

TOWARDS EQUITY IN THE PENSION SYSTEM

A BRIEF

PRESENTED TO

THE ROYAL COMMISSION ON THE STATE OF PENSIONS IN ONTARIO

BY THE

ONTARIO COMMITTEE ON THE STATUS OF WOMEN

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INTRODUCTION

The adequacy of both private and public pension schemes has become an issue of increasing concern in recent years. It is a complex and difficult issue that impinges on almost all aspects of an individual's and the society's life. The purpose of this brief is to describe the hardships and inequities experienced by women under the present pension system and to recommend improvements.

INEQUALITY IN RETIREMENT INCOME

Table 1 shows the incidence of poverty among senior citizens in Canada. The majority have individual incomes that place them below the poverty line. Married females are the worst off, although presumably many share the income of their husbands who were the most prosperous group. Unattached women form the largest group and they have both lower average and lower median incomes than unattached men. Table 2 shows that the incidence and degree of poverty increases with age.

Table 3 shows sources of income and their relative importance for senior citizens. Women were more dependent on personal and family savings and old age assistance while men relied more on paid employment and work related pensions.

This data suggests that work related pensions are critical for obtaining a decent retirement income and that

provisions for spouses are inadequate. One cannot argue that as female participation in the labour force increases the inequality in work related pension income will be reduced. At present, of those in the labour force, a much lower percentage of women than men are covered by pension plans and in spite of both the increasing participation of women in the labour force and anti-discrimination legislation this gap in pensions is not closing.

EMPLOYMENT AND PENSIONS

Women's activity in the labour force is different from men's and this must be taken into account if women are to receive equitable pension incomes. The following aspects of women's labour force activity are important:

1. The Nature of Jobs Women Perform

Table 4 compares women and men as a percentage of the labour force by industry to the percentage of workers covered by pension plans. Women are concentrated in the industries that have the lowest percentage of workers covered by pension plans and it is into these industries that women are entering the labour force in the greatest numbers.

2. Discrimination in Wages and Salaries

Women typically earn only half to two-thirds of men's salaries. Because pensions are earnings related,

the discrimination women face in receiving equal pay for work of equal value directly affects their pensions. Thus, even in industries where workers are covered by pension plans women cannot expect to achieve parity with men in pensions.

3. Women's Career Patterns Within Jobs

The mechanisms and rules by which employers administer pension plans place women at a disadvantage because of their work patterns. Many more women work on a part time basis than men; many more women interrupt their work in the paid labour force to fulfill childrearing responsibilities and many more women are "ghetto-ized" in jobs that have high turnover rates. With the usual eligibility, vesting and locking-in requirements these factors often prevent women from participating meaningfully in employment related pension plans.

Part-time and seasonal work are generally excluded from pension plans. More than 80% of all plans covering more than 60% of all members have some requirement (years of service, minimum or maximum age) for participation in the plan. Two examples of how these requirements affect women are: 1) a young woman at 18 or 19 years of age is frequently excluded from the pension plan by the age requirement while she is working and when she reaches the age at which she could participate, she leaves the labour

force to raise children; and 2) in job categories with high turnover, length of service requirements preclude many employees from joining pension plans.

Vesting of contributions by employers for the majority of workers does not become available before 10 years of service, and only 0.2% of workers have vesting before 5 years of service. Locking in (a term which indicates that contributions to a plan made by and for an employee cannot be withdrawn in cash, but must be left in one pension plan or switched to another pension plan only) is by statute linked with vesting provisions and applies to workers at an even older age. The delay in vesting means that employers ultimately contribute only to the pensions of their older, long term employees who are usually men. The delay in locking-in means that pension funds can be spent as a nest egg on termination of employment. For women, this often occurs at times of increased expense or family crisis.

Although available statistics do not enable measurement of the effect, it is nevertheless clear that with the problems created by time and age restrictions, part-time work, and high turnover with its negative effects for vesting and locking-in, women are at a disadvantage in realizing the early, steady building of their own retirement savings

through employment related programs.

MARRIAGE AND PENSIONS

Women who occupy their traditional roles as mother and homemaker, either permanently or periodically, are also at a disadvantage in the present pension system. Even public pension schemes do not recognize the valuable contribution made by women as wives and mothers. Employment related pension schemes do not make adequate provisions for widows.

In the case of death before retirement most plans provide for the payment of some sort of benefit to the surviving spouse. In the private sector this is most commonly the mere return of employee contributions. This provision is the bare minimum that is tolerable--it transforms the pension plan into a poor personal savings vehicle and makes a mockery of employer contributions. In the public sector widow's pensions of usually one-half of the participant's pension accrued to date are frequently provided. The rationale for a spouse's pension at one-half of the accrued pension of the participating spouse can be seen for what it is if that accrued pension is viewed as a deferred income fund, perhaps a savings account. Succession duties aside, no one would argue that a widow should be entitled to inherit only half her husband's bank

account. We feel that the surviving spouse should be entitled to the retirement income deriving from an annuity purchased with the entire amount of deferred income in the deceased spouse's individual pension fund.

In the case of death after retirement benefits generally depend on the form of annuity purchased at retirement. The joint and last survivor option reduces the employee's retirement income since it introduces a second life (usually female and therefore longer) into the actuarial adjustment. The option "payable for life and guaranteed for a certain term", if that term is longer than five years, introduces both an element of risk for the dependent spouse and reduces the monthly pension for both.

With the exception of the Canada Pension Plan little or no thought has been given to the rights of spouses to a share of pension funds upon divorce. The rapid increase in divorce rates and the attempt to reform family law so that it is more equitable to women mean that this issue will have to be given serious consideration in the near future.

UNISEX TABLES

The differing mortality rates for men and women and women's consequent longer life expectancy affect all discussions of equality for women in the pension system.

Research seems to indicate that unisex mortality tables are unworkable and that their use would result in even more undesirable consequences. However the fact remains that in money purchase plans women in Ontario receive a smaller monthly pension for their equal contributions. One way of overcoming this difficulty might be to extend the retirement age for women.

CANADA PENSION PLAN

At a September 1977 meeting with the Minister of Community and Social Services the Ontario Committee on the Status of Women urged that the Government not await the findings of the Royal Commission but support immediately the drop-out amendment to the Canada Pension Plan. As the Government has not yet supported the drop-out amendment we ask you to recommend that they do.

The drop-out amendment has been accepted by all provinces except Ontario. The amendment has also been endorsed by the CPP Advisory Committee, the Advisory Council on the Status of Women, the Ontario Status of Women Council, the National Council of Welfare and others. Surely this support speaks for itself.

The Ontario Government argues that the drop-out provision would increase cross subsidies and that cross subsidies do not belong in the CPP. The Government claims

that the CPP is an insurance program and not a vehicle for income redistribution.

However, the CPP is not merely an insurance program. It is a social insurance program. As the Executive Director of the Canadian Council on Social Development points out:

The words 'social' and 'insurance' are both important. There is an insurance element in that risks are permitted to be pooled and a relationship exists between benefits and previous earnings. The insurance is 'social' in that it is publicly administered and includes internal subsidies, either from some of the participants or from public funds, both of which distinguish it from private insurance.

As the CPP Advisory Committee states, "Cross-subsidies are of the essence of CPP from its inception...it is social insurance and thus benefit and contribution rates, as well as benefit eligibility and conditions reflect social policy concerns". The National Council of Welfare notes that the goal of meeting social objectives "is inherent in the design of the CPP and was concurred in by all of the provinces when the Plan was established".

The drop-out provision will not "create" pension credits for parents. Rather, "it reflects a social concern: the protection of CPP benefit entitlements for a parent who foregoes earnings to raise young children".

Other aspects of the CPP have been updated to match changing social attitudes, e.g., providing survivor benefits to widowers. These revisions have added costs to the Plan. The drop-out provision would increase costs by only one-third of one percentage point by the year 2025.

The Ontario Government also objects to the drop-out amendment on the grounds that it is not equitable. The Government claims that the amendment would give preferential treatment to parents with some labour force attachment. The Government also claims that to the extent that the amendment constitutes subsidization of parental care it is unfair to have those with higher earnings given greater subsidies for the same work.

The drop-out amendment only gives preference to parents with labour force attachment to the extent that it protects the pension credits earned by those parents. As to the "subsidy" for child rearing being higher for those with higher wages, this is not a result of the amendment itself, but of the earnings related aspect of the CPP.

RECOMMENDATIONS

The following principles must be adopted if the pension system is to be equitable to women:

1. The goal of the complete pension system, including

public, work-related and individual components, must be to ensure decent incomes and dignity for retired people.

2. Legislative prohibitions against sexual discrimination are not sufficient. Actual, measurable equality must be the standard.
3. Women's contribution to society as mothers and home-makers must be recognized, incorporated into the pension system and accorded equal value with other types of work.
4. Ignoring inequality in retirement income because it is the result of some more basic discrimination is no more acceptable than ignoring the effect on pensions of inflation (a more basic economic problem).

Above we described the ways in which women's work patterns affect their pensions. Obviously the problem of equal pay for work of equal value must be attacked most strongly at its source--job and wage discrimination. The sex stereotyping of jobs also results in women being concentrated in industries where workers are not covered by pension plans. In this area education as to the need for work related retirement income would be a partial solution. Women in industries not covered by pension plans should be encouraged to press for a pension plan as a normal employee benefit. These women and women who work at home

should also be encouraged to make use of RRSPs. The need to provide pensions to employees that do not currently have them is so critical that we recommend an education programme be undertaken by the Women's Bureau or a similar agency to inform women of this need and that tax incentives be developed to encourage employers to offer pension plans.

In the area of women's work patterns improvements can be made immediately. All pensions should be made completely portable and all contributions should be fully vested and locked in immediately. Length of service requirements for eligibility tend to discriminate against women and therefore should be prohibited. Pro-rated pensions should be made available to part-time workers.

Until a dollar value is attached to their work it will be difficult to provide employment related pensions for women who work at home. The contribution of mothers and homemakers can be given recognition now in the pension system through adequate provisions for widow's pensions and the splitting of pension credits on dissolution of marriage. We recommend that there be no option at the time of retirement for provisions for spouses. All married people should be required to follow the programme known as the "joint and last survivor option". Upon the death of their husbands before retirement widows should be entitled to the total of the pension that would have been paid to

their husbands. The pension credits of both husband and wife accrued to the time of dissolution should be split equally between the two.

We do not support the use of unisex mortality tables, but we feel that the greater longevity of women calls for a later retirement age for women.

Finally, we ^{urge}~~argue~~ the Royal Commission to recommend that the Government approve the drop-out amendment to the Canada Pension Plan.

TABLE 1

Percentage of Individuals, 65 Years and Over,
with Incomes Under \$2,000, Average and Median
Incomes of Age Group by Sex and Marital Status
in 1971

Marital status and incomes of age group	Male	Female
<u>Married with less than \$2,000</u>	36.5%	86.9%
estimated numbers age 65 and over	550,000	376,000
average income	\$ 4,346	\$ 1,564
median income	\$ 2,773	\$ 1,309
<u>Single, divorced or widowed</u> <u>with less than \$2,000</u>	57.8%	69.2%
estimated numbers in age group	204,000	505,000
average income	\$ 3,072	\$ 2,273
median income	\$ 1,909	\$ 1,798

Source: Advisory Council on the Status of Women, Sex
Discrimination in Fringe Benefits, Table 6.

TABLE 2

Percentage of Unattached Individuals 65
Years and Over with Incomes Under \$2,000
in 1971

	65 - 69 years	70 years and over
<u>Male</u>		
Total estimated number in age group	57,000	107,000
Per cent with incomes under \$2,000	47.0	59.7
<u>Female</u>		
Total estimated number in age group	93,000	198,000
Per cent with incomes under \$2,000	51.7	68.3

Source: Advisory Council on the Status of Women, Sex
Discrimination in Fringe Benefits, Table 7.

TABLE 3

Sources of Income and Percentage Distribution of All Individuals, 65 Years and Over,
Who Filed Income Tax Returns for 1972, by Sex and Age Group.

	<u>All Returns 65-69</u>				<u>All Returns, 70 and Over</u>			
	<u>Male</u>		<u>Female</u>		<u>Male</u>		<u>Female</u>	
Number of Taxable Returns	164,070		72,255		145,561		101,047	
Number of Non-Taxable Returns	89,880		80,460		174,295		182,415	
Non-Taxable Returns as a % of Taxable Returns	54.8		111.4		119.7		180.5	
Sources of Income	<u>\$(000's)</u>	<u>%</u>	<u>\$(000's)</u>	<u>%</u>	<u>\$(000's)</u>	<u>%</u>	<u>\$(000's)</u>	<u>%</u>
Wages, Salaries and Commissions from Employment and other Employment Earnings	524,122	33.3	103,628	17.8	168,049	11.6	33,492	3.5
Unemployment Insurance Benefits	65,888	4.2	11,160	1.9	3,923	0.3	416	0.04
Net Commission Inc. Business Income, Professional Income	105,028	6.7	9,593	1.6	64,294	4.4	7,052	0.7
Farming or Fishing Income	47,090	3.0	3,329	0.6	36,935	2.3	7,774	0.7
Net Rental Income ¹⁾	33,908	2.2	13,518	2.3	44,834	3.1	24,284	2.3
Investment Income ¹⁾	279,195	17.7	207,270	35.6	490,084	33.9	514,859	54.5
Superannuation or Pension & CPP or QPP Benefits	290,573	18.5	93,809	16.1	316,144	21.9	110,037	12.1
Old Age Pension ²⁾	217,383	13.8	135,282	23.2	315,297	21.8	283,010	25.3
Miscellaneous Income	11,036	0.7	5,145	0.9	6,773	0.5	3,926	0.9
Total Income Assessed	1,574,223	100.0	582,734	100.0	1,446,333	100.0	984,850	100.0
Total Income Assessed for Taxable Returns	1,381,380		447,312		1,117,044		664,679	
Total Income Assessed for Non-Taxable Returns	192,843		135,422		329,289		320,171	
Average Income of Those Filing Non-Taxable Returns (actual amount)	2,140		1,683		1,889		1,755	

1) The largest single value item, quite consistently, was bank interest, followed by dividends (taxable amount), and bond interest. For the four categories in the columns, in order from left to right, bank interest contributed respectively 38.5; 35.0; 34.8; 29.8 % of investment income

2) The Guaranteed Income Supplement became non-taxable in 1971 and is excluded.

Computed from: Department of National Revenue, Taxation, Taxation Statistics, 1974 Edition, Table 4.

TABLE 4

Women as a percentage of the total employed labour force, percentage distribution of men and women by industry,
industrial distribution of pension plans and participation in plans by members, women and men, 1974

	Women as percent- age of the total employed labour force - 1974	Percentage Distri- bution of Women and Men by Industry 1974		Industrial Distribution of Pension Plans 1974		Participants in Plans Men - 1974		Participants in Plans Women - 1974		Participants in Plans - 1974 Total	
		% Women	% Men	Number	%	Number	%	Number	%	Number	%
Agriculture	16.1	2.4	6.6	84	0.5	906	-	111	-	1,017	-
Forestry				49	0.3	667	-	206	-	873	-
Mines, Quarries & Oil Wells				326	2.1	86,116	3.4	4,409	0.5	90,525	2.6
Manufacturing	24.2	15.5	25.7	4,632	29.2	770,032	30.8	138,335	14.9	908,367	26.5
Construction	5.4	1.0	9.5	1,090	6.9	226,010	9.1	8,972	1.0	234,982	6.9
Transportation & Communi- cation	17.1	4.3	11.0	827	5.2	300,803	12.0	63,125	6.8	363,928	10.6
Trade	37.5	18.7	16.5	4,262	26.9	137,786	5.5	58,491	6.3	196,277	5.7
Finance, Insurance and Real Estate	54.5	7.7	3.4	1,221	7.7	90,036	3.6	81,589	8.8	171,619	5.0
Community Business and Personal Service	59.0	44.5	16.4	2,902	18.3	276,046	11.1	349,859	37.7	625,905	18.3
Public Administration and Defence	28.9	5.6	7.3	460	2.9	608,452	24.4	222,300	24.0	830,752	24.3
Other	5.2	0.4	3.7								
All Industries	34.6										
Total		100.0	100.0	15,853	100.0	2,496,848	100.0	927,397	100.0	3,424,245	100.0

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