 70 (which was the relevant mandatory retirement age for university professors prior to the elimination of mandatory retirement in the US). In many jurisdictions, mandatory retirement policies stipulate retirement at ages below 70 (such as many European countries). Consequently, the results of Ashenfelter and Card (2002) may not shed light on the extent to which faculty are likely to work beyond the usual retirement age of say 65 after the elimination of mandatory retirement. Third, the rich interprovincial variation in the mandatory retirement rules in Canada allows for an alternative source of variation in the retirement rule environment allowing for greater confidence in terms of the estimated relationship between the elimination of mandatory retirement and its impact on the exit behaviour of university faculty. Fourth, to the best of our knowledge, this is the first study to examine the exit behaviour for men and women separately. Finally, the fact that the data employed originate from a census (carried out by Statistics Canada) of all faculty members within Canada (rather than a survey of university faculty) allows for even greater confidence that the estimated relationships are robust and provide reliable representations of the actual behaviour of university faculty.

However, it is important to note that our data does have one main shortcoming relative to the data employed by Ashenfelter and Card (2002). We are unable to distinguish between retirements and other exits from employment at the university. Given the age range of interest, we do not believe that this is an important distinction since the vast majority of exits appear to be into retirement. In addition, unlike Clark and Ghent (2008), we do not have information related to pension eligibility for the individual faculty members in our data.²

The empirical results of this paper indicate that mandatory retirement rules act as a constraint on the decision to continue working at their university beyond the age of 65 for professors at Canadian universities. Faculty members are found to have exit rates from the university at age 64 and 65 that are around 30 to 36 percentage points lower than those of their counterparts at universities with mandatory retirement. Similar results are found for both men and women; however, the magnitude of this effect is somewhat smaller for women. This does not support the view that mandatory retirement is a more severe constraint on the behaviour of female academics who are more likely to have had career interruptions than their male counterparts. However, our data lack information related to spousal characteristics. It may be that differences between male and female faculty in terms of average family income are in fact driving this result.

Estimated survival probabilities indicate that male faculty members employed at a university without mandatory retirement at age 64 only have a 22.7% probability of continuing to work at the university until age 72. This indicates that while a significant fraction of professors will work past 65 if allowed to, a relatively small fraction of university professors are likely to stay many years past the usual retirement age of 65.

2. Mandatory retirement regimes in Canada

In Canada, the rules related to the retirement of university professors have varied both over time and across institutions. In the university sector, the rules related to retirement fall under provincial jurisdiction allowing for variation across provinces. Gunderson (2003) provides a review of the recent history related to mandatory retirement in Canada and concludes that only two provinces, Manitoba and Quebec, actually banned mandatory retirement over the period of this study (1983 to 2001). In the case of Manitoba, the banning of mandatory retirement in 1982 resulted from a series of court cases (see Flanagan, 1985, for a detailed discussion).³ In the case of Quebec, mandatory retirement was banned through provincial employment standards legislation in 1983 (see also Kesselman, 2005).

Shannon and Grierson (2004) analyze the importance of mandatory retirement rules in the broader Canadian labour market taking advantage of the interprovincial variation in mandatory retirement laws. Using Census data from 1981 through 1996 and Labour Force Survey data over the period 1976 through 2001, they conclude that making mandatory retirement illegal would have little effect on the size of the workforce over the age of 65.

However, one cannot necessarily extend this argument to individual segments of the Canadian labour market such as the segment of interest in this study, university professors. Employment contracts (tenure, union status, work conditions) as well as the preferences of the professors themselves may make employment past the age of 65 attractive. We employ a similar identification strategy to Shannon and Grierson (2004) but with a focus on university faculty.

However, provincial variation in mandatory retirement legislation is not the only sources of variation in retirement rules related to age at retirement in Canadian universities. In provinces where there is no legislative ban on mandatory retirement, individual institutions and faculty associations or unions can choose to include mandatory retirement rules in their collective agreements. In most cases, these rules stipulate that faculty members must retire before the beginning of the academic year following their 65th birthday. However, exceptions exist. The

¹ Ashenfelter and Card (2002) find that faculty at private research institutions are much more likely to be working in their sixties than are faculty at public research and non-research institutions. As well, they find that once mandatory retirement at age 70 was eliminated, although the percent of 60-year-olds who worked until age 73 increased at all types of institutions, it was particularly high at private research institutions where at least 30 percent of 60-year olds continued to work until age 73.

² Clark and Ghent (2008) also use information available for state plan participants and find that greater pension wealth is associated with a higher probability of retirement.

³ In 1997, universities in Manitoba were allowed to have mandatory retirement at age 65 or older under a special act. However, no universities in Manitoba enacted mandatory retirement until the end of the period studied with the University of Manitoba enacting gradual retirement after age 69 in 2001 and the University of Winnipeg enacting mandatory retirement after age 69 in 2002 (see MacGregor, 2005).
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