

Comparing Government and Private Sector Compensation in Atlantic Canada, 2021

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MAIN CONCLUSIONS

■ Using data on individual workers from January to December 2021, this report estimates the wage differential between the government and private sectors in the four Atlantic provinces. It also evaluates four non-wage benefits for which data are available to quantify differences in the compensation offered by the two sectors in these provinces.

■ After controlling for factors like gender, age, marital status, education, tenure, size of firm, job permanence, immigrant status, province, industry, occupation, and full- or part-time status, the authors found that government-sector workers (federal, provincial, and local) in the Atlantic provinces enjoyed an 11.9% wage premium, on average, over their private-sector counterparts in 2021. When the wage difference between unionized and non-unionized workers is taken into account, the wage premium for the government sector declines to 7.2%.

■ Available data on non-wage benefits suggest that the government sector enjoys an advantage

over the private sector. For example, public-sector workers in all Atlantic provinces are much more likely to be covered by a registered pension plan (RPP): fewer than 30% of private-sector workers were covered by an RPP in 2021 compared to more than 70% of workers in the public sector. Of those covered by an RPP, the share of defined benefit pension is much higher in the public sector than the private sector in all Atlantic provinces except New Brunswick.

■ In addition, government workers retire earlier than those in the private-sector—between 3.0 years (Nova Scotia) and 4.4 years (Newfoundland & Labrador) earlier on average. The rate of job loss was also lower in all four Atlantic provinces' public sector than their private sectors.

■ Full-time workers in the government sector lost more work time in 2021 for personal reasons (from 15.2 days to 16.5 days on average) than their private-sector counterparts (from 9.3 to 11.3 days).

Introduction

Atlantic Canada is currently substantially less affluent than the rest of Canada and, for some time, it has been characterized by relatively sluggish growth (Eisen, Palacios, McMahon, and Whalen, 2019). The region maintains a larger-than-average public sector that comes at a significantly high cost to taxpayers. Indeed, Atlantic Canada's per-capita public-sector employment was 20.7% larger than the rest of Canada in 2021 (Statistics Canada, 2022f, 2022g). In order to make the best use of taxpayers' money to enhance economic growth, Atlantic provinces will need to scrutinize the compensation of government employees, which constitutes a sizeable portion of government spending.

With the heightened interest in how wages and non-wage benefits in the government sector compare with those in the private sector, this study continues previous research by the Fraser Institute comparing government- and private-sector compensation in Canada.¹ Using data on individual workers from January to December of 2021, the report provides estimates of the wage differential between government-sector workers in Atlantic Canada (including federal, provincial, and local government workers) and their private-sector counterparts. It also evaluates four non-wage benefits for which data are available.

Wages are only one component of overall compensation. Various non-wage benefits such as

pensions, health and dental insurance, vacation time, life and disability insurance, and so forth affect overall compensation. We are unable to estimate the overall total compensation premium in the government sector because of a lack of data on non-wage benefits. However, we do present the data that are available on specific non-wage benefits.

The first section of this report provides some basic statistics on government- and private-sector employment in the Atlantic provinces. The second section presents the results of calculations used to determine the wage premium in the government sector. The third section assesses the data available on non-wage benefits to ascertain the likelihood that there is a premium on the non-wage benefits in the government sector over those in the private sector.²

Comparing the size of the government and private sectors

Before analyzing compensation in the government and private sectors, it is useful to compare the two sectors in a more general way. In 2021, about 314,600 workers in Atlantic Canada, representing 28.0% of total employment, were employed in the public sector. This includes the federal, provincial, and local governments, as well as government agencies, crown corporations, and government-funded establishments

¹ For example, see Lammam, Palacios, Ren, and Clemens, 2015. The current report is an update with new data that employs the methodology developed by the authors cited here.

² Lammam, Palacios, Ren, and Clemens (2015) provide possible solutions to the disparities in compensation between the government and private sectors. The options they propose include: (1) gathering better data on wage and non-wage benefits for government and private-sector workers; (2) recognizing that total compensation is what matters, not wages alone; (3) ensuring that the information about government-sector wages and benefits is transparent, accessible, and disclosed regularly; and (4) instituting mechanisms, such as wage boards, for setting compensation. For more details, see Lammam, Palacios, Ren, and Clemens, 2015.

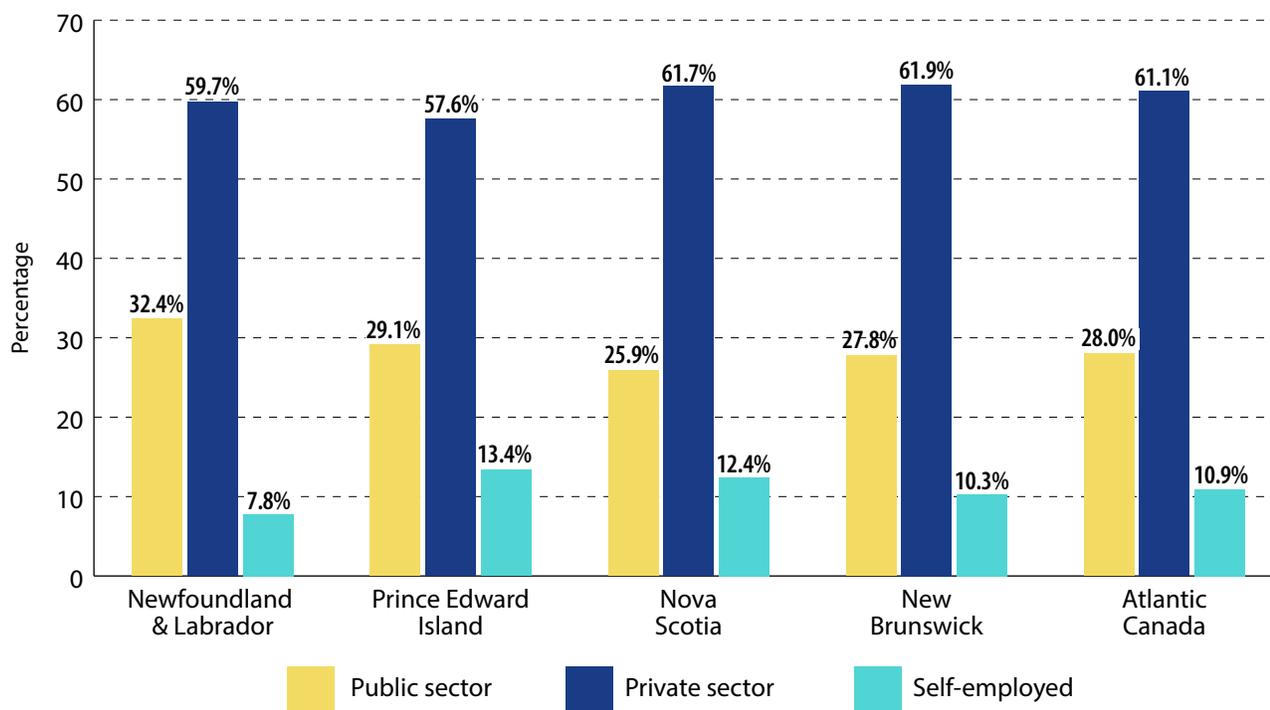
such as schools (including universities) and hospitals.³ There were 686,300 workers employed in the private sector in 2021, representing 61.1% of total employment (Statistics Canada, 2022f). The remaining 10.9% (122,700) were self-employed. **Figure 1** displays the composition of total employment across the four Atlantic provinces in 2021. Among the four provinces, Newfoundland & Labrador has the highest rate of public-sector employment relative to total employment (32.4%), followed by Prince Edward Island (29.1%), New Brunswick (27.8%), and Nova Scotia (25.9%). The private sector's proportion

ranges from 57.6% in Prince Edward Island to 61.9% in New Brunswick. Self-employment represents between 7.8% (Newfoundland & Labrador) and 13.4% (Prince Edward Island).

Comparing wages in Atlantic Canada's government and private sectors

A number of studies have empirically quantified wage differences between similar occupations in the private and public sectors. Nearly all of these studies measure just the wage differences

Figure 1: Components (%) of total employment in Atlantic Canada, 2021



Sources: Statistics Canada, 2022f; calculations by the authors.

3 Unless otherwise stated, data used in this section come from Statistics Canada's *Labour Force Survey*. This is a household survey completed by a representative sample of the civilian population 15 years of age or older. Excluded from the survey's coverage are persons living on reserves and other Aboriginal settlements in the provinces, full-time members of the Canadian Forces, and the institutionalized population (for example, inmates of penal institutions and patients in hospitals or nursing homes who have resided in the institution for more than six months). These groups together represent an exclusion of approximately 2.0% of the population aged 15 and over (Statistics Canada, 2020).

between the public and private sectors; this is because there is a lack of data on non-wage benefits. The Canadian research examining wage differences between the two sectors over the past three decades consistently indicates a premium for government-sector workers.⁴ The wage premiums vary depending on the data source and the time period.

Methodology and data sources

This report provides calculations for the government-sector wage premium in Atlantic Canada. It uses aggregated monthly data on individual workers from the *Labour Force Survey* from January to December of 2021 (Statistics Canada, 2022d).⁵ The major advantage of data from the *Labour Force Survey* is that public-sector workers are explicitly identified, whereas they are not in the *National Household Survey*.⁶ The *Labour Force Survey* sample for Atlantic Canada consists of 82,474 individuals for whom the hourly wage rate, age, gender, education, marital status, type of work, and other characteristics are available. The analysis in this report covers paid government- and private-sector employees only (persons 15 years of age and over with employment income). It excludes the

self-employed, unemployed persons, and persons not in the labour force. The *Labour Force Survey* breaks down the data by sector (public and private) but does not provide data for different levels of government. Therefore, the public-sector wage premium in this section contains workers from the federal, provincial, and local governments in Atlantic Canada.⁷

The public-sector wage premium—results from empirical analysis

The analysis in this section follows earlier academic work by Gunderson, Hyatt, and Riddell (2000). An ordinary least squares (OLS) model was employed to determine if there was a wage premium for the government sector compared to the private sector and how much it might be. For details on the methodology used to compute the public-sector wage premium, please see Lamman, Palacios, Ren, and Clemens, 2015.

Table 1 summarizes the results of the analysis of the public-sector wage premium in Atlantic Canada. This analysis combined the four Atlantic provinces to ensure the number of observations for all relevant variables was enough to produce reliable estimates. Because of the relatively small

4 For a thorough review on wage differentials in the public and private sectors in Canada, see Lamman, Palacios, Ren, and Clemens, 2015.

5 The *Labour Force Survey* is a monthly survey. However, the data used for the empirical analysis in this report is aggregated data over the 12-month period from January to December 2021.

6 The *Labour Force Survey* has a “class of worker” variable that designates whether the employer is a government or a privately owned enterprise, whereas the *National Household Survey* does not have a variable to distinguish government from private employers.

7 Specifically, the *Labour Force Survey* considers the public sector as those working for federal general government (that is, federal public administration), federal government business enterprises, provincial general government, provincial health and social service institutions, universities, colleges, vocational and trade institutions, provincial government business enterprises, local general government, local school boards, and local government business enterprises. Those in the military forces are excluded from the survey.

Table 1: Summary of the public-sector wage premium in Atlantic Canada, 2021

Dependant variable = log of hourly wage.

	Model 1	Model 2	Model 2, controlling for unionization
	Coefficient	Coefficient	Coefficient
(Private)			
Public	38.0	11.9	7.2
N	82,474	82,474	82,474
Adjusted R ²	0.16	0.62	0.63

Notes: [a] The control variables used in the regressions include sex, age, marital status, education, tenure, type of employment (seasonal, contractual), part-time or full-time work, establishment size, immigration status, province, industry and occupation. [b] Self-employment is not included. [c] Estimates are significant at 99%.

Sources: Statistics Canada, 2022d; calculations by the authors.

size of the Atlantic provinces, calculations for single provinces would not always be as statistically reliable, so the results for the public-sector wage premium presented speak to the region as a whole.

The column labelled “Model 1” provides the public-sector wage premium calculation without controlling for any factors. In other words, Model 1 represents a calculation that does not account for variables like age, experience, education, and so forth, which we know influence wages. The Model 1 estimate indicates that wages in Atlantic Canada’s public sector (including federal, provincial, and local public-sector workers) are 38.0% higher, on average, than in the private sector.

A more appropriate way to determine if there is a wage premium in the public sector is to control for different factors such as sex, age, marital status, level of education, tenure, type of employment (seasonal, contractual), part-time or full-time work, establishment size, immigrant status,

province, industry, and occupation, which affect individual wage levels. Model 2 in table 1 controls for these personal characteristics. Controlling for these factors reduces the public-sector wage premium in Atlantic Canada to 11.9%, on average. When unionization is included in Model 2, the premium falls to 7.2%.

Comparing non-wage benefits in Atlantic Canada’s public and private sectors

Although public-sector workers in Atlantic Canada enjoy a wage premium, this does not tell us whether their overall compensation is higher than, comparable to, or lower than that of workers in the private sector. That is because wages are only a part of total employee compensation. Unfortunately, individual-level data on non-wage benefits, such as pensions, vacation time, and health benefits, are not readily available in Canada.

Fortunately, there are some aggregated data about non-wage benefits that can be examined to roughly compare how Atlantic Canada’s public-sector non-wage benefits compare to those of the region’s private sector. We examine data surrounding four types of non-wage benefits: registered pensions, average age of retirement, job loss (as a proxy of job security), and the absence rate of full-time employees. These data will be presented for each Atlantic province.

Registered pensions

Pension benefits have two important dimensions. The first is the percentage of workers in both sectors who have a registered pension. The second dimension is the type of pension plan in each sector. **Table 2** summarizes the pension data for each Atlantic province.

Table 2: Registered pension plan (RPP) members in Atlantic Canada, by type of plan and sector, January 1, 2021

	Newfoundland & Labrador			Prince Edward Island		
	Total (public and private)	Private sector	Public sector	Total (public and private)	Private sector	Public sector
Total number of members who have:	100,257	38,779	61,478	22,968	6,640	16,328
<i>Defined benefit plans</i>	64,874	18,607	46,267	17,582	1,605	15,977
<i>Defined contribution plans</i>	25,104	n/a	n/a	4,127	n/a	n/a
<i>Other pension plans</i>	10,279	n/a	n/a	1,259	n/a	n/a
Total employment, 2021	210,700	139,300	71,400	72,500	49,400	23,100
Percentage of employees covered by pension plans	47.6	27.8	86.1	31.7	13.4	70.7
As a % of total number of members						
<i>Defined benefit plans</i>	64.7	48.0	75.3	76.5	24.2	97.9
<i>Defined contribution plans</i>	25.0	n/a	n/a	18.0	n/a	n/a
<i>Other pension plans</i>	10.3	n/a	n/a	5.5	n/a	n/a
	Nova Scotia			New Brunswick		
	Total (public and private)	Private sector	Public sector	Total (public and private)	Private sector	Public sector
Total number of members who have:	177,134	67,707	109,427	141,630	54,629	87,001
<i>Defined benefit plans</i>	120,452	19,412	101,040	38,927	17,234	21,693
<i>Defined contribution plans</i>	35,117	28,637	6,480	23,950	19,236	4,714
<i>Other pension plans</i>	21,565	19,658	1,907	78,753	18,159	60,594
Total employment, 2021	427,200	307,300	119,900	340,400	240,200	100,200
Percentage of employees covered by pension plans	41.5	22.0	91.3	41.6	22.7	86.8
As a % of total number of members						
<i>Defined benefit plans</i>	68.0	28.7	92.3	27.5	31.5	24.9
<i>Defined contribution plans</i>	19.8	42.3	5.9	16.9	35.2	5.4
<i>Other pension plans</i>	12.2	29.0	1.7	55.6	33.2	69.6

Notes: [a] Total employment includes workers in the public and private sector as well as self-employed workers in incorporated business (with and without paid help). Self-employed incorporated businesses are included in the private sector because, like their public and private sector counterparts, they are able to have a registered pension plan (RPP). [b] The registered pension plan data comes from the annual *Pension Plans in Canada Survey* (PPIC). Meanwhile, total employment data comes from Statistics Canada's *Labour Force Survey* (LFS). Although these two data sets (PPIC and LFS) are comparable, there are some conceptual differences that should be pointed out. First, members of Canadian Registered Pension Plans (RPP) living on Indian reserves (in any province or territory) as well as those working outside Canada (less than 1% of total RPP membership) are included in the pension plan membership but these groups are excluded from *Labour Force Survey's* estimates. Second, labour force estimates are annual averages while pension plan membership refers to the number of active, employed participants as of January 1, 2021. Finally, the *Labour Force Survey* does not cover full-time members of the Armed Forces. [c] Because of some conceptual differences between the PPIC and LFS, the percentage of employees covered by a pension plan might be lower than the numbers shown in this table. [d] Numbers may not add up to the total because of rounding. [e] When "n/a" appears, it refers to data that have been suppressed due to confidentiality.

Sources: Statistics Canada, 2022f, 2022e; calculations by the authors.

There is a dramatic difference between the registered pension coverage in the public and private sectors across all Atlantic provinces. For instance, in 2021, 22.0% of private-sector workers in Nova Scotia and 22.7% in New Brunswick were covered by a registered pension plan, compared to coverage rates of 91.3% and 86.8% among their public-sector counterparts. In Newfoundland & Labrador, 27.8% of private-sector workers were covered by a registered pension plan in 2021, while the rate of pension coverage for public-sector workers was 86.1%.

Among the Atlantic provinces, Prince Edward Island recorded the lowest pension coverage rates in both the private and public sectors. While 13.4% private-sector workers have a registered pension plan, 70.7% public-sector workers do.

The gap between the public and private sectors is also evident when we consider the second dimension, the type of pension plan in each sector. A defined benefit plan provides workers with a guaranteed benefit in retirement. A defined contribution plan, on the other hand, provides employees with a benefit that is based on their contributions, their employer's contributions, and earnings on the pension savings over time. A defined benefit plan is increasingly scarce in the private sector because of its high costs and risks for employers.

The comparative data presented in table 2 illustrate the scarcity of defined-benefit pensions in the private sector compared to the prevalence of these pension plans in the public sector. In

Prince Edward Island, in 2021, of the workers who were covered by a pension plan, 97.9% of those in the public sector held a defined-benefit pension compared to 24.2% of those in the private sector. Defined benefit plans also account for 92.3% of pension plan members in the public sector in Nova Scotia, while 28.7% of pension plan members in the private sector have a defined benefit pension. In Newfoundland & Labrador, 75.3% of pension-plan members in the public sector had a defined-benefit pension plan in 2021, while the share of defined benefit plans among private-sector pension-plan members was 48.0%.

New Brunswick is the exception. It introduced a new Shared Risk Pension Model in 2012.⁸ The shared-risk plans represent a hybrid of defined-benefit plans and defined-contribution plans: should contribution levels need to be raised or benefits adjusted, both employers and employees will share the responsibility. As a result, the share of defined-benefit plans among pension-plan members in the public (24.9%) and private sectors (31.5%) were similar in 2021.

Average age of retirement

On average, public-sector employees in Atlantic Canada retire earlier than private-sector employees. **Table 3** presents data on the average age of retirement for public- and private-sector workers between 2017 and 2021, for Canada as a whole and for individual provinces.⁹ On average, Newfoundland & Labrador's public-sector employees tend to retire 4.4 years earlier than private-sector employees. This is the largest difference in retirement age between the two sectors among Canadian provinces. In Prince

⁸ For more information about the Shared Risk Pension Model introduced by the Government of New Brunswick, please see *New/Nouveau Brunswick, 2012*.

⁹ Statistics Canada notes that the data on age of retirement should be used with caution because of small sample sizes, especially for the provinces. Five-year averages were used (2017–2021) in an attempt to mitigate this problem.

Table 3: Average retirement age (years), 2017–2021

	Total	Public-sector employees	Private-sector employees	Difference (years)
Canada	64.1	62.1	64.5	2.4
Newfoundland & Labrador	63.0	59.9	64.3	4.4
Prince Edward Island	64.9	63.1	66.3	3.3
Nova Scotia	64.0	61.7	64.7	3.0
New Brunswick	63.9	61.3	64.5	3.3
Quebec	63.2	61.1	63.9	2.8
Ontario	63.9	61.9	64.4	2.5
Manitoba	64.2	62.6	64.7	2.1
Saskatchewan	65.2	63.6	64.7	1.0
Alberta	65.1	63.4	64.9	1.5
British Columbia	64.8	63.4	64.8	1.4

Notes: [a] Total includes workers in the public and private sector, and self-employed individuals (including unpaid family workers). [b] The difference in years may not equal the difference as displayed by the data because the retirement-age years for both the public and private sectors are rounded.

Sources: Statistics Canada, 2022b; calculations by the authors.

Edward Island and New Brunswick, the figures are both 3.3 years. In Nova Scotia public-sector employees, on average, retire 3.0 years earlier than private sector employees.¹⁰

Job loss as a proxy for job security

Another way to compare government- and private-sector employees is to consider how likely each group is to experience job losses. **Table 4** presents data on job losses in 2021 (excluding workers with temporary employment) for Canada as a whole and for the provinces. There are several reasons for job loss, including firms moving location, firms going out of business, changing business conditions, and dismissal. In 2021, 7.8% of those employed in the private

sector experienced job loss in Newfoundland & Labrador, compared to only 1.1% of those employed in the public sector. In New Brunswick, 4.5% of private-sector workers experienced job loss compared to 0.6% of public-sector workers. While the rate of private-sector employees experiencing job loss was in 4.2% in Prince Edward Island and 4.3% in Nova Scotia, the figures for the public sector were 0.9% and 0.8%.

Absence rate of full-time employees

Table 5 presents a measure of the absence rate in the two sectors: total days lost per worker in 2021. Among full-time employees, an average of 10.0 days was lost for personal reasons in the private sector in Newfoundland & Labrador, compared to

¹⁰ The authors also examined median retirement age. Whether the average or median age of retirement is used, public-sector workers in the Atlantic provinces are found to retire at an earlier age than their private-sector counterparts. If the median retirement age is used, the difference in years is slightly larger. For instance, public-sector workers in Newfoundland & Labrador, Prince Edward Island, Nova Scotia, and New Brunswick, retire 5.3, 3.7, 3.2, and 3.6 years earlier, respectively, than the private-sector employees if the median rather than the average is used.

Table 4: Job loss by sector, 2021

	<i>Job losses (thousands)</i>			<i>Job losses (% of employment)</i>			
	Total	Public sector	Private sector	Total	Public sector	Private sector	Difference (percentage points)
Canada	617.9	42.4	575.5	3.8	1.0	4.8	3.7
Newfoundland & Labrador	10.9	0.8	10.2	5.4	1.1	7.8	6.6
Prince Edward Island	2.1	0.2	1.9	3.1	0.9	4.2	3.3
Nova Scotia	13.2	0.9	12.3	3.3	0.8	4.3	3.6
New Brunswick	10.7	0.6	10.1	3.3	0.6	4.5	3.9
Quebec	121.4	6.7	114.7	3.2	0.7	4.2	3.5
Ontario	282.5	19.2	263.3	4.5	1.3	5.5	4.2
Manitoba	17.7	1.8	15.9	3.1	1.1	3.9	2.9
Saskatchewan	13.0	1.5	11.5	2.8	1.0	3.6	2.5
Alberta	80.8	7.8	73.0	4.3	1.8	5.0	3.3
British Columbia	65.6	3.0	62.6	2.9	0.6	3.7	3.1

Notes: [a] Total employment includes workers in the public and private sectors. Self-employment is not included. [b] Reasons for losing a job include (1) company moved, (2) company went out of business, (3) business conditions and (4) dismissal by employer. Job losses as a result of an end of temporary, casual, and seasonal jobs are not included. [c] The difference in years may not equal the difference as displayed by the data because the job-loss percentages for both the public and private sectors are rounded.

Sources: Statistics Canada, 2022f, 2019c; calculations by the authors.

Table 5: Total days lost per full-time employee, by sector, 2021

	Total	Public sector	Private sector	Difference (days)		Total	Public sector	Private sector	Difference (days)
Canada	11.1	14.9	9.8	5.1	ON	10.0	14.0	8.8	5.2
NL	12.2	16.5	10.0	6.5	MB	10.1	12.9	8.9	4.0
PEI	11.4	15.6	9.3	6.3	SK	11.2	14.4	9.7	4.7
NS	12.4	15.2	11.3	3.9	AB	10.1	14.4	8.9	5.5
NB	11.9	15.6	10.2	5.4	BC	11.2	15.7	9.8	5.9
QC	13.1	16.4	12.0	4.4					

Notes: [a] Absence data are for personal reasons only: that is, illness or disability, and personal or family responsibility. [b] Days lost per worker are calculated by multiplying the inactivity rate (number of hours lost as a proportion of the usual weekly hours worked by full-time workers) by the estimated number of working days in the year (250). The estimated number of working days in the year (250) is in line with other research in the field. This number assumes that the typical full-time employee works a five-day week and is entitled to all statutory holidays (around 10 days a year). Thus, the potential annual labour supply of a typical worker would be 52 weeks multiplied by 5, less 10 statutory holidays, or 250 days. This allows the days lost per worker in a year to be calculated.

Sources: Statistics Canada, 2022a; calculations by the authors.

16.5 days in the public sector, a difference of 6.5 days. In Prince Edward Island, the gap between the two sectors was 6.3 days, in Nova Scotia, 3.9 days, and in New Brunswick, 5.4 days.

Conclusion

In 2021, Atlantic Canada's government-sector workers earned a wage premium of 11.9%, on average. When unionization is accounted for, the wage premium declines to 7.2%. These findings are in line with previous research investigating

wage differences between the two sectors in Atlantic Canada (Palacios, Li, and Whalen, 2019) and other parts of Canada (Palacios and Li, 2019; Palacios, Li, and Lafleur, 2019a, 2019b). While there is insufficient data to calculate definitively the differences in non-wage benefits between the public and private sectors in Atlantic Canada, the available data suggest that the public sector generally enjoys more generous non-wage benefits than the private sector, including higher rates of pension coverage, higher rates of defined benefit pensions, earlier ages of retirement, lower rates of job loss, and more days lost per worker.

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Acknowledgments

The authors would like to acknowledge the contributions of authors of earlier versions of this study, including Jason Clemens, Charles Lammam, and David Jacques. They also thank the anonymous reviewers of earlier drafts of this paper. Any remaining errors or oversights are the sole responsibility of the authors. As the researchers have worked independently, the views and conclusions expressed in this paper do not necessarily reflect those of the Board of Directors of the Fraser Institute, the staff, or supporters. This publication in no way implies that the Fraser Institute, its directors, or staff are in favour of, or oppose the passage of, any bill; or that they support or oppose any particular political party or candidate.

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About this Publication

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ISSN 2291-8620 | website: www.fraserinstitute.org

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