

Work Session on Gender Statistics
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**INCOME OF YOUNGER RETIRED WOMEN:
THE PAST 30 YEARS**

Paper submitted by Canada¹

Introduction

1. Like many OECD countries, Canada is going through a demographic transition. With rising life expectancy and lower fertility and net migration rates, the proportion of the population in older age groups continues to grow. The trend toward earlier retirement, coupled with increased life expectancy, has greatly extended the period of life after retirement, making the issue of pre-retirement financial planning more crucial than ever.
2. These trends have put increased financial pressure on public retirement-income security programs. It is said that concern over these programs has led to a fundamental change in social policy regarding retirement incomes in which the role of government is being reduced, and responsibility for provision of retirement income increasingly transferred to the individual. This view of retirement encourages people to become more self-reliant through employer-sponsored pension plans, tax-sheltered investment accounts, and other investments. This raises concerns for elderly women who, compared with men, have traditionally had lower average incomes and have relied heavily on income from universal, old-age transfer payments. Furthermore, the ability to become “self-reliant” assumes strong labour force attachment and sufficient earnings prior to retirement, as most pension plan benefits are dependent on previous earnings and length of service, and contributions to tax-sheltered investment plans depend largely on how much a person can afford to set aside. Even though the labour force experiences of women and men are more similar today,

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considerable differences persist. As a consequence, it can be assumed that women will have lower non-government retirement income than men.

3. This article examines the extent of change in the source, distribution and level of individual incomes of younger retired women and men that has resulted from the development and maturation of public and private pension plan programs. The younger retired (aged 65 to 69) are examined, since they represent the most recently retired, and therefore the most affected by changes to pension plan benefits and other determinants of retirement income. As the elderly of the future, their incomes immediately following retirement are likely to persist.² In other words, 65-to-69 year-olds can be viewed as the flow into the stock of retired persons. Trends in the incomes of 65-to-69 year-olds are, therefore, predictive of trends in the future incomes of the population age 65 and over. The paper also examines the long-term change in women's labour force involvement (including participation, earnings and pension coverage) as one of the reasons for the lessening of differences between the incomes of elderly women and men. It also discusses how both future labour market changes for women and current social roles may eventually affect women's retirement income.

4. This paper analyzes the incomes of *individuals* and, with the exception of the passage on low incomes, makes no reference to the incomes of the people with whom they may live. For those who live in families, individual incomes are not indicative of their standard of living or economic well-being since that is a function of family income, that is, the sum of individual incomes of those who make up the family.

5. The choice of individual incomes is driven by the paper's objective of showing how past trends have influenced the relative incomes of individual men and women aged 65 to 69, and how the incomes of those in this age group will influence the relative incomes of older age groups as those aged 65 to 69 continue to age. Individual incomes of persons aged 65 to 69 tend to be stable over time. Family incomes are unstable. The death of a spouse, particularly the spouse with the higher income, will often have a dramatic effect on the surviving spouse's standard of living. But it will not lower the surviving spouse's individual income. (In cases of retirement income sources with survivor's benefits, it may even increase it.) This means, for example, that a woman's income at age 65 to 69 is indicative of her income many years later when, given differences in life expectancy, the probability of widowhood is much greater and a decline in the standard of living may have occurred.

² The extent to which initial retirement incomes persist is largely a function of source of income. Indexed pension plans (public or private) will preserve the purchasing power of income received at age 65 to 69, as will indexed government transfer payments. The value of private pension plans with fixed benefits will be eroded by inflation. Investment income, to the extent that it comes from interest payments, will tend to vary according to the prevailing interest rate. This is evident in Table 1.

A. Overview of income sources

6. The income of elderly Canadians is derived mainly from three broad sources, often described as tiered:

First tier: Old Age Security (OAS) and Guaranteed Income Supplement (GIS)

7. Introduced in 1952, the OAS, in conjunction with the GIS, is a government income security program designed to provide a basic guaranteed income to all Canadians. It is available to all citizens aged 65 and over who meet certain residency requirements, regardless of past labour force involvement. The OAS provides a monthly flat-rate benefit fully indexed to the Consumer Price Index. The benefits began being taxed in 1989; since then, persons with higher incomes have had to repay all or part of this income.³

8. The GIS, which began in 1967, is an income-tested supplement intended for those 65 and over with low income levels, which includes many who rely almost solely on OAS. A Spouse's Allowance (SA) was introduced in 1975 as another income supplement for those with limited income.⁴ Neither of these government supplements is taxable and neither requires previous contributions. Provincial governments also provide supplemental income programs for elderly persons with low income, although these are small relative to the programs just described.

Second tier: Canada/Quebec Pension Plan (C/QPP)⁵

9. This 1966 government-sponsored social insurance program is aimed at providing workers with a certain level (roughly 25%) of previous earnings, up to a ceiling, after retirement.⁶ The plans provide mandatory coverage for all workers aged 18 and over, regardless of status (for example, full-time, part-time, employees or self-employed workers), and both employees and employers are

³ More recently, the amount paid under OAS in any one year is based on the previous year's income. This has the same general effect as taxing the benefit after it is received.

⁴ This is available to persons 60 to 64 who are married to a GIS recipient or who are widowed.

⁵ The Quebec Pension Plan is administered by the province of Quebec but is viewed in this paper as identical to the Canada Pension Plan, which operates in the other nine provinces and the three territories.

⁶ The ceiling is based on an estimate of average annual earnings in Canada and is updated regularly.

required to contribute.⁷ Benefits are available to anyone who has worked and contributed to the C/QPP,⁸ but the size of the benefits depends on the contributory period and annual average earnings during that period.

Third tier: Private savings – private pension plans (RPPs); RRSPs; private investments

10. Employer-sponsored, registered pension plans (RPPs), also known as “private pension plans” to distinguish them from the Canada/Quebec Pension Plan, have existed since the late 1800s but became widespread after the Second World War. They are provided to workers by some employers and unions and are designed to replace a proportion of previous earnings after retirement. The bulk of RPPs require both the employee and employer to make contributions. Benefit rates are usually calculated as a fixed percentage of earnings for each year of service, and the formula is meant to replace approximately 60% to 70% of previous earnings for those with many years of service (Statistics Canada, 1996).⁹

11. Registered retirement savings plans (RRSPs), introduced in 1957, were designed to provide individual workers with a tax incentive to save for retirement. The annual maximum workers could save has changed several times since 1957, but throughout the years the ceiling for those with RPPs has been lower than for those without. Since 1991, the plan has allowed taxpayers to contribute up to 18% of their annual earned income, and then to defer paying tax on the amount contributed and on any interest or capital gains earned.

⁷ The self-employed must pay both the employee and employer share of C/QPP contributions.

⁸ In order to be eligible for benefits, the CPP requires at least one payment, while the QPP requires contributions for a minimum of one year.

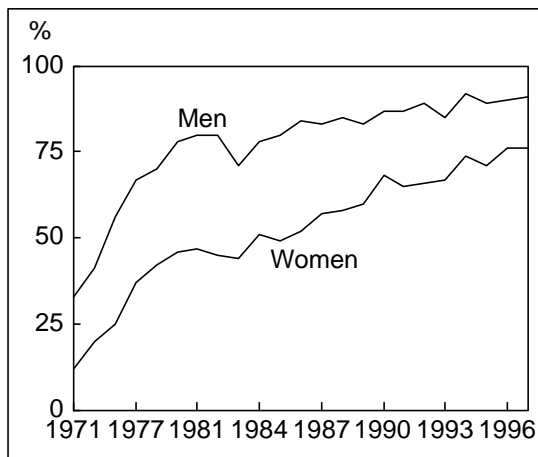
⁹ In many cases, employer-sponsored pension plans have been “integrated” with the Canada/Quebec Pension Plans so that the earnings replacement ratio (say, 50%) is achieved through a combination of employer-sponsored plan benefits and C/QPP benefits.

B. Income

Source of income has altered for the elderly

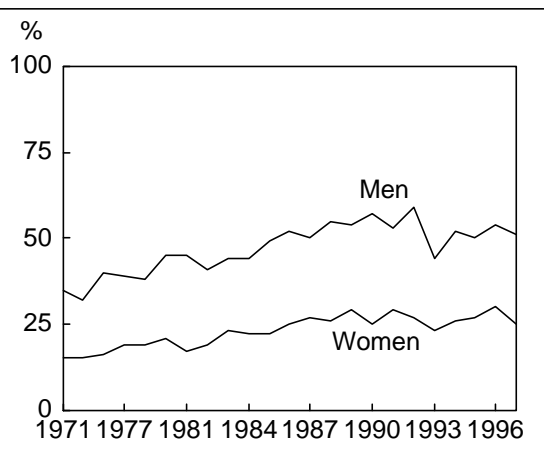
12. The enhancement and maturation of public and private pension plans in Canada has resulted in changes to the type of income young retirees have received over the past 30 years. Although the incidence rate for receiving pension benefits has increased for both sexes, the rate for women, because of their relatively low involvement in the labour force, has been consistently lower than men's. For example, in 1992, after the C/QPP had been in existence for 25 years, 89% of men aged 65 to 69 were receiving retirement benefits from the plan, compared with only 66% of women (Chart A). However, given that the C/QPP is compulsory, and that women's labour force participation has been increasing, the incidence rate for C/QPP benefits reached 76% for women in 1997 (up 10 percentage points), while the rate for men increased to 91% (up 2 points).

Chart A: Persons 65 to 69 with C/QPP benefits.



Source: Survey of Consumer Finances

Chart B: Persons 65 to 69 with private pension income*.



Source: Survey of Consumer Finances

* Includes RPP benefits and/or RRSP annuities.

13. By 1997, one-half of men and one-quarter of women aged 65 to 69 were receiving some income from a private pension (Chart B).¹⁰ The rate of receiving private pension income has increased for both sexes since 1971, but in contrast to the experience with C/QPP, the difference between the two has not yet narrowed. One of the reasons for this may be the exclusion from RPPs

¹⁰ Some women may be receiving survivor's benefits, although the incidence of this is probably low for the 65-to-69 year group.

until the 1980s of most part-time workers (who are predominantly women) (Statistics Canada, 1996).

... as has the distribution

14. The increasing incidence of receiving second- and third-tier type income (public and private pensions) has changed not only the distribution of income sources, but also total income for the recently retired. Again, the effect of pension income has been more striking for men than for women. By 1997, private pension income had become the main source of income for men and represented 26% of the total, up from 16% in 1971 (Table 1). Private pension income for women represented only 12% of the total in 1971, and 14% in 1997. On the other hand, whereas C/QPP income was almost non-existent in 1971, it had come to represent one-fifth of the incomes for both women and men by 1997. It is important to note that although reduced from 51% in 1971 to 34% in 1997, women's reliance on OAS/GIS remains high and still represents their main source of income. Equally noteworthy is men's decreased reliance on employment income, from over one-third in 1971 to 20% in 1997, reflecting declining labour force participation rates for this group.

Table 1. Average total income, and percentage distribution* by income source for persons 65 to 69

	Women				Men			
	1971	1981	1991	1997	1971	1981	1991	1997
	%							
OAS/GIS	51	40	34	34	20	18	18	19
C/QPP	2	10	17	22	3	13	17	20
Private pension	12	8	13	14	16	17	23	26
Investment income	20	27	20	12	19	21	12	7
Employment	11**	10	10	11	38**	26	25	20
Other transfers	4**	5	6	7	4**	5	5	8
	1997\$							
Average income (after tax)	2,100†	12,800	14,300	14,200	5,100†	24,000	24,600	23,300
Female - male income ratio	0.41	0.53	0.58	0.61				

Source: Survey of Consumer Finances

* Distribution based on before-tax income.

** Published data for 1971 collapse employment and other transfer income; for presentation purposes, an estimation by the author has been made of the likely breakdown of these sources based on past trends.

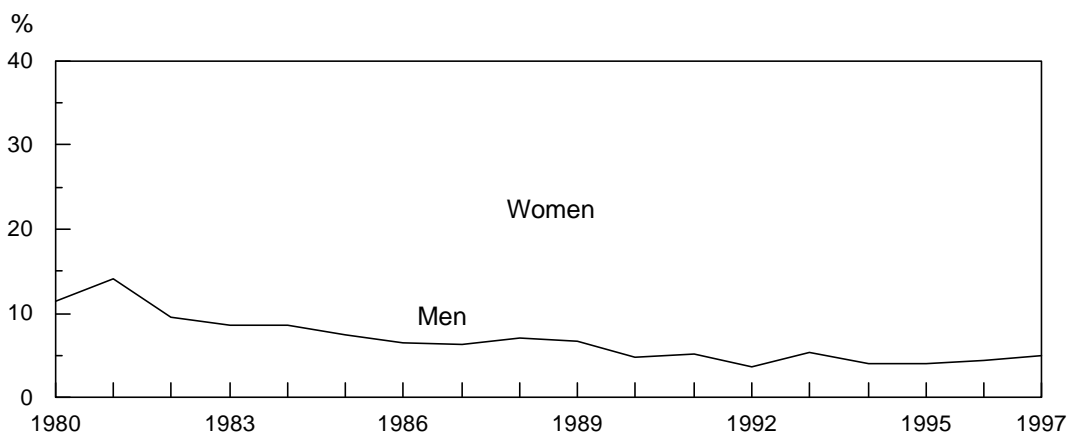
† This figure is before tax and has not been converted to 1997 dollars.

15. The proportional increases in both private and public pension income have also helped to raise the total average income of women aged 65 to 69, from \$12,800 in 1981 (in 1997 dollars) to \$14,200 in 1997 (Table1). The increased pension income for men has helped to offset the large decrease in employment income, though not enough to prevent a slight drop in their total average income from \$24,000 in 1981 to \$23,300 in 1997. Overall, women's income levels have moved toward those of men. For example, in 1971 women aged 65 to 69 received 41% of men's income; by 1981, the percentage had increased to 53% and by 1997, it reached 61%.

Living in low income

16. The narrowing of the income gap is reflected in the narrowing of the gap between the percentages of women and men living with low incomes. Low income is measured on the basis of *family* income rather than on *individual* income (studied everywhere else in this paper). The incidence of men and women living in low income is, therefore, not just a function of their individual incomes, but for those living in families, of their combined (that is, family) income. In any case, in 1980 some 39% of women aged 65 to 69 were living in low income; that is, their family after-tax income was less than 50% of the median income of all families and unattached individuals regardless of age. This rate had decreased to 9% by 1997 (Chart C). Although the incidence of low income has dropped for men aged 65 to 69 as well, the change has been much smaller: from 11% in 1980 to 5% in 1997.

Chart C: The incidence of low income has dropped considerably for women aged 65 to 69.



Source: Survey of Consumer Finances

* Based on low income measures (One-half median adjusted family-unit income).

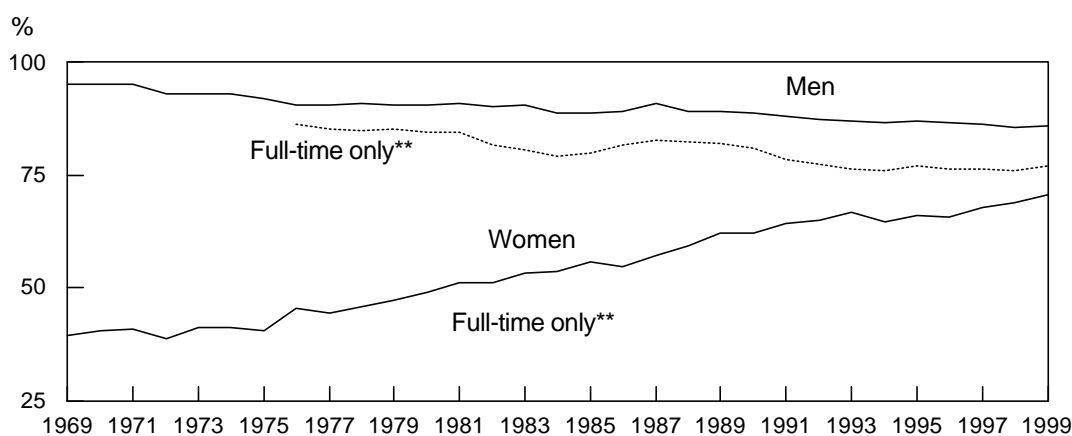
17. In summary, the proportion of young retired persons receiving public and private pension benefits has increased steadily since these income programs were introduced. Furthermore, these sources have come to represent a larger proportion of total income. However, the percentage receiving these pensions and the average annual amounts received, have been consistently lower for women than for men. These pension differences between women and men narrowed somewhat during the late 1980s and the 1990s—a direct result of women’s increasing involvement in the labour market. But what was the extent of the labour force attachment of the women who retired during this period, and how does it compare with that of older and younger generations? Using cohort analysis, the next section compares the labour market trends of women who retired in the late 1990s with those of men, and older and younger women.

C. Labour force attachment

Labour force participation rates converge

18. One method of examining the previous labour force attachment of several generations of young retired women is to look at the employment behaviour of younger women in earlier years. For example, women who were aged 65 to 69 in 1999 would have been in their pre-retirement years in 1984, when they were between 50 and 54. Using this form of analysis to examine labour force participation rates, the study found that 54% of women aged 65 to 69 in 1999 were in the labour force during their early fifties (Chart D). This compared with a labour force participation rate of 89% for men aged 50 to 54 in 1984. The data also show that the labour force participation rate of pre-retirement women has changed tremendously: 15 years earlier (1969), only 39% of women aged 50 to 54 were in the labour force; 15 years later (1999), a full 71% were participating. On the other hand, an opposite trend has occurred for men: whereas a full 95% aged 50 to 54 were in the labour force in 1969, only 86% were participating by 1999.

Chart D: Labour force participation converges for women and men aged 50 to 54*.



Source: Labour Force Survey

* For the years 1969 to 1971 the age category is 45 to 54.

** Prior to 1976 the hours of work data have a high percentage of missing values.

19. As well, men have consistently been more likely than women to work full time. However, similar to the trend in overall participation rates, full-time employment rates have dropped for men aged 50 to 54, and increased for women. As of 1999, however, the full-time employment rate was still considerably lower for women: 50% versus 77%.

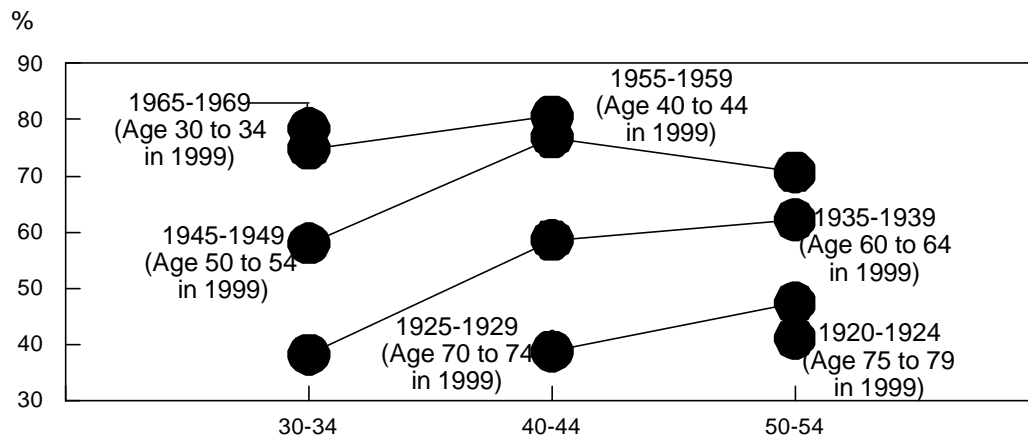
Women's participation now high throughout life cycle

20. Although the majority of women may now be participating in the labour force a decade before the traditional age of retirement, pension eligibility and earnings-replacement rates are generally dependent on lifetime years of service. A common pattern for women of earlier generations was to withdraw from the labour force through the child rearing years, and then return to work once their children had grown up. Again, based on cohort analysis as a proxy for lifetime labour force participation rates, findings confirm that rates have tended to rise as women age (Chart E).¹¹ For almost all the cohorts of women examined, labour force participation was lowest when they were in their early thirties and highest when they were in their early fifties. However, not only have pre-retirement participation rates increased for the cohorts of women born after WWII, but so too have the early and mid-career rates of women from younger generations. For example, only 39% of

¹¹ Cohort analysis of cross-sectional data enables estimations of life-long participation rates, however, it cannot tell about the movement of women in and out of the labour force, which is an important element when determining total years of service. Longitudinal data are needed to know the number and duration of work interruptions for women over the past 30 years.

women born between 1925 and 1929 were participating in the labour force in their early forties, compared with 81% of women born between 1955 and 1959. Unlike earlier generations, who tended to become involved in the labour force only later in life, women today tend to have high labour force participation rates throughout their adult lives. However, the findings confirm that for the women who retired in the late 1990s, labour force participation was strong only at the end of their working lives.

Chart E: Life course labour force participation rates of women born 1920 to 1969.



Source: Labour Force Survey, 1969-1999

Earnings converge as well

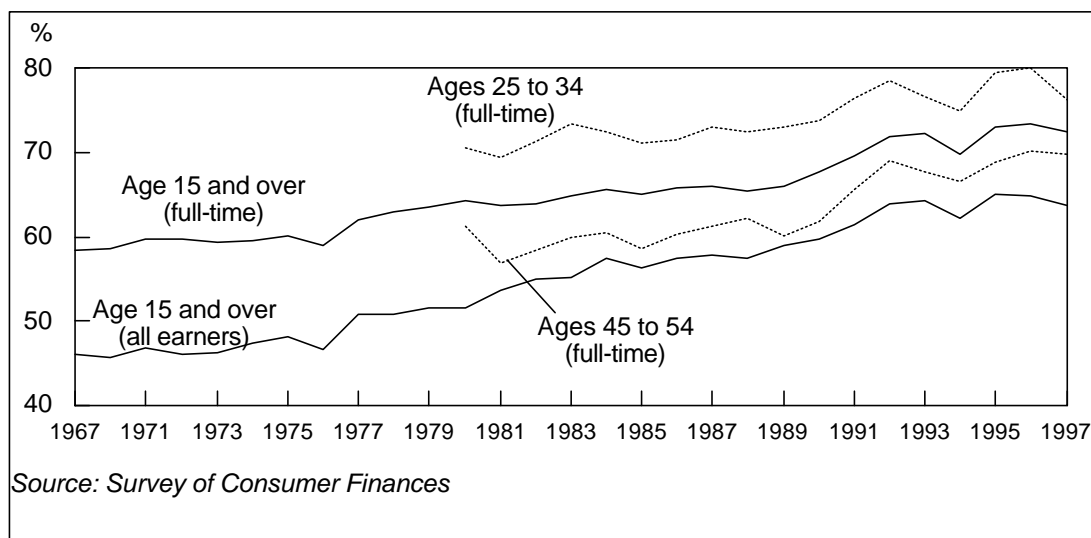
21. Pension benefits are a function of both the number of years in which one contributed to the plan and the earnings during the years when contributions were made. The data in the previous section suggest a steady increase in the number of years that women are potential contributors to pension plans, compared with a slight decline for men. This section looks at the earnings of women and men. For a number of reasons not addressed in this paper, women have consistently earned less than men. However, similar to the trend with labour force participation rates, the earnings gap between women and men has narrowed over the past 30 years. In 1967, earnings of women working full year full time were 58% of men's, but increased to 72% by 1997 (Chart F). Also, as seen earlier, not only do younger women now have higher-than-ever participation rates, but they have also made the largest gains in earned income relative to men. For example, in the late 1990s women aged 25 to 34 working full year full time had earnings close to 80% of their male counterparts'. However, women

who retired in the late 1990s—the key interest group—were earning only around 60% of men's earnings during their pre-retirement years (aged 45 to 54 in the early 1980s).

Women's participation increases in private pensions

22. In terms of average individual retirement incomes, the amount contributed by pension schemes is a function of three variables: the years of contribution, the level of earnings while contributing, and the probability of having contributed at all. Since coverage of the Canada/Quebec Pension Plan is effectively universal, the third variable does not play a role. However, private pensions are by no means universal and so the proportions of men and women participating in a private pension plan will have a bearing on the level (and composition) of *average* retirement incomes measured over the entire population. More women now belong to an RPP for two main reasons: their labour force participation has increased, and so too has their access to this benefit. In 1983, some 36% of women in paid jobs were members of an RPP. This rate had increased to 40% by 1997 (Table 2). The employee coverage rate has grown largely because of revised legislation that has required employers with RPPs to include part-time workers. In contrast, the coverage rate for men has dropped: from 52% in 1983 to 42% in 1997. The declining rate for men can be attributed primarily to the proportional employment decreases in areas such as manufacturing and the public sector, industries that are more likely than others to offer RPPs.

23. The data suggest that in the long term, retired women will be almost as likely as men to receive a pension from an RPP. However, given the differential incomes of women and men, the level of benefits will not be the same. This is because over 70% of all RPP members belong to plans that calculate pension benefits based on a percentage of previous earnings. For the vast majority of these members, pensions are accrued at 2% for each year of service. That is, average annual pensions will equal 2% of earnings multiplied by the number of years of participation in the plan.

Chart F: Women's average earnings as a percentage of men's.

24. With regard to RRSPs, findings show that approximately 3 out of 10 women and 4 out of 10 men were making contributions by the end of the 1990s, with women contributing roughly two-thirds of men's contributions (\$2,000 versus \$2,900 in 1998). As with RPP coverage, women's lower contribution rates and amounts are influenced by lower labour force participation rates and lower average earnings. However, although not a common practice, RRSP rules allow spousal contributions to be claimed as tax deductions for the earners themselves.¹² Although RRSP participation rates can be a useful indicator of retirement planning, lifetime accumulation levels are more important, albeit not currently known.¹³

D. Income, labour force attachment and social roles

25. The above data have demonstrated that for many of the key factors associated with pension benefits—number of years of labour force participation, level of earnings, and pension plan coverage—the experiences of women and men are becoming more similar. This confirms the sense that traditional roles of husband-as-breadwinner and wife-as-homemaker have been converging.

¹² Some women may accumulate RRSP savings through spousal contributions, although this activity is not widespread. For example, in 1989 only 3.4% of RRSP contributors made some or all of their contribution in their spouses' names, and 98% were husbands making the contribution.

¹³ The 1999 Survey of Financial Security, scheduled to be released in late 2000, will be able to provide important information on total RRSP savings. This survey will also provide the first review since 1984 of the amounts invested outside RRSPs and the value of non-financial assets such as dwellings, both of which are important in the determination of economic well-being in the retirement years.

Recent time-use data show that although work roles still tend to follow these lines, women, on average, are increasing their time spent on paid work, and men are increasing their time spent on housework, childcare and other unpaid work. However, despite a “blending” of the roles, women still carry most household and family responsibilities, and this affects the time they have available for paid work, and ultimately their economic success: “This [women’s family responsibilities] has an impact on their career advancement and their earning capacity” (Townson, 1995). Therefore, given the continuing role distinction, it is unlikely that women’s and men’s labour force attachment will match in the near future. This means retirement incomes will continue to differ as well, since the ability to save depends on level of earnings. Furthermore, pension benefits are dependent on total years of service and previous earnings; even though some RPPs take into account women’s role in family responsibilities,¹⁴ most do not.

¹⁴ The federal public service pension plan allows employees to take up to five years off for the “care and nurturing” of preschool-aged children, and employees are then able to “buy back” these pensionable years of service when they return to work. The buy-back option is also available for other kinds of extended leave.

Table 2: RPPs and RRSPs

	Paid workers covered by an RPP		Taxfilers under age 65 who contributed to an RRSP, and median contribution				
	Women	Men	Women	Men	Women	Men	
	%		%	\$	%	\$	
1983	36	52	1994	27	2,000	37	2,800
1985	36	50	1995	30	2,000	38	2,800
1987	36	48	1996	31	2,000	39	3,000
1989	37	47	1997	32	2,100	39	3,000
1991	41	49	1998	30	2,000	40	2,900
1993	42	47					
1995	41	44					
1997	40	42					

Sources: *Pension Plans in Canada, Catalogue no. 74-401-XIB; Small Area and Administrative Data Division, unpublished data.*

Summary and conclusions

26. In line with the perceived goal of retirement policy today, young retired Canadians are becoming more reliant on pension income and personal savings. For example, income from C/QPP and private pensions represented only 14% of total income for women aged 65 to 69 in 1971, and 19% for men. By 1997, the income from these sources had increased to 36% and 46%, respectively. However, despite a narrowing of the difference in the late 1980s and 1990s, the percentage of women receiving pensions and the average amounts received remain considerably lower than those of men.

27. The narrowing of the difference between women's and men's retirement income in the late 1990s can be attributed partly to the greater lifetime labour force attachment of recently retired women. The income difference will most likely continue to diminish in the future because of the even stronger labour force involvement of young women today. However, given that women are still predominantly responsible for most household and family work, it would be unrealistic to expect their labour force involvement ever to equal that of men. Therefore, since retirement income is linked with labour force attachment, it is also unlikely that women's and men's retirement income will converge.

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