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PENSION SECURITY FOR WOMEN

Report of the Standing Committee on the Status of Women

Hon. Hedy Fry, MP
Chair

DECEMBER 2009

40th PARLIAMENT, 2nd SESSION

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THE STANDING COMMITTEE ON THE STATUS OF WOMEN

has the honour to present its

NINTH REPORT

Pursuant to its mandate under Standing Order 108(2), the Committee has studied women and pension security and has agreed to report the following:

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PENSION SECURITY FOR WOMEN

INTRODUCTION

At its meeting on October 1, 2009, the Standing Committee on the Status of Women (hereinafter the Committee) opted to study the question of women and pension security. This study has allowed the Committee to explore questions relating to both public and private pensions, and to examine the question of income security for women who have not participated in the paid work force. The Committee held 10 meetings with 37 witnesses — government officials, academics, labour organizations, private sector organizations, and advocates. It is the hope of the Committee that its deliberations on the question of women and pensions can feed into the many public policy discussions under way at this time, so that all Canadians, both women and men, will be able to benefit from adequate and predictable income in their retirement years.

Canada has developed an income security system for seniors which relies on three key pillars: a universal social program, a public pension system and tax-assisted savings through employer pension plans and registered retirement savings plans.

In order to plan for retirement Canadians must be assured that their income will be adequate to meet their basic needs. In order to maintain a standard of living close to that which they enjoy prior to retirement, it is also important to look at the income replacement rate of seniors — the proportion of their pre-retirement income that they receive after retirement.

For many seniors in Canada, the past two years have given rise to a number of important questions relating to their income security. Seniors who depended on income from private savings have seen the value of investments depreciate sharply, resulting in significant drops in their overall income. Some seniors who had counted on an employer pension have found themselves with reduced benefits when bankruptcy prevented companies from adequately funding their pension obligations. These events affected men as well as women. As Mr. Dan Braniff of the Canadian Association of Retired Persons told this Committee; “The financial crisis has maybe given us one little gift, in that it's exposed the deficiencies and cracks in the present system.”[1]

1 *Evidence*, 2nd Session, 40th Parliament October 27, 2009 (Mr. Dan Braniff, Chair, Georgian Bay Chapters, Canadian Association of Retired Persons).

This is a critical moment in the policy discussions relating to pensions in Canada. Comprehensive reviews of the pension system have been carried out by expert commissions in Nova Scotia, Ontario, Alberta and British Columbia. In early 2009, the federal government launched a consultation aimed at strengthening the legislative and regulatory framework for private pension plans subject to the *Pension Benefits Standards Act, 1985*, announcing a reform plan in October 2009.

In addition, the Canada Pension Plan (CPP) and its Quebec counterpart, the Quebec Pension Plan (QPP), underwent their scheduled triennial review in 2009. In May 2009, changes to the CPP were recommended by federal-provincial-territorial Ministers of Finance. Recommended changes require the approval of the Parliament of Canada as well as the approval of at least two-thirds of the provinces with two-thirds of the population of Canada before they come into force. These changes are currently before Senate in Bill C-51.

Finally, at a meeting in May, federal-provincial-territorial finance ministers agreed to create a working group to examine a range of research issues related to retirement income adequacy in Canada. This Research Working Group on Retirement Income Adequacy will report to the federal-provincial-territorial Ministers of Finance and Ministers Responsible for Pensions at their upcoming meeting in Whitehorse in December.

It is within this context that the Committee undertook its study of women and pensions in the fall of 2009.

CHAPTER 1: WOMEN AND PENSIONS

Since this study has been undertaken by the Committee, a recurring question was whether there is a difference in the access of women and men to retirement income. The testimony heard by the Committee allows it to conclude, as did Ontario's Expert Commission on Pensions, that while women have almost achieved parity with men in terms of pension coverage, the same cannot be said for pension adequacy. The Ontario Expert Commission on Pension pointed out three reasons why the pensions of women are inadequate: women who take time out from paid employment for child-rearing and elder care will have fewer years of pensionable service; women often earn less than their male counterparts; and women retirees can be expected to live longer than their male colleagues.[2] These conclusions corroborate what the Committee has heard from the vast majority of witnesses.

A. Women and the Labour Force

Earlier generations of women had limited attachment to the paid labour force. In many cases, this has left them to face higher levels of poverty in their senior years. This is particularly the case for older women living on their own. The Committee heard that in 2005, 80% of unattached low-income seniors were women.[3] Older groups of women are the most susceptible to poverty. While the low income of some of these women may be mitigated by family support, others may not benefit from this type of support, which may leave them vulnerable. The Committee proposes options to alleviate the poverty of this group of women in Chapter 2 of this report.

The Committee has heard that "changes in labour force participation have played the primary role in the changes in the composition of women's retirement income".[4] Future generations of women will benefit increasingly from the 2nd pillar of the retirement income system, the CPP and the QPP. Data from the CPP indicates a dramatic increase in the proportion of women over 65 receiving the CPP. According to Statistics Canada "[b]etween 1980 and 2006, the proportion of senior women in Canada receiving CPP or QPP benefits more than doubled, from 35% to 84%, and of those who are receiving benefits, the median amount…increased from $3,100 to $5,500."[5] The Committee has also

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2 Ontario, The Expert Commission on Pensions, Final Report of the Commission on Pensions: *A Fine Balance, Safe Pensions, Affordable Plans, Fair Rules*, October 2008.

3 *Evidence*, 2nd Session, 40th Parliament, October 6, 2009 (Mr. Thomas Shepherd, Director, Retirement and Aging Division, Department of Human Resources and Social Development Canada).

4 Ibid.

5 *Evidence*, 2nd Session, 40th Parliament, October 20, 2009 (Mr. Grant Schellenberg, Senior Analyst, Analysis Branch, Statistics Canada).

heard that women are now as likely as men to be covered by a workplace pension plan. The proportion of women receiving retirement income from RRSPs, pensions and superannuations increased from 20% to 55% between 1980 and 2006, and the median amount received by recipients increased from $4,600 to $7,400.[6] In their presentation to this Committee, Statistics Canada predicted that the women who are now in their thirties, forties and fifties will have higher lifetime earnings than any preceding generation of women. The Chief Actuary of the CPP told the Committee that:

> Based on the most recent CPP actuarial report, the overall labour force participation rates in Canada from 1976 to 2006 clearly show a narrowing of the gap between male and female rates. While this gap was 32% in 1976 it has narrowed to 10% in 2006, and is expected to narrow further but at a slower pace.[7]

These statistics demonstrate that women are increasingly retiring with income of their own. While these indicators bode well for future generations of women upon retirement, they do not tell the whole story.

While women are now almost as likely as men to draw CPP income, the amounts they receive from CPP are much lower than the amounts received by men. This is projected to be the case until at least 2050, according to projections by the Chief Actuary of the CPP. Similarly, women who are covered by a workplace pension plan earn less than men and are therefore likely to receive less money from these pension plans in retirement. Women also continue to have lower annual earnings than men (see Figure 1.1)

6 Ibid.

7 *Evidence*, 2nd Session, 40th Parliament, November 3, 2009. (Mr. Jean-Claude Ménard, Chief Actuary, Office of the Chief Actuary, Office of the Superintendent of Financial Institutions Canada).

Figure 1.1 Distribution of Earnings by Sex

% of earners with earnings	Women				Men			
	1980	**1990**	**2000**	**2007**	**1980**	**1990**	**2000**	**2007**
below $5,000	20.4	17.9	15.8	16.5	9.6	10.9	11.8	12.7
$5,000 to $9,999	12.7	14.1	13.2	11.9	6.3	8.4	8.4	8.4
$10,000 to $14,999	10.9	10.9	10.6	10.2	5.3	6.4	6.7	6.5
$15,000 to $19,999	8.8	8.9	9.2	8.3	5.3	5.6	5.7	5.9
$20,000 to $24,999	10.2	8.2	7.9	7.4	5.3	5.8	5.7	5.5
$25,000 to $29,999	9.1	8.6	7.1	7.2	5.3	6.5	6	6
$30,000 to $34,999	8.2	6.9	7.6	6.5	6.4	5.5	5.9	5.8
$35,000 to $39,999	5.6	6.9	6.4	6.1	6.9	7	5.4	5.8
$40,000 to $44,999	3.8	4.3	5	5.1	7	6	5.7	5.1
$45,000 to $49,999	3	3.7	3.9	3.8	6.9	5.9	5.6	4.7
$50,000 to $59,999	4	4.6	5.3	5.8	12.5	10.2	9.6	8.6
$60,000 and over	3.3	5	8.1	11.3	23.2	21.7	23.5	25.1

Source: Library of Parliament, based on Statistics Canada Cansim table 202-0101.

The Chief Actuary of the CPP told the Committee:

> The gap in employment earnings between women and men has also narrowed over the last 40 years. The ratio of female-to-male average employment earnings stood at about 48% in 1996 and was 71% in 2006. The 23rd CPP actuarial report projects that this ratio will further increase to 84% by 2050.[8]

While the Committee joins the Chief Actuary in expressing optimism that these trends indicate that future generations of female retirees will have access to more adequate retirement income, the Committee is nonetheless concerned with the conclusion that there is expected to be an ongoing gap in earnings between women and men, and the implications of this gap for the retirement income of women.

Tammy Schirle, assistant professor of economics at Wilfrid Laurier University indicated that while annual earnings ratio is about 70%, the hourly wage ratio between women and men is 85% (see Figure 1.2). She clarified the difference between the two measures as follows:

8 *Evidence*, 2nd Session, 40th Parliament, November 3, 2009. (Mr. Jean-Claude Ménard, Chief Actuary, Office of the Chief Actuary, Office of the Superintendent of Financial Institutions Canada).

> The difference in annual earnings is in part what women receive as the hourly wage but also what they work in terms of hours over the year. On average, women are working many fewer hours than men are, so that gives them lower annual earnings than men.[9]

Figure 1.2 Female-to-Male Average Hourly Wage Rate Ratio

AGE	2000	2002	2004	2006	2008
15 to 24 years	89.3	90.0	90.4	90.5	89.4
25 to 54 years	80.4	81.9	83.4	84.0	83.8
55 years and over	74.6	74.4	78.3	79.8	81.1

Source: Library of Parliament, based on Statistics Canada Cansim table 282-0074.

There are a number of ways to compare the earnings of women and men. Some measures compare the earnings of full-year, full-time workers. Using this measure, the average earnings of women in 2007 was 74.5% of the average income of men.[10] Other measures compare the annual earnings of women and men. Since women are more likely to work part-time or part-year, the gap in earnings is larger using this measure — the average annual earnings of women for 2007 is 65.8% that of men.[11] The female-to-male average hourly wage rate ratio compares the hourly wage of women and men. According to this measure, women aged 25 to 54 earn 84% as much as their male counterparts.[12]

All witnesses who reported on the earnings ratio between women and men suggested that this ratio currently is in the range of 70 to 75%. Witnesses have identified a number of reasons why the annual earnings of women are lower, on average, than that of men. Ms. Martine Sohier of Watson Wyatt Worldwide identified a number of these factors, and the implications of these factors for the pension income of women:

> Many women face interruptions in their working career, generally to take care of children and other family members. These interruptions translate into fewer years of potential pension coverage for women who have access to a pension plan. As women leave and re-enter the labour force, they most often transition into new jobs. This means that new waiting periods must be observed before they qualify for membership in a new pension plan. We know that part-time work is more prevalent among women than men. Part-timers may accrue significantly lower pension accruals during their working period, which can easily range from a decrease of 20% to 40% compared to full-time employees.[13]

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9 *Evidence*, 2nd Session, 40th Parliament, November 3, 2009. (Dr. Tammy Schirle ,Assistant Professor, Department of Economics, Wilfrid Laurier University, as an Individual).

10 Data from Statistics Canada. Cansim Table 202-0101.

11 Ibid.

12 Data from Statistics Canada. Cansim Table 282-0074.

13 *Evidence*, 2nd Session, 40th Parliament, November 17, 2009 (Ms. Martine Sohier, Senior Consulting Actuary, Retirement, Watson Wyatt Worldwide).

From the evidence above, it is clear that future generations of women will have more access to their own retirement income than older women today. All indicators suggest, however, that there will continue to be a gap in the retirement income of women and men. As noted earlier, projections by the chief actuary suggest that this will still be the case in 2050, the last date for which he has prepared projections.

B. The Life Expectancy of Women is Higher than that of Men

Witnesses reminded the Committee that because women live longer than men, they need to save more. Martine Sohier of Watson Wyatt Worldwide suggested that “under current economic conditions, women may need to save between 8% and 10% more than men to maintain the same standard of living during retirement.”[14] The difference in life expectancy is not reflected in the current rules relating to programs such as RRSPs, leaving women vulnerable to run out of savings.

C. Unattached Women

The proportion of women who are approaching retirement in marital relationships has remained relatively stable at between 70 and 80% over the last 20 years. The remaining unattached women include those who have never been married, those who are widowed, and those who are divorced. While in earlier generations of seniors the majority of these women used to be widowed, today the larger proportion of them are divorced. A witness from Statistics Canada noted that the incidence of low income among unattached women who are divorced is higher than it is among those who are widowed or were never married. He noted that, for those who are 75 and over, the low-income rate before taxes was 28% for women who had never married during their lives, 29% for those who were widowed and 42% for those were divorced. For those in the 65 to 74 age group, the low-income rates for the widowed and never married are in the range of 25 to 30%, compared to approximately 39% for those who were divorced.[15] Several witnesses suggested that the incidence of late-life divorce was one that bears particular scrutiny, noting that the pension system had not been designed to deal with this situation.

Witnesses noted that most provincial jurisdictions provide for a roughly equivalent division of pension benefits earned during the marriage upon marriage breakdown. A number of difficulties remain, however. For example, the money transferred from a pension plan upon divorce is generally moved into a personal RRSP, where it is a challenge to manage the money so that it can accrue interest comparable to in the pension

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14 Ibid.

15 *Evidence*, 2nd Session, 40th Parliament, October 20, 2009 (Mr. Grant Schellenberg , Senior Analyst, Analysis Branch, Statistics Canada).

fund. Witnesses also noted that the divorced spouse who may have taken time out of the labour market to raise children is not necessarily the beneficiary of the survivor benefits of her or his former spouse. These will be addressed in the body of this report.

The Committee heard that while couples generally make financial choices jointly, these decisions are usually made on the assumption that the couple will remain intact. In the event of separation or divorce, the parent who may have chosen to stay at home may have to return to the labour force. The possible consequences of such a decision were outlined in the testimony of Dr.Tammy Schirle:

> When you look at how decisions are made by families, we can definitely say that those decisions are made jointly. So a husband and wife are going to sit down together and decide how much each of them is working in the labour market, how much time each of them is spending in the household and on child care, and all of these things, and all of their financial planning would be done jointly as well. Now, there is some individual aspect to that. To the extent that if a woman spends time out of the labour force for child care, which might just be the choices they make as a family, she's the one who has to take the penalty in the sense that she's lost some labour market experience. She might have given up that raise, given up a job promotion. That happens, and you just take that as part of the package of staying home to take care of your children. The concern is that if that couple were to get divorced, you couldn't contract how to handle that loss in the labour market. You can try. We do try to account for these things in divorce agreements, at least to some extent, but it's not something we can measure perfectly, so it's not something we can contract perfectly.[16]

The Committee also heard that unattached women are unable to benefit from income splitting provisions, unlike their married counterparts.

Witnesses suggested that the retirement income system requires adjustments to take into consideration the impact of divorce and separation on women, as well as widowhood.

D. Summary

In his presentation before the Committee, Mr. Edward Whitehouse of the Organisation for Economic Co-operation and Development (OECD) encouraged the Committee to consider the changing role of women in society in pension design:

> [I]f we have a world where we have men who go out to work and women who stay at home and look after children and have those caring responsibilities, then it is quite easy and simple to devise a pension system to suit that world of the single male breadwinner.

16 *Evidence*, 2nd Session, 40th Parliament, November 3, 2009 (Dr. Tammy Schirle ,Assistant Professor, Department of Economics, Wilfrid Laurier University, as an Individual).

> If men and women participate in the labour market on equal terms, if they have similar hours of work, similar earning levels, and they work a similar number of years over their career, then equally it is very simple to devise a pension system that suits a world of that form. The trouble is, most countries are in a transition. Countries have been moving at different paces, but they are all moving in the same direction away from the single male breadwinner model towards a model of much more equality in the labour market between men and women. But our preliminary analysis suggests that we are still quite a long way from a position of there being equality between men and women in the labour market.[17]

The individual situation of women arises out of life choices, obligations and also unexpected circumstances. Some of their life choices, obligations and unexpected circumstances may have the long-term effect of reducing the retirement income women will receive throughout their retirement years. This report contains recommendations to support women in their choices, and to minimize the long-term costs of their obligations and unexpected life events.

The Committee notes that the differences in earnings between women and men are in part due to decisions they make regarding caregiving. The Committee recognizes that men are taking on increasing roles in providing care to children, the sick and the elderly across the country. The recommendations in this report will hopefully lead to a greater recognition of the role played by these men as well. Witnesses expressed a hope that policy-makers would pay attention to the issue of unpaid work and that the valuable unpaid care provided by men and women throughout this country will be adequately recognized so that that it will not come at the cost of poverty in their senior years.

17 *Evidence*, 2nd Session, 40th Parliament, 5 November 2009 (Mr. Edward Whitehouse, Head of Pension Policy Analysis, Social Policy Division, Organisation for Economic Co-operation and Development).

CHAPTER 2: THE FIRST PILLAR OF THE RETIREMENT INCOME SYSTEM — OLD AGE SECURITY AND THE GUARANTEED INCOME SUPPLEMENT

The primary role of Canada's Retirement Income System is to provide older Canadians with *adequate* and *stable* income in retirement. The Committee examined whether this goal is being met for Canadian women.

Mr. Edward Whitehouse, Head of Pension Policy Analysis at the OECD told this Committee that Canada "has the fifth-lowest old age poverty rate among the 30 OECD countries, around 4%, compared with the OECD average of around 13%." [18] In comparison with old age poverty rates of 25% in the United States, and 30% in Australia and Ireland, the rate of 4% places Canada in an enviable position.[19]

Despite this, some older Canadians continue to have incomes beneath the Low-Income Cut-Offs established by Statistics Canada. Although the low-income rate for seniors in couples is very low, it is considerably higher for unattached seniors. Unattached seniors are considerably more likely to experience low income and, as Figure 2.1 demonstrates, senior women living on their own are somewhat more likely than their male counterparts to live in poverty. The number of senior women living in poverty (123 000) is considerably higher than that of men (approximately 44,000), in part because there are more senior women than men in Canada. The relatively low levels of poverty[20] among seniors is often attributed to the income floor provided by the Old Age Security (OAS) and the Guaranteed Income Supplement (GIS).

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18 *Evidence*, 2nd Session, 40th Parliament, November 5, 2009 (Mr. Edward Whitehouse, Head of Pension Policy Analysis, Social Policy Division, Organisation for Economic Co-operation and Development).

19 To calculate the poverty rate, the OECD uses a measure of equivalized disposable income , which is established by summing up all monetary incomes received from any source by each member of the household (including income from work, investment and social benefits) plus income received at household level and deducting taxes and social contributions paid and certain unavoidable expenditures. In order to reflect differences in household size and composition, this total is divided by the number of "equivalent adults" using a standard (equivalence) scale. The poverty threshold used by the OECD is a relative threshold; it is half of the median of this equivalized household income. (Based on information retrieved on the Eurostat Web site at: http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Equivalized_disposable_income and the testimony of Mr. Edward Whitehouse, November 5, 2009).

20 Although Canada does not have an official poverty line, the after tax low-income cut-offs (LICOs) are often used as a proxy for a poverty line. LICOs are established using data from the Family Expenditure Survey, now known as the Survey of Household Spending. They convey the income level at which a family may be in straitened circumstances because it has to spend a greater proportion of its income on necessities than the average family of similar size. For more information on the LICOs, see the Web site of Statistics Canada at: http://www.statcan.ca/english/freepub/75F0011XIE/2004001/notes_lowincome.htm#lico.

Figure 2.1 Persons in Low Income after Tax (92 LICOs base), Showing Prevalence and Estimated Number — Canada

	2000	2001	2002	2003	2004	2005	2006	2007
Unattached Elderly persons	**20.6%**	**18.1%**	**19.4%**	**17.7%**	**15.4%**	**18.5%**	**15.5%**	**13.9%**
	223 000	**197 000**	**222 000**	**201 000**	**173 000**	**208 000**	**179 000**	**168 000**
Unattached Elderly males	17.6%	16.8%	15.9%	14.7%	11.5%	13.6%	14.0%	13.0%
	51 000	50 000	50 000	46 000	36 000	41 000	45 000	44 000
Unattached Elderly females	21.7%	18.6%	20.7%	18.9%	16.9%	20.3%	16.1%	14.3%
	172 000	147 000	172 000	155 000	137 000	167 000	134 000	123 000

Source: Statistics Canada, *Income in Canada 2007* pp. 87 and 88.

The first goal of Canada's retirement income system is to prevent and alleviate low-income among Canadians sixty-five years of age and over. OAS is a virtually universal non-contributory public pension provided to 98% of Canadians sixty-five and older. The income of low-income seniors is further supplemented by the GIS.

In their presentations to this Committee, the Department of Human Resources and Skills Development Canada and the Department of Finance provided a brief overview of OAS and GIS, indicating that OAS provides a basic monthly income of $517 per month to virtually all seniors who meet residency requirements. In addition to the basic OAS pension, low-income seniors may also qualify for the GIS, which provides a monthly benefit of up to $652. Low-income spouses and common law partners of GIS recipients, who are aged 60 to 64, can receive the Allowance. For low-income survivors aged 60 to 64, there is an Allowance for survivors. OAS benefits are indexed to inflation, and funded from general revenues. Spending for 2009-2010 on these programs is expected to be $36 billion.[21]

As we saw in Chapter 1, some women have a different pattern of paid and unpaid work than men. The OAS Program and GIS are not linked to labour force participation, thus they provide pensions for those who have had only limited involvement in paid employment, and supplement the earnings of those who have inadequate employment-related pensions. As Monica Townson, Research Associate with the Canadian Centre for Policy Alternatives noted, the "OAS is paid to individuals, it doesn't depend on labour force

21 *Evidence*, 2nd Session, 40th Parliament, November 3, 2009. (Mr. Chris Forbes ,General Director, Federal-Provincial Relations and Social Policy Branch, Department of Finance).

participation, and it doesn't depend on the earnings of a spouse. It gives women a pension in their own name and it respects women's economic autonomy."[22]

As some witnesses noted, and as Figure 2.2 below indicates, it is worth noting that women constitute more than half of OAS recipients, two-thirds of GIS recipients, and 90% of allowance recipients. This reflects the fact that women are more heavily reliant on this first pillar of the retirement income system.

Figure 2.2 OAS, GIS and Allowance Beneficiaries

	OAS						Allowance		
	Women ('000)	Total ('000)	Women (%)	Women ('000)	Total ('000)	Women (%)	Women ('000)	Total ('000)	Women (%)
2009	2,567	4,619	56	1,053	1,670	63	87	96	91
2015	3,090	5,676	54	1,212	1,970	62	80	89	90
2025	4,241	7,947	53	1,500	2,506	60	77	86	90
2050	5,774	10,909	53	1,722	2,838	61	48	53	91

Source: Correspondence from Human Resources and Skills Development Canada to the Standing Committee on the Status of Women, based on data in the 8th Actuarial Report of the OAS Program.

Witnesses applauded recent changes to OAS and GIS, including the increase to monthly GIS benefits made in 2006 and 2007, and an increase from $500 to $3500 in the amount that can be earned in employment before the GIS benefit is clawed back. This allows low-income seniors to earn more without having their GIS benefits reduced. The Committee has heard that other forms of income, such as RRSP revenue, are not subject to the $3500 exemption. The Committee is concerned that this might discourage low-income Canadians from saving for their retirement. As a result, the Committee recommends:

Recommendation 1

That the exemption on earned income in the Guaranteed Income Supplement be extended to other forms of income, such as RRSP income.

22 *Evidence*, 2nd Session, 40th Parliament, November 19, 2009 (Ms. Monica Townson, Consultant and Research Associate, Canadian Centre for Policy Alternatives).

The Committee heard that, whereas previously an application for the Guaranteed Income Supplement had to be filled out every year, there is now a one-time application to get the GIS. The Committee urges the Government to continue efforts to simplify the application process for receiving the GIS.

The income floor of the OAS and GIS is still slightly below the poverty line for some seniors — particularly those living on their own. The OECD reported that OAS plus GIS bring households to about 90% of the poverty thresholds they have calculated for Canada. The Committee recommends:

Recommendation 2

That the Guaranteed Income Supplement be raised to the after-tax low-income cut-off.

As noted earlier, unattached seniors are much more likely to face low income. Seniors in couples are vulnerable to facing poverty when they lose their partners due to death or divorce. Because women have a longer life expectancy than men, this is a situation which is disproportionately experienced by women. The costs incurred by a person living on their own are lower than the costs incurred by a couple, but the OAS program recognizes that certain costs (such as rent and property taxes) are fixed whether or not they are shared. This is accounted for in the adjustment factor for the OAS program. The Committee heard that the adjustment factor currently used by HRSDC to calculate the costs incurred by an individual on their own compared to a couple is 1.4. Witnesses have suggested that this does not accurately reflect the actual costs of living alone, so the Committee recommends:

Recommendation 3

That the adjustment factor for single individuals be adjusted from 1.4 to 1.6 of the couple amount in recognition that the adjustment factor of 1.6 more adequately reflects the costs of living on ones' own.

The Committee has heard that the survivor benefit in the OAS was initially designed under the assumption that the surviving spouse (usually the woman) had provided unpaid caregiving work which had limited her labour force participation, leaving her dependent on the retirement income of her spouse. Several witnesses noted that, as a result of a growing rate of divorce, the individual who provided that care role is not necessarily the surviving spouse who receives the benefit. As a result, the initial goal of the OAS survivor benefit is not being consistently met.

CHAPTER 3: THE SECOND PILLAR OF THE RETIREMENT INCOME SYSTEM — THE CANADA PENSION PLAN AND QUEBEC PENSION PLAN

The CPP and QPP make up the second pillar of our retirement income system in Canada. These plans are mandatory contributory pensions for workers, funded in equal parts by the employer and employee. The CPP provides contributors and their families with basic income replacement upon retirement, disability, or death of a wage earner. It covers workers in all sectors of the economy, including those working in non-standard arrangements and the self-employed, both of which are important sectors for women. The CPP provides a retirement pension equivalent to 25% of the contributor's average annual lifetime earnings up to a maximum of $908.75 a month.

The CPP is financed through mandatory contributions from virtually all workers and their employers, including the self-employed. The contribution rate is 9.9% of earnings between $3,500, which is the Year's Basic Exemption and the Year's Maximum Pensionable Earnings ($46,300 in 2009). The contribution rate is split equally between employees and employers so that the maximum amount paid by employees and employers per year is $2,118.60 (2009) each. The self-employed pay both the employee and employer share of the contributions.[23]

As we saw in Chapter 2, the first goal of Canada's retirement income system is to prevent and alleviate low-income among Canadians sixty-five years of age and over. The second goal of Canada's retirement income system is to help Canadians avoid a significant decline in their standard of living when they retire. This goal is met through a combination of the mandatory contributory pensions for workers (CPP and QPP) and tax-assisted private savings in RPPs and RRSPs.

The replacement rate provides information on the pension income relative to earnings when working. The net replacement rate compares the after-tax income, whereas the gross replacement rate compares the income levels before tax. The replacement rate is a useful measure of the ability of seniors to maintain their pre-retirement standard of living.

The combination of the CPP and OAS/GIS is intended to provide an income replacement rate of about 40%. A 2009 report by Canadian economist Monica Townson

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23 Direct citation from Department of Finance. Information Paper: *Proposed Changes to the Canada Pension Plan*. May 2009, http://www.fin.gc.ca/n08/data/09-051_1-eng.asp.

indicates that "OAS provides about 13% of pre-retirement earnings. Retirement benefits from the CPP provide another 25% for a total of 38%."[24]

A recent OECD report, *Reforming Retirement Income Systems: Lessons from Recent Experiences of OECD Countries*, pointed out that the mandatory pension in many OECD countries provide a higher gross replacement rate than that in Canada. The average gross replacement rate in the OECD is 58.7%, compared to about 40% in Canada. As a result, Canadians need to make up a greater share of their retirement income from private sources which comprise the third pillar of the retirement income system, either through RPPs or RRSPs.

A. Level of Benefit

Although the maximum CPP benefit is $908.75 a month, the majority of recipients receive considerably less than that amount. Ms. Monica Townson told the Committee that:

> [T]he average monthly retirement pension that's being paid to men who retired in May 2009 was $564 and for women, it was only $391. In other words, women were getting less than 40% of the maximum benefit. That difference, of course, reflects the fact that many women's have spent less time in the paid work force over their lifetimes than men have, but in particular that women have lower earnings than men.[25]

As the table below indicates (Figure 3.1) the Office of the Chief Actuary projects this discrepancy between the CPP benefit received by women and men into the foreseeable future.

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24 Monica Townson. *What can we do about pensions?* Canadian Centre for Policy Alternatives, 2009.

25 *Evidence*, 2nd Session, 40th Parliament, November 19, 2009 (Ms. Monica Townson, Consultant and Research Associate, Canadian Centre for Policy Alternatives).

Figure 3.1 Projected New Retirement CPP Pensions

	Projected new beneficiaries (thousands)			Average Monthly Pension of new beneficiaries ($)		
	Female	Male	F/M ratio	Female	Male	F/M ratio
2007	134.0	135.9	98.6%	369.33	553.89	66.7%
2010	149.6	149.6	100%	409.83	582.27	70.3%
2015	172.2	171.2	100.5%	483.56	648.14	74.6%
2025	201.2	200.8	100.1%	692.94	874.57	79%
2050	217.4	213.5	101.8%	1,829.78	2,171.05	84.3%

Source: data presented in brief by Bob Baldwin, based on data in the 23rd Actuarial Report on the CPP, 2007.

B. CPP and Unpaid Caregiving Work

The CPP currently contains three measures to take into account the unpaid caregiving work, which is disproportionately done by women: the general and child-rearing dropout provisions, the survivor benefit, and CPP credit splitting upon separation or divorce.

The average of earnings for the purposes of calculating the CPP allows all beneficiaries to exclude 15% of months of low or nil earnings over a lifetime from the formula used to determine average earnings. This general dropout provision prevents beneficiaries from being penalized for periods of low income due to unemployment, post-secondary education, or illness. Proposed changes to the CPP, which are currently before Parliament, include increasing the dropout provision to 17%. This proposal received strong support from witnesses.

The CPP also allows for a child rearing dropout provision which allows beneficiaries to exclude those years when they had a child under the age of seven from the calculation. As Monica Townson told this Committee, this provision “ensures that women are not penalized if they take time out of the workforce to have children or remain at home or even to work part-time while their children are young”.[26] This provision is a significant benefit to caregivers of young children.

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26 Ibid.

Some witnesses have suggested that removing the years of low income from the pension calculation is not enough. Witnesses have urged the Committee to recommend that pension contributions be made on behalf of those providing unpaid caregiving work. A brief prepared by 14 Quebec women's groups calls on the government to follow the lead of several European countries (France, Germany, Sweden, Austria) to make pension contributions on behalf of women and men, who are out of the labour force to take care of young children or of sick, disabled or elderly persons requiring care. Some witnesses have suggested that such a contribution could be equal to 60% of the maximum insurable earnings for those caring for children under the age of seven. Mr. Jean-Pierre Laporte suggested that another solution might be an amendment to the *Income Tax Act,* noting that the Act

> […] says you cannot have a pension plan unless there is an employment relationship, T4 income. If you have someone working in the home, non-remunerated, they are shut out from the whole registered pension plan world. One quick fix is to scrap this antiquated rule and simply allow women who work in the home to participate in a pension plan[27].

The Committee urges the government to study the range of options to ensure that caregivers are not penalized by the public pension system.

Witnesses have pointed out that Canadians will be increasingly called upon to provide unpaid care to older family members, and that this care should not be penalized by the pension system. Monica Townson provided an example of the potential impact of providing elder care on CPP benefits:

> Let's say a woman at the age of 55, has to withdraw from the paid workforce to care for her elderly husband or a family member who has disabilities. When she claims her retirement pension[…] she has five years from age 55 to 60, that will have to be included in her average earnings, at zero, which means it's going to bring down the average and she'll get a lower pension.[28]

In light of the aging population and the resulting demands for providing care to senior family members, the Committee calls for the introduction of measures to ensure that this caregiving does not come at the cost of reduced CPP income for the rest of the caregiver's life. Thus, the Committee recommends:

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27 *Evidence*, 2nd Session, 40th Parliament, November 17, 2009 (Mr. Jean-Pierre Laporte, lawyer, as an Individual).

28 *Evidence*, 2nd Session, 40th Parliament, November 19, 2009 (Ms. Monica Townson, Consultant and Research Associate, Canadian Centre for Policy Alternatives).

Recommendation 4

That the government explore the implementation of a caregiver dropout for Canadians who reduce their labour force attachment to care for sick, disabled or elderly persons requiring care, comparable to the current child rearing dropout.

The CPP also provides a survivor's pension to eligible spouses in the event of a contributor's death. Criteria such as the age of the survivor, whether the survivor is maintaining any dependent children or has a disability are considered in determining eligibility and the amount of the pension benefits. In 2008, 84% of survivors were women. The Committee has heard that, while this provision was initially designed on the assumption that the pensioner was supporting a partner whose labour force attachment was reduced in order to care for children, higher levels of divorce and separation sometimes lead to the survivor's pension being attributed to someone other than the spouse or partner who provided care to children. In light of the changing family situations, the Committee urges the government to explore options to modernize the survivor pension.

Finally, the CPP allows for credit splitting, which is the division of CPP contributory credits upon divorce or separation of married spouses or breakdown of a common law union. It enables former spouses and partners to equally share CPP credits earned during the period of cohabitation. Through credit splitting, the CPP recognizes the contribution to families and society made by both spouses through paid employment, unpaid work in the home, or both. It ensures that former spouses receive their equal share of the CPP credits earned through their joint efforts. Mr. Dominique La Salle, Acting Senior Assistant Deputy Minister, Income Security and Social Development, Department of Human Resources and Skills Development Canada reported to the Committee that "[i]n 2005, 95% of all credit-splitting applicants were women, the vast majority of whom benefited from the provision."

C. Proposed Changes to the CPP arising from the Triennial Review

Changes to the CPP were recommended by federal-provincial-territorial Ministers of Finance on May 25, 2009, as part of the regular reviews of the plan that they are required to undertake every three years. These proposed changes are currently before the Senate. The proposed changes aim to provide greater flexibility for older workers to combine pension and work income if they so wish; to allow employees over age 65 and their employers to continue to pay into the CPP so that employees can continue to build their CPP pension; and to introduce actuarial adjustment to the CPP's flexible retirement provisions, as described below.

The CPP's flexible retirement provisions allow take-up of the retirement benefit as early as age 60; however, benefits are decreased by 0.5% for each month between retirement and the recipient's 65th birthday. Similarly, late retirement is rewarded by 0.5% per month after the recipient's 65th birthday. Proposed changes to the CPP, which are currently before Parliament, include a phased increase of this penalty to 0.6% per month, and of the incentive to 0.7%. A brief prepared by 14 Quebec women's groups acknowledges that the economic security of women would be improved if they worked longer, however it suggests that this goal should be met by *increasing the incentives* for delaying retirement, *not by increasing the penalty* for early retirement.

The proposed adjustment to the penalty for early uptake of the CPP is intended to make that adjustment actuarially more sound and to encourage workers to stay in the labour force longer. Witnesses have suggested, however, that for many caregivers the retirement decision is not a deliberate and voluntary one. Dr. Lynn McDonald provided the Committee with an illustration of this:

> through the caregiving process, women are forced into early retirement, and it's retirement by stealth because they don't think they're going to retire. So what happens is when the caregiving's over, which could be up to 10 years, they then try to go back into the labour force. Their human capital has deteriorated, they have wasted or used all their savings to live, and they can barely afford to even go out to look for a job. Then they face age discrimination because they're an older worker, and who wants an older worker?[29]

Increasing the penalty for early retirement will result in a lifelong reduction in the pension income of caregivers who are forced into retirement. Once again, the Committee stresses the value of the unpaid caregiving work which is done by Canadians, an invisible contribution of $25 billion per year. The Committee urges the government to find ways to ensure that older workers who take time out of the labour force to care for sick or disabled family members are not penalized by the CPP.

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29 *Evidence*, 2nd Session, 40th Parliament, November 26, 2009 (Dr. Lynn McDonald,Professor, Faculty of Social Work, Director of the Institute for Life Course and Aging, University of Toronto).

CHAPTER 4: THE THIRD PILLAR OF THE RETIREMENT INCOME SYSTEM — TAX-ASSISTED SAVINGS FOR RETIREMENT

The third pillar of the retirement income system is tax-assisted private savings in RRSPs and employer-sponsored registered pension plans, or RPPs. Officials from the Department of Finance told the Committee that:

> These plans help Canadians bridge the gap between public pension benefits and their retirement income goals. The deferral of tax on savings in registered pension plans and registered retirement savings plans is a valuable benefit that encourages and assists Canadians to save for retirement, as it allows individuals to grow their savings more effectively compared to savings outside of registered plans. The contribution and benefit limits for RPPs and RRSPs are designed to permit most individuals to save enough, over a 35-year career, to obtain a pension equal to 70% of pre-retirement earnings. The RPP and RRSP limits are integrated and provide comparable savings opportunities to Canadians whether they save in an RPP, an RRSP or a combination of both.[30]

A. Saving for Retirement

The Committee heard that benefits from the first two pillars of the retirement income system currently provide up to $15,000 to $20,000 a year in lifetime retirement income. However, as Mr. James Pierlot, Senior Consultant, Towers Perrin told the Committee: “In most parts of Canada, $15,000 to $20,000 is not enough to have saved for a comfortable retirement.”[31] The Committee has heard that most Canadians save too little, too late.

The federal government provides tax incentives to encourage saving for retirement, through mechanisms such as the RRSPs. The Committee has heard, however, that most Canadians do not take full advantage of this mechanism. Mr. Pierlot echoed the views of several witnesses when he told this Committee that “women in Canada are saving less than men, even though they need to save more. They cannot save as much as men because they don’t make as much as a proportion of income earned. This means that women are more likely to experience poverty in retirement than men are.”[32] Women’s lower average incomes make it difficult for them to save for retirement on their own.

30 *Evidence*, 2nd Session, 40th Parliament, November 3, 2009 (Mr. Chris Forbes ,General Director, Federal-Provincial Relations and Social Policy Branch, Department of Finance).

31 House of Commons, Standing Committee on the Status of Women, Evidence, 2nd Session, 40th Parliament, 5 November 2009 (Mr. James Pierlot, Senior Consultant, Towers Perrin)

32 Ibid.

As Monica Townson pointed out, “[a]ll this of course is going to be reflected in the kind of incomes women can expect to get when they finally leave the paid work force.”[33]

The Committee asked witnesses to comment on whether better financial education of Canadians would ensure that more Canadians save for their retirement. Most witnesses acknowledged that financial education is important. Mr. Terence Yuen , Senior Economist, Canadian Research and Innovation Centre, Watson Wyatt Worldwide pointed out that, unlike Canada, some countries, including the United Kingdom and Australia, do have mandatory financial education in their curriculum. The Committee acknowledges that financial education can help Canadians better understand what their income will be in retirement, and therefore make more informed choices about financial planning for retirement. Better education can improve Canadians’ financial literacy and promote saving. The Committee urges the government to explore effective strategies to encourage Canadians to save for their retirement.

While financial education is important, the majority of witnesses did not feel that, by itself, it would be particularly effective. Mr. Edward Whitehouse, Head of Pension Policy Analysis, Social Policy Division, (OECD) pointed out that:

> [T]he literature on behavioural economics, which has become very fashionable these days and deals with how people make decisions in that area, demonstrates that even people who are fully informed and fully financially educated actually make all the wrong choices. There's a whole long list of things with technical names like “myopic loss aversion”, and so on, that suggests people actually do not make rational financial choices. [34]

Witnesses suggested that making informed investment decisions for retirement is complicated. They have pointed out that, while Canadians in defined benefit plans are largely spared from making complex investment decisions about their savings, those who rely on private savings require much more sophisticated knowledge to make informed investment decisions and manage risk. Mme Nathalie Joncas of the Confédération des syndicats nationaux (CSN) pointed out that:

> It was clear that even the largest investors found it very difficult to get through the economic crisis. How can we expect ordinary Canadians, regardless of their age, to

33 House of Commons Standing Committee on the Status of Women, Evidence, 2nd Session, 40th Parliament, November 19, 2009 Ms. Monica Townson, Consultant and Research Associate, Canadian Centre for Policy Alternatives)

34 *Evidence*, 2nd Session, 40th Parliament, November 5, 2009 (Mr. Edward Whitehouse,Head of Pension Policy Analysis, Social Policy Division, Organisation for Economic Co-operation and Development).

> make sound planning and management decisions? Retirement planning must be a collective endeavour.[35]

The brief submitted by Towers Perrin identified the various ways that defined contribution plans and RRSPs can go wrong as follows:

- You might outlive your savings;
- You might lose your savings due to poor investment choices;
- You might have to draw on your retirement savings when the markets are down;
- You might not have saved enough for the standard of living you want; and
- Your costs might be higher than you thought they would be.[36]

The witness representing Towers Perrin went on to identify that Canadians don't save enough, don't invest well, and continue to hold high-risk investments in retirement. While financial education can help address these issues, most witnesses suggested that more proactive measures are required to make it easier for Canadians to save for retirement. Mr. Edward Whitehouse of the OECD suggested the importance introducing default investment strategies. As we will see in Chapter 5, a number of policy proposals are currently being actively discussed in Canada to develop such default strategies.

B. Registered Retirement Savings Plans (RRSPs)

Women derive an increasing amount of their retirement income from RRSPs. The Department of Human Resources and Skills Development Canada reported that RRSP income has increased from representing 11.6% of women's income in 1990 to 27.3% in 2005. The Committee has also heard that there has been an increase in RRSP contributions for both men and women since the 1980s, noting that:

> The proportion of women aged 35 to 39 contributing increased from 9% in 1981 to 31% in 2001. During that time period, the proportion of men aged 35 to 39 contributing rose

35 *Evidence*, 2nd Session, 40th Parliament, November 19, 2009 (Mme Nathalie Joncas, actuaire, Confédération des syndicats nationaux (CSN)).

36 Towers Perrin, *Brief*, November 4, 2009. p.28.

> from 21% to 38%. So although there remains a gap between men and women, it has been narrowing significantly over time.[37]

Witnesses told the Committee has heard that most Canadians invest less in an RRSP than the amount to which they are entitled. Officials from the Department of Finance noted that at the middle and lower earnings levels over 90% of people have unused RRSP room. Even among higher earnings levels, there are many earners who have unused RRSP room. For example, 70% of those who earn more than $125,000 have unused RRSP room.

While emphasizing the importance of saving for retirement, a number of witnesses identified problems with the RRSP system. Mr. Pierlot of Towers Perrin summarized these problems as follows:

> Most people can't use it; they pay very high fees; when they get into later career after they've gone through a period of doing child care or what have you, they often can't save enough; if they've lost money in the markets, they can't contribute more to catch up. [38]

Although not specifically a retirement income vehicle, the new Tax-Free Savings Account allows Canadians to save. Some of these savings could be used in retirement. As the Committee identified in Chapter 2, low-income Canadians who are eligible for the GIS are heavily penalized for drawing money from RRSPs. The Committee was pleased to note that the new Tax-Free Savings Accounts will provide low-income Canadians with a savings vehicle from which they will be able to draw without being penalized with a decrease in their GIS benefit.

Recognizing that the average life expectancy of Canadians is increasing the Committee recommends:

Recommendation 5

That the government explore the possibility of allowing a more gradual withdrawal of amounts from the Registered Retirement Income Fund (RRIF).

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37 *Evidence*, 2nd Session, 40th Parliament, October 6, 2009 (Mr. Thomas Shepherd, Director, Retirement and Aging Division, Department of Human Resources and Social Development Canada).

38 *Evidence*, 2nd Session, 40th Parliament, November 5, 2009 (Mr. James Pierlot, Senior Consultant, Towers Perrin).

C. Employer-sponsored Registered Pension Plans (RPPs)

The two main types of employer-sponsored registered pension plans (RPPs) are defined benefit (DB) plans and defined contribution (DC) plans.

Defined benefit plans are pension plans that specify either the benefits to be received by participants or the method for determining those benefits (based on factors such as the participant's age, salary and years of service). In contrast, *defined contribution plans* are pension plans in which the employer's contributions are fixed, usually as a percentage of compensation, and allocated to specific individuals. The pension received by an employee in a DC plan depends in part on the investment returns earned.

Defined benefit plans provide more predictable lifetime benefits, generally based on years of service and usually as a fixed percentage of salary. While they are desirable for employees, they are complex and risky for employers, particularly given the economic environment in recent years. It is therefore recommended:

Recommendation 6

That the government adopt a pension plan protection bill applicable to employers under federal jurisdiction as soon as possible so that the pension benefits of retirees or future retirees are not reduced.

Witnesses noted a decline in defined benefit pension plans, particularly in the private sector. According to witnesses from the Department of Human Resources and Skills Development Canada "DB coverage has declined from 43.5% in 1979 to 30.6% in 2006, while coverage in defined contribution plans has grown from 2.4% in 1979 to 6% in 2006. In 2006, 32.3% of women in the labour force were members of a defined benefit plan compared to 29.1% of men."[39]

The gap between the proportion of women and men covered by RPPs has closed, although this is primarily due to the fact that coverage among men has decreased significantly. Witnesses from the Department of Human Resources and Skills Development Canada noted that the proportion of men in the labour force, who were members of a registered pension plan, fell from 52% in 1979 to 37.5% in 2006.[40] During that period, women's coverage increased slightly from 36.1% to 38.9%. The RPP coverage rate among women surpassed that of men in 2007. Women are also catching up to men in the length

39 *Evidence*, 2nd Session, 40th Parliament, October 6, 2009 (Mr. Thomas Shepherd, Director, Retirement and Aging Division, Department of Human Resources and Skills Development Canada).

40 Ibid.

of time they contribute to an RPP. The Committee heard that, “by 2017, 33% of women aged 65 will have contributed to an RPP for at least 15 years compared to 36% of men”.[41]

Mr. Terence Yuen, Senior Economist, at Watson Wyatt Worldwide noted that “[t]his trend is driven both by increasing participation of women in the labour force and by revisions to pension legislation that require employers with pension plans to include part-time workers.”[42]

As the table below indicates, however, women with pension coverage in Canada still earn less on average than men. Since pension benefits are generally commensurate with earnings, it is likely that women will continue to draw less revenue from employer-sponsored pensions than men.

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41 *Evidence*, 2nd Session, 40th Parliament, October 6, 2009 (Mr. Thomas Shepherd, Director, Retirement and Aging Division, Department of Human Resources and Skills Development Canada).

42 *Evidence*, 2nd Session, 40th Parliament, November 17, 2009 (Mr. Terence Yuen ,Senior Economist, Canadian Research and Innovation Centre, Watson Wyatt Worldwide).

Tax filers aged 25 to 54: Distribution by earnings and percent within earnings Groups with pension coverage, Canada 2006

	Women			Men	
	Distribution across earnings groups (col %)	% within earnings group that has pension coverage		Distribution across earnings groups (col %)	% within earnings group that has pension coverage
Earnings					
Less than $10,000*	32.4%	4.4%		18.9%	2.9%
$10,000 to $19,999	14.6%	17.5%		10.0%	9.6%
$20,000 to $29,999	13.6%	33.3%		10.5%	18.3%
$30,000 to $39,999	12.7%	50.2%		11.9%	30.8%
$40,000 to $49,999	9.3%	63.2%		11.3%	44.5%
$50,000 to $59,999	6.0%	69.9%		9.4%	55.0%
$60,000 to $69,999	4.2%	74.6%		7.6%	61.8%
$70,000 to $79,999	2.9%	76.8%		5.7%	65.6%
$80,000 to $99,999	2.5%	71.0%		6.8%	65.8%
$100,000 to $119,999	0.9%	59.0%		3.1%	60.1%
$120,000 or more	1.2%	44.1%		4.7%	44.9%
Total**	100.0%			100.0%	

Source: Statistics Canada, Longitudinal Administrative Data File.

The Public Service Alliance of Canada reported that women who are retiring from the federal public service with a full pension draw almost as much as men — 97.7%. This might be attributed to "the significant provisions for women as contributors to the plan, including the possibility of accumulating, subject to certain conditions, pensionable service during leave without pay for family obligations, maternity or parental leave or for the relocation of a spouse" [43] and provisions allowing part-time employees to contribute to a pension plan.

The levels of pension coverage for women are largely driven by the public sector. Mr. Terence Yuen told the Committee that if we exclude the public sector and focus only on the private sector, the coverage among women, at 23%, remains significantly lower than among men, at 32%.[44] One of the reasons for this is that" employment in the private sector tends to be more concentrated in the service sector, which consists of a lot of small firms without pension plans. In contrast, a larger proportion of male workers are employed in the goods-producing sector, which tends to have larger and more heavily unionized employers, who are, therefore, more likely to offer pensions to their employees."[45]

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43 *Evidence*, 2nd Session, 40th Parliament, December 1, 2009 (Ms. Patty Ducharme, National Executive Vice-President, Executive Office, Public Service Alliance of Canada).

44 *Evidence*, 2nd Session, 40th Parliament, November 17, 2009 (Mr. Terence Yuen ,Senior Economist, Canadian Research and Innovation Centre, Watson Wyatt Worldwide).

45 Ibid.

These differences make it important to consider how we can increase pension coverage in small- and medium-size companies in the service sector, and to explore what type of pension system would be most helpful to non-standard and part-time workers. Witnesses have proposed a number of options to meet these goals, as outlined in Chapter 5.

CHAPTER 5: SUPPLEMENTING THE THIRD PILLAR OF THE RETIREMENT INCOME SYSTEM

A. Overarching Recommendations

Over the course of this study, the Committee has been compelled to conclude that ensuring the future income security of Canadian seniors, both men and women, will require more than minor adjustments to the three pillars of the retirement income system. Witnesses have encouraged the Committee to consider ways to supplement the third pillar of the retirement income system. The Committee has been impressed by the diversity of policy proposals which have been developed by pension experts, private sector organizations, academics and labour organizations in Canada. While the Committee is not prepared to endorse any of these proposals at this time, it supports the call of many witnesses for a pension summit to have a comprehensive dialogue on retirement income issues.

The Committee applauds the federal government for its recent consultation on strengthening the legislative and regulatory framework for private pension plans. It also eagerly anticipates the findings of the Working Group on Retirement Income Adequacy, which is set to report to the federal and provincial Ministers of Finance in December. The Committee recommends:

Recommendation 7

That the government continue to carefully examine ways in which it can help better protect Canadians' standard of living in retirement by implementing its recently announced changes to the regulations of federally regulated private pensions; and to work with all stakeholders coming out of the December 17th and 18th meeting of first finance ministers in Whitehorse to carefully consider the findings of the Research Working Group on Retirement Income Adequacy.

This work is a good start, however it is only one part of the larger picture of pension reform. The Committee recommends:

Recommendation 8

That the government convene a pension summit in 2010, and that the Government ensures that such a summit brings together the widest possible selection of stakeholders to ensure that proposed solutions reflect the varied reality of Canadians — men and women; rural and urban; Aboriginal, native-born and immigrant; employees, employers and self-employed; disabled; young and old.

The Committee can conclude that there are significant gender issues which must be carefully evaluated in all policy and legislative proposals regarding pensions. While significant progress has been made in the labour force participation of women over the past few decades, women continue to have lower earnings than men and to take on a disproportionate share of the unpaid caregiving work. In addition, women have a longer life expectancy than men and thus their retirement savings have to stretch over a longer period. The Committee thus cautions against an overly-optimistic expectation that the gap in the retirement income of men and women will be eliminated in the near future. If public policy is formulated on this faulty assumption, older women will continue to be poorer than older men for many years. This would be unacceptable. The Committee therefore recommends:

Recommendation 9

That the federal government conduct a thorough gender-based analysis (GBA) of all policy proposals relating to women and pensions. This should include a consideration of the impact of unpaid caregiving work on the lifetime income of women; the impact of elder-care responsibilities, which are disproportionately borne by women, on the retirement options of women; and the fact that women have a longer life expectancy than men.

Proper GBA requires sex-disaggregated data. The Committee has heard that it is difficult to obtain sex-disaggregated data on women and pensions at the federal level. The Committee recommends:

Recommendation 10

That, for the purpose of gender-based analysis, all federal government data on pensions and income be disaggregated by sex so that trends in the retirement income of women and men can be easily monitored. The Committee also recommends that future triennial reviews of the Canada Pension Plan clearly identify the potential impact of changes on women and men.

B. An Overview of Policy Proposals

In Chapter 4, we saw that many Canadians are not saving enough to maintain their standard of living in retirement. The Committee agrees with Ms. Martine Sohier, Senior Consulting Actuary, Retirement, Watson Wyatt Worldwide, who observed that:

> There is clearly a need to expand pension coverage and increase savings for Canadian women working in the private sector. To achieve this expansion, we need to develop new ways for women to save for their retirement, as well as to alleviate for the lower pension savings due to the non-traditional working patterns.[46]

There are many different policy proposals being discussed across the country to address this situation. This chapter lays out some of the proposals and identifies the key considerations of witnesses about each of them.

Some of the major reforms being proposed include:

- Expanding the CPP by increasing the replacement rate or through a fully-funded expansion of the CPP;
- Adding another layer to the pension system to supplement benefits from the other tiers of the retirement income system. These include a proposal jointly put forth by Alberta and British Columbia as well as the CSPP which has been developed by Keith Ambachtscheer, who has described the proposal in a publication for the C.D. Howe Institute;[47]
- Promoting bigger pension plans, either by allowing small business, tradespersons and professionals to set up pension cooperatives or by allowing financial institutions to set up multi-employer plans;
- Changing the fiscal and regulatory framework to promote new pension plan designs, encourage more employers to sponsor pension plans, and let self-employed workers join pension plans.

a) Expanding the Canada Pension Plan

A number of organizations have identified the need to provide greater pension income coverage to the majority of Canadians who do not have private pension plans. CARP has proposed the establishment of a Universal Pension Plan for those currently without employer-sponsored pensions. Phased in over a number of years, the Universal Pension Plan would expand CPP coverage to provide 70% of pre-retirement earnings.

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46 *Evidence*, 2nd Session, 40th Parliament, November 17, 2009 (Ms. Martine Sohier, Senior Consulting Actuary, Retirement, Watson Wyatt Worldwide).

47 Keith Ambachtsheer, The CSPP: *Towards an Adequate, Affordable Pension for All Canadians*, C.D. Howe Commentary 265, May 2008, http://www.cdhowe.org/pdf/commentary_265.pdf.

The Canadian Labour Congress has also developed a proposal to expand coverage under the existing CPP. This would be done by doubling of the proportion of average earnings replaced by CPP from 25% to 50% over seven to ten years to $1,635 per month, to be financed by an increase in worker and employer premiums.

Expansion of the CPP would be mandatory for all employers and employees. This universality has been praised by some witnesses, while others have cautioned that it would be an added burden to businesses.

The Committee recommends:

Recommendation 11

That the replacement rate in the Canada Pension Plan be increased from 25% to 50% to maintain a decent income and an acceptable standard of living, and that this modification come into force progressively over the next ten years.

b) Supplementary Pension Plan

There are a number of proposals to expand the public system by introducing a supplementary pension plan. The Committee has heard, for example, that Alberta and British Columbia are proposing the creation of a voluntary, supplementary defined contribution plan on top of the existing CPP. Keith Ambachtscheer, Adjunct Professor of Finance at the Rotman School of Management, University of Toronto set out a proposal for a CSPP in of paper published in 2008 by the C.D. Howe entitled *The CSPP:Towards an Adequate, Affordable Pension for All Canadians*[48].

Some of the key features of the Supplementary Pension Plan models are: contributions could be voluntary for employees and employers; the plan would provide complete workforce coverage and job-to-job portability across Canada; pension delivery institutions would be transparent and cost-effective; premiums could be collected using existing CPP and EI payroll systems, thus would provide easy administration for employers; and it would be possible to envisage coverage for those who are outside of the work-force.

While the voluntary nature of the supplementary pension plan was seen as an asset by some witnesses, others expressed reservation that such a model would continue to lead to groups of Canadians with insufficient pension income. The Committee recommends:

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48 Ibid.

Recommendation 12

That the government introduce an optional supplementary Canada Pension Plan, conditional on provincial agreement, in order to help Canadians save more.

c) Pension Co-Operatives and Multi-employer Plans

Another potential solution to increase coverage and pension savings among small and medium-size companies. One way to do this is to encourage the formation of multi-employer plans that can be industry or trade-based. As Ms. Claudette Carbonneau of the CSN explained, one of the key advantages of multi-employer plans is that:

> They allow for a large number of small businesses to be grouped together to achieve a critical mass that is big enough to realize economies of scale in management and administration fees. Moreover, they make it possible for defined benefit plans to be set up in areas where it is very difficult to do so.[49]

The witnesses from Watson Wyatt suggested that multi-employer funds could benefit from lower management fees and professional investment management oversight. This would make it easier for Canadians to save for their retirement. The Confédération des syndicats nationaux shared with the Committee the example of a sectoral pension plan developed for daycares in Quebec:

> We managed to set up a plan for 1400 small businesses with around 30 employees each. This opened up a sizeable plan for 50,000 women workers, as most of the day care employees are women. Before the plan was established, there were only a few capital accumulation plans in this type of business. By bringing all of the industry together under the same plan, it was possible to set up a defined benefit pension plan of the final salary plan type. While many women change employers during their career, they very often remain in the same industry.[50]

Witnesses suggested that legislative and regulatory changes may need to be introduced to facilitation the creation of such plans.

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49 *Evidence*, 2nd Session, 40th Parliament, November 19, 2009 (Mme Claudette Carbonneau, présidente, Confédération des syndicats nationaux (CSN)).

50 Ibid*.*

d) Changes to the Fiscal and Regulatory Framework

Witnesses identified a number of barriers in the fiscal and regulatory framework, which make it difficult for people who are not currently in an employment situation to contribute to a registered retirement plan. For example, Mr. Jean-Pierre Laporte reminded the Committee that “the *Income Tax Act* that says you cannot have a pension plan unless there is an employment relationship, T4 income.”[51] Witnesses identified the need to modify the fiscal and regulatory framework to allow self-employed workers to join pension plans. They also identified a need to explore ways to allow workers who are not currently in defined benefit plans to benefit from contribution limits which would allow them to accumulate comparable savings to people in defined benefit plans.

51 *Evidence*, 2nd Session, 40th Parliament, November 19, 2009 (Mr. Jean-Pierre Laporte, lawyer, as an Individual).

LIST OF RECOMMENDATIONS

The Committee Recommends:

Recommendation 1

That the exemption on earned income in the Guaranteed Income Supplement be extended to other forms of income, such as RRSP income.

Recommendation 2

That the Guaranteed Income Supplement be raised to the after-tax low-income cut-off.

Recommendation 3

That the adjustment factor for single individuals be adjusted from 1.4 to 1.6 of the couple amount in recognition that the adjustment factor of 1.6 more adequately reflects the costs of living on ones' own.

Recommendation 4

That the government explore the implementation of a caregiver dropout for Canadians who reduce their labour force attachment to care for sick, disabled or elderly persons requiring care, comparable to the current child rearing dropout.

Recommendation 5

That the government explore the possibility of allowing a more gradual withdrawal of amounts from the Registered Retirement Income Fund (RRIF).

Recommendation 6

That the government adopt a pension plan protection bill applicable to employers under federal jurisdiction as soon as possible so that the pension benefits of retirees or future retirees are not reduced.

Recommendation 7

That the government continue to carefully examine ways in which it can help better protect Canadians' standard of living in retirement by implementing its recently announced changes to the regulations of federally regulated private pensions; and to work with all stakeholders

coming out of the December 17th and 18th meeting of first finance ministers in Whitehorse to carefully consider the findings of the Research Working Group on Retirement Income Adequacy.

Recommendation 8

That the government convene a pension summit in 2010, and that the Government ensures that such a summit brings together the widest possible selection of stakeholders to ensure that proposed solutions reflect the varied reality of Canadians — men and women; rural and urban; Aboriginal, native-born and immigrant; employees, employers and self-employed; disabled; young and old.

Recommendation 9

That the federal government conduct a thorough gender-based analysis (GBA) of all policy proposals relating to women and pensions. This should include a consideration of the impact of unpaid caregiving work on the lifetime income of women; the impact of elder-care responsibilities, which are disproportionately borne by women, on the retirement options of women; and the fact that women have a longer life expectancy than men.

Recommendation 10

That, for the purpose of gender-based analysis, all federal government data on pensions and income be disaggregated by sex so that trends in the retirement income of women and men can be easily monitored. The Committee also recommends that future triennial reviews of the Canada Pension Plan clearly identify the potential impact of changes on women and men.

Recommendation 11

That the replacement rate in the Canada Pension Plan be increased from 25% to 50% to maintain a decent income and an acceptable standard of living, and that this modification come into force progressively over the next ten years.

Recommendation 12

That the government introduce an optional supplementary Canada Pension Plan, conditional on provincial agreement, in order to help Canadians save more.

APPENDIX A
LIST OF WITNESSES

Organizations and Individuals	Date	Meeting
Department of Human Resources and Skills Development	2009/10/06	32
Heather Bordeleau, Director, Canada Pension Plan, Policy and Legislation		
Dominique La Salle, Director General, Seniors and Pensions Policy Secretariat		
Nathalie Martel, Director, Old Age Security Policy		
Thomas Shepherd, Director, Retirement and Aging Division		
Statistics Canada	2009/10/20	34
Grant Schellenberg, Senior Analyst, Analysis Branch		
Ted Wannell, Assistant Director, Labour and Household Surveys Analysis Division		
Canadian Association of Retired Persons	2009/10/27	36
Dan Braniff, Chair, Georgian Bay Chapters		
Canadian Labour Congress		
Barbara Byers, Executive Vice-President		
Joel Harden, National Representative, Social Economic Policy		
Federal Superannuates National Association		
Bernard Dussault, Senior Research and Communications Officer, National Office		
Office of the Superintendent of Financial Institutions Canada		
Judy Cameron, Managing Director, Private Pension Plans Division		
As an individual	2009/11/03	38
Tammy Schirle, Assistant Professor, Department of Economics, Wilfrid Laurier University		
Canada Revenue Agency	2009/11/03	
Danielle Laflèche, Director General, Legislation, Policy and Regulatory Affairs Branch		

Organizations and Individuals	Date	Meeting
Canada Revenue Agency	2009/11/03	38
Janice Laird, Director, Actuarial and Policy Division, Legislation, Policy and Regulatory Affairs Branch		
Department of Finance		
Chris Forbes, General Director, Federal-Provincial Relations and Social Policy Branch		
Louise Levonian, Assistant Deputy Minister, Tax Policy Branch		
Ian Pomroy, Senior Tax Policy Officer, Social Tax Policy, Personal Income Tax Division		
Jeremy Rudin, Assistant Deputy Minister, Financial Sector Policy Branch		
Office of the Superintendent of Financial Institutions Canada		
Jean-Claude Ménard, Chief Actuary, Office of the Chief Actuary		
As an individual	2009/11/05	39
Beverley Smith, Member of Care of the Child Coalition		
Organisation for Economic Co-operation and Development		
Edward Whitehouse, Head of Pension Policy Analysis, Social Policy Division		
Towers Perrin		
Steve Bonnar, Principal		
James Pierlot, Senior Consultant		
As an individual	2009/11/17	40
Jean-Pierre Laporte, Lawyer		
Conseil d'intervention pour l'accès des femmes au travail		
Ruth Rose-Lizée, President		
Watson Wyatt Worldwide		
Martine Sohier, Senior Consulting Actuary, Retirement		
Terence Yuen, Senior Economist, Canadian Research and Innovation Centre		
Canadian Centre for Policy Alternatives	2009/11/19	41
Monica Townson, Consultant and Research Associate		
Confédération des syndicats nationaux (CSN)		
Claudette Carbonneau, President		

Organizations and Individuals	Date	Meeting
Confédération des syndicats nationaux (CSN)	2009/11/19	41
Nathalie Joncas, Actuary		
Fédération des travailleurs et travailleuses du Québec		
Danielle Casara, Vice-President		
Marie-Josée Naud, Union Advisor, Education Department		
Canadian Pensioners Concerned Inc.	2009/11/24	42
Gerda Kaegi, Member of the Executive, Ontario Division		
As an individual	2009/11/26	43
Bob Baldwin, Consultant		
University of Toronto		
Lynn McDonald, Professor, Faculty of Social Work, Director of the Institute for Life Course and Aging		
Public Service Alliance of Canada	2009/12/01	44
Patty Ducharme, National Executive Vice-President, Executive Office		
Annette Marquis, Disability Insurance and Pension Officer		

APPENDIX B
LIST OF BRIEFS

Organizations and Individuals

Canadian Office and Professional Employees Union

Confédération des syndicats nationaux (CSN)

Public Service Alliance of Canada

Towers Perrin

REQUEST FOR GOVERNMENT RESPONSE

Pursuant to Standing Order 109, the Committee requests that the government table a comprehensive response to this Report.

A copy of the relevant Minutes of Proceedings (Meetings Nos. 32, 34, 36, 38, 39, 40, 41, 42, 43, 44, 45, 46, 47 and 48) is tabled.

Respectfully submitted,

Hon. Hedy Fry, MP

Chair

Dissenting Opinion of the Conservative Members of the Standing Committee on the Status of Women

Conservative members for the Standing Committee on the Status of Women, and indeed our Conservative Government, strongly recognize the importance of the issue of retirement income adequacy and security of Canadian seniors. Government members also are sensitive to the fact that the Global Economic Recession of 2008-2009 has caused many Canadians anxiety about their retirement years.

As the actions of the Minister of Finance demonstrate, this Conservative Government has been working hard on this very serious and complex issue for many months. As part of this process we have been listening to Canadians broadly across the country from coast to coast, and we have been working closely with our Provincial and Territorial partners.

In January, our Government released for public comment a major research paper on the legislative and regulatory regime for federally regulated private pension plans. From March to May the Parliamentary Secretary to the Minister of Finance conducted extensive consultations from coast to coast where he met with various stakeholder groups, including many who appeared before our Committee as witnesses: Canada Association for Retired Persons (CARP), Watson Wyatt Worldwide, Towers Perrin, Osler Hoskin and Harcourt, Canada Labour Congress, La Fédération des travailleurs et travailleuses du Québec (FTQ) as well as Edward Whitehouse from the Organisation for Economic Co-operation and Development.

Our Government is working with our Provincial and Territorial partners – who regulate over 90% of all pensions in Canada – and have created a Research Working Group of Federal, Provincial and Territorial Finance Ministers with respected academic Jack Mintz as director of research to conduct an extensive examination of retirement income adequacy. This Research Working Group will be tabling their findings at the upcoming meeting of Finance Ministers scheduled for Whitehorse on December 17^{th} and 18^{th} 2009.

Government members of the Committee are disappointed that the report does not recognize that a National Pension Summit with provincial and territorial governments has already been organized to discuss its findings in Whitehorse on December 17^{th} and 18^{th} 2009. It is also disappointing and unfortunate that the Committee felt the report on Pension Security for Women had to be tabled in the House of Commons before the National Pension Summit occurs, as the Committee would have benefited greatly from the findings of the Research Working Group.

As more evidence of the Government's actions, new regulations to provide temporary solvency funding relief for federally regulated defined benefit pension plans to help protect pension benefits while allowing companies more flexibility in meeting their pension obligations were brought fourth last June. These measures cover plans established for employees working in areas that fall under federal jurisdiction.

In addition, this Conservative Government has introduced unprecedented changes to help ease the tax burden on seniors in Canada since 2006. Approximately $2 billion annually in tax relief will help seniors and pensioners save for their retirement.

Moreover, at the end of October, the Minister of Finance announced additional changes to the federally regulated private pension plans that include measures to:

- Enhance protection for plan members,
- Reduce funding volatility for defined benefit plans,

- Make it easier for participants to negotiate changes to their pension arrangements, Improve the framework for defined benefit contribution plans and for negotiated contribution plans,
- Modernize the rules for investments made by pension funds.

As the Minister of Finance has stated: *"These reforms will provide enhanced benefit security for workers and retirees while allowing pension plan sponsors to better manage their funding obligations as part of their overall business operations."*

This Conservative Government is working diligently to help hard working Canadians save for their retirement, as well as working hard to find ways that will better protect the standard of living of Canadian retirees. The actions of the Conservative Government and of the Minister of Finance clearly demonstrate that we are at the forefront on the issue of retirement income adequacy for Canadian seniors.