



NATIONAL ACTION COMMITTEE
on the status of women
LE COMITÉ NATIONAL D'ACTION
sur le statut de la femme

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Discussion Paper on Pensions



NAC EMPLOYMENT COMMITTEE
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Introduction

The financial status of elderly Canadians today is a national disgrace. A majority of our senior citizens (53.3%) have incomes so low they qualify for the Guaranteed Income Supplement (G.I.S.) - an income-tested form of welfare. The situation is worst for the single elderly, whose incomes from OAS/GIS fall well short of the poverty line. Within this category, some 75% of the single elderly are women. For example, the median income before taxes of a woman aged 65 and over in 1976 was a mere \$2,700.00¹.

There is every indication that the problem will increase in proportion. Statistics Canada projections indicate that we will see a dramatic rise in the number of older single women by the turn of the century. In 1976, there were 128 females age 65 or over for every 100 males in the same age group. By the year 2001, there are expected to be 149 females for every 100 males in this category.

This situation must not be allowed to continue. What is required is nothing short of a social security revolution - a major revamping of our retirement income system.

An immediate increase in O.A.S.

The most urgent problem is the plight of today's elderly. What is required is an immediate increase in Old Age Security (O.A.S.) benefits to provide an adequate living standard. Specifically, what is proposed is O.A.S. benefits equal to 25% of the Average Industrial Wage (A.I.W.), or \$4,550 in 1981. This would be a significant improvement over the current O.A.S. benefits of \$208.20 per month or \$2,450 per year.

1. L.O. Stone and S. Fletcher, A Profile of Canada's Older Population (The Institute for Research on Public Policy, 1980) P. 80.

Some observers have suggested that this should be handled through an increase in G.I.S. We reject this approach because it places an undue emphasis on demeaning income-tested benefits to provide what should be an automatic right for elderly Canadians.

An Expanded and Improved C/QPP

Another immediate priority is the expansion of the existing Canada and Quebec Pension Plans (C/QPP) to provide benefits of 50% of the A.I.W. Combined with O.A.S., this would mean benefits of 75% of the pre-retirement income up to the A.I.W., and these benefits would be fully indexed to reflect increases in the cost of living.

Moreover, this amendment to the C/QPP should be made fully retroactive, so that all benefits are immediately up-dated to 50% A.I.W.

Some observers have taken an either/or approach to this question, arguing that mandatory private pension plan coverage is a viable substitute for an expanded C/QPP. We reject this approach, because the public pension system is vastly superior to any private sector plans in a number of key areas which particularly affect women:

- a) CPP benefits are fully portable, on a Canada-wide basis. This is extremely important since women change jobs more often than men.

- b) CPP benefits are immediately vested. In contrast, benefits under most private pension plans do not fully vest until age 45 and 10 years of service.
- c) CPP benefits are indexed to the Consumer Price Index. In 1978, only 214 pension plans covering 32% of all members provided comparable protection, and these were mostly in the public sector.
- d) CPP provides for the drop-out or removal of periods of low or no earnings (to a maximum of 15%) in calculating pension entitlement. There is no counterpart to this in private sector plans, and hence periods of little or no earnings tend to reduce benefits.
- e) Through the adoption of the child-rearing drop-out provision, the CPP provides a vehicle to disregard periods of child-raising. This will remove the present inequity whereby women suffer a severe economic penalty in order to bear and raise children. This measure has already been adopted in the QPP and, again, there is no counterpart to this under private pension plans.
- f) C/QPP provides an existing vehicle to provide truly universal coverage to all participants in the labour force. This includes part-time, casual, domestic, agricultural, and self-employed workers - most of whom are women caught in ghettoized occupations with no provision for pensions. At present, only 31% of women in the labour force are covered by private pension plans, compared to 50% for males. Moreover,

- f) in some sectors the coverage problem is even more severe - for example, Trade and Commerce (11%), Construction (4%) and Agriculture (0.4%)

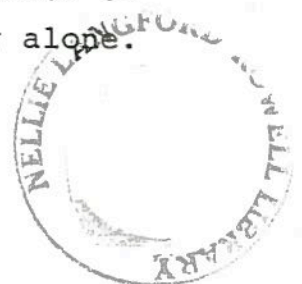
Index the CPP/QPP to Wages

The CPP/QPP must be amended to ensure that benefits are indexed not to the Consumer Price Index, as is now done, but to wages.

The Consumer Price Index only imperfectly measures the impact of inflation on the population as a whole and fails to measure the disproportionate impact the extremely rapid rise in the prices of food, shelter, and clothing has on the elderly.

According to Statistics Canada, in 1974, single individuals over the age of 65, three-quarters of whom were women, spent 58% of their income on food, shelter and clothing alone. The comparable statistic for married people with the head of the household (for the Government of Canada that usually means the male) age 65 or over was 46%.

There is every reason to expect that, unless pensions are indexed to a more representative measure, from the standpoint of the elderly, than the CPI, because of the rapid price hikes in food, shelter, and clothing, these items will comprise an even greater proportion of the incomes of women over the age of 65, particularly those living alone.



While, in the last few years primarily because of the wage controls which were imposed between 1975 and 1978, the rise in wages has not kept pace with inflation, in the long run wages have risen faster than inflation.

Child-Rearing Drop-Out Provision

The child-rearing drop-out provision, as outlined above, is not yet a reality for the vast majority of Canadian women (the exception is, of course, in Québec). The result is that women must bear a double economic penalty to bear children - initially, in the form of lost wages and career prospects, and on retirement in the form of reduced CPP and private pension benefits.

This inequity must not be allowed to continue. The Government of Ontario is single-handedly responsible for this regrettable situation, since the amending formula for the CPP (2/3 of the provinces, with 2/3 of the population) gives it veto power. This tyranny of the Ministry must end immediately.

Reform of Employer-Sponsored Pension Plans

The measures outlined above - expansion of the O.A.S, and C/QPP - will go a long way towards solving the malaise in our retirement income system. However, as long as private pensions continue to play a role, there is a need for fundamental reform in the rules and regulations governing those plans.

Elimination of Eligibility Requirements

The first and most obvious reform is the elimination of all age and service criteria for eligibility in a pension plan. In 1978, for example, 70% of all pension plans specified some service requirement prior to an employee being eligible to participate in the plan.² These provisions, in effect, discriminate against women because of the high rate of turnover and concentration of younger females in the labour force.

Some observers have argued that a relaxed eligibility rule, such as one year of service, is sufficient, and will relieve the administrative burden on employers. We totally reject this, on the grounds that employers have a social obligation to offer pension plan to all employees, regardless of service. A one year rule would instead reinforce and legitimize temporary jobs with high turnover and no career prospects.

Ban on Discriminatory Features in Pension Plans

Some pension plans today have built-in discriminatory features. For example, slightly less than 1% of plan participants face different service requirements for men and women. Some 181,000 plan members, or 4.3% of the total, face different retirement ages for male and female members.³

² Pension Plans in Canada, 1978 (Statistics Canada 74-401) P. 27.

³ *ibid.* p. 27 and p. 39

Vesting and Portability

Even if these discriminatory eligibility criteria are removed, working women will face the prospect of sporadic periods of employment with different employ with little or no pension on retirement - due to stringent vesting requirements.

A typical vesting requirement in private pension plans would specify that you only earn a right to a pension on retirement after 10 years of service. In 1978, this vesting rule was in effect for 58.4% of all pension plan participants.

These stringent rules have only one purpose - to prevent most plan members from ever collecting. They discriminate against women who change jobs more frequently, and may never obtain full vesting.

An immediate vesting rule should be enacted in all jurisdictions. This would recognize pensions for what they are - deferred wages - and ensure entitlement to all participants in private pension plans.

Immediate vesting is not enough, however. What is also required is a central pension agency operated by the government to handle the transfer of pension credits between places of employment. In this way, all vested pension benefits could be combined to provide a decent pension income on retirement.

Thirdly, a requirement should be enacted to provide for an automatic indexing of deferred vested pension benefits. All too often, the surplus earnings of deferred benefits accrue to the employer, thus enabling him to reduce pension costs. Instead, all deferred benefits should be escalated in value. Otherwise, benefits from earlier years of employment would rapidly decline in value.

Mandatory Survivor Benefits

Most private pension plans today offer benefits up until the plan member is deceased, and only provide benefits for survivors (spouse and dependents) as an option. In the traditional single-earner family, this option was offered to the male plan member. The initial pension was reduced, due to the greater longevity of the woman, and on the death of the plan member, the spouse would receive, say a 50% survivor benefit.

Several problems are evident, which must be addressed through amendments to pension laws covering private pension plans in the various jurisdictions. First, the survivor benefits are not mandatory (except in Saskatchewan) and therefore a plan member can elect a life-only option and leave the surviving spouse with nothing. Second, the normal 50% survivor benefit is inadequate to maintain the same standard of living for one person. Thirdly, insurance companies already reduce the initial benefit in order to provide a survivor option, and therefore a spouse would receive only 50% of a reduced pension.

These inequities must be rectified. A mandatory 100% survivor benefit should be enacted in all jurisdictions, including under the CPP/QPP, with the benefit payable to either spouse. Moreover, any reduction on the initial pension payable should be prohibited. Obviously, it is not enough to mandate survivor benefits, and allow insurance companies to reduce benefits accordingly.

Unisex Tables

Another dubious practice of the private insurance industry is to provide unequal benefits to women and men under money-purchase pension plans. Fully 43.2% of all pension plans in 1978 were of the money-purchase variety, but these plans only covered 4.8% of plan members.

The reason this practice persists is that pension plans are allowed to use mortality tables which differentiate on the basis of sex. Therefore what is required is the mandatory use of unisex mortality tables in calculating these benefits.

Recently the Canadian Human Rights Commission tackled this problem in its proposed benefit regulations under the Act. If enacted, they would require that equal benefits be paid to women and men under money-purchase plans. However, the CHRC did not mandate the use of unisex tables and in fact explicitly allowed for unequal pension contributions by employers in respect of women. The CHRC's half-measure may this mean that employers will be reluctant to hire women in the federal sector, because of the differentially-higher pension costs. Hence, it is a poor substitute for unisex tables.

Splitting of Pension Credits on Divorce

It is now widely recognized by pension reformers that pension credits, like all common property, should be shared equally on divorce. The precedent for this has been established in some provinces, and others should adopt it through legislation.

While the concept of pension-splitting on divorce is now readily accepted, the practical methods may take years to fine-tune. Some observers in this debate have suggested that actuaries be asked to determine the rules for credit-splitting. It is ironic that they are willing to put this amount of faith in a profession which vigorously opposed the unisex concept outlined above.

As an alternative, we recommend a committee of representatives from employee and employer groups, to establish fair and equitable rules for credit-splitting.

Equal Pay for Work of Equal Value

Pensions cannot be addressed in isolation from other social issues. The fact is that pension benefits are wage-related, and therefore disparities in the wages paid to men and women will be reflected in pension benefits. Since women's wages are only 58% of that of their male counterparts, this guarantees that pension benefits for women will maintain this social hierarchy.

What is required, therefore, is the introduction and vigorous enforcement of equal pay for work of equal value legislation in all jurisdictions in Canada. Only when wage equality is achieved will women have equal status in terms of pensions.

Conclusion

It is apparent from the above discussion that an expanded and improved OAS/C/QPP is the only vehicle that can provide comprehensive and adequate pension coverage for women in this country. It is only through a public pension system that we can deal with child-rearing and other periods of little or no earnings without seriously impairing pension entitlements.

It is also evident that for supplementary private pension plans, a major revamping of the legislation is required if these plans are going to provide any kind of a pension on retirement.