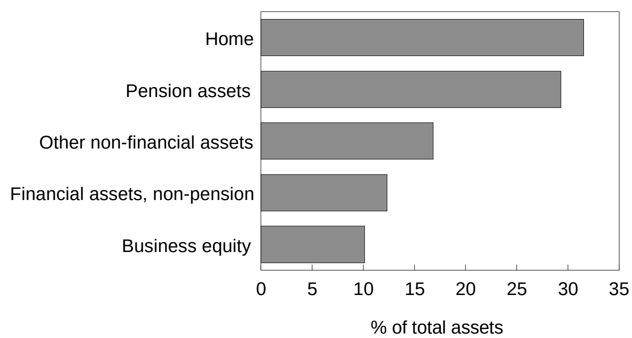
Private pension savings, 1999

Karen Maser and Thomas Dufour

As defined by the Survey of Financial Security, private pension assets include individual savings in registered retirement savings plans (RRSPs) and registered retirement income funds (RRIFs), the value of pension plan benefits 'earned' through participation in an employer pension plan (EPP), and other pension savings held in vehicles such as annuities and deferred profit-sharing plans. Together, they are referred to as *private* pension savings to indicate that they do not include the value of the income to be received from the Old Age Security/Guaranteed Income Supplement (OAS/GIS) program, and the Canada and Quebec Pension Plans (C/QPP).

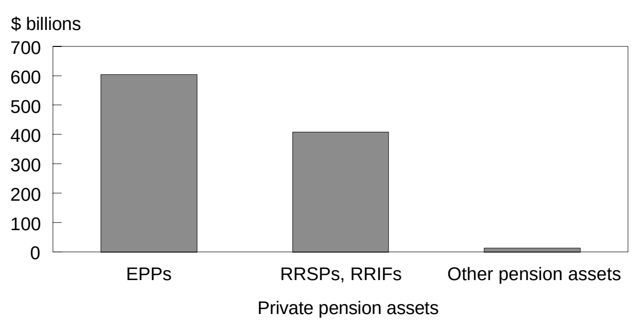
Private pension assets are a major component of the assets of Canadian families, accounting for close to 29% of the value of all assets. Despite the size and importance of these assets, they are still second to the most valuable asset: the home. It too must be considered in any discussion of readiness for retirement, since it can also serve a very important role in providing for a more financially secure future.

Chart A: Private pension savings and homes are the major assets of most Canadians.



Source: Survey of Financial Security

Chart B: Employer pension plans account for the largest amount of private pension assets.



Source: Survey of Financial Security

The total estimated value of private pension assets is just over $1 trillion. This money will be essential in providing a large part of the income of seniors. It also, however, plays a very important role in the current financial markets as one of the largest pools of investment capital in the country.

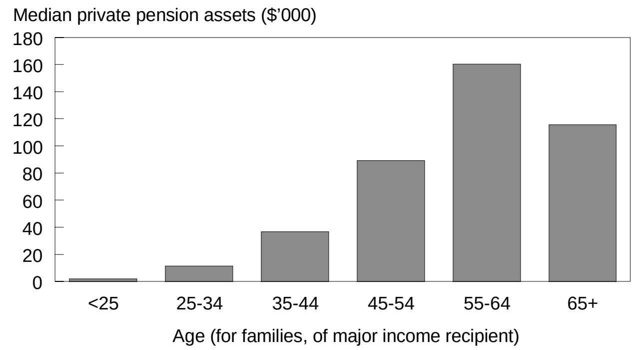
The value of the benefits to be paid from employer pension plans ($604 billion) is well over half the total amount in private pension savings. This is considerably more than the amount saved in RRSPs and RRIFs ($408 billion). Close to 60% of family units have RRSPs or RRIFs, with a median value of $20,000. Although fewer family units have EPP assets (47%), their median value is much larger ($49,300). The value of employer pension plan benefits includes that of current plan members as well as those receiving this income.

Karen Maser and Thomas Dufour are with the Income Statistics Division. Karen Maser can be reached at (613) 951-0793 or karen.maser@statcan.ca. Thomas Dufour can be reached at (613) 951-2088 or thomas.dufour@statcan.ca.

The amount held by family units as private pension assets increased significantly with the age of the individual or, in the case of families, the person with the highest pre-tax income. Pension assets peaked for family units with a major income recipient between 55 and 64 years of age. These family units, who would have been approaching retirement or just recently retired, had median pension assets of $160,300. It is not surprising that these families led the way in terms of pension holdings, given that the value of employer pension plan benefits increases with the number of years of membership in the plan. As well, these people had a longer period in which to accumulate RRSP assets.

Senior family units (those in which the person with the highest pre-tax income was 65 years and older) also had significant private pension assets, second only to those with a major income recipient aged 55 to 64. Median pension assets for these family units was about $115,700. Most of the major income recipients in these families were retired and would already have been drawing on these assets, reducing the amount from a pre-retirement peak.

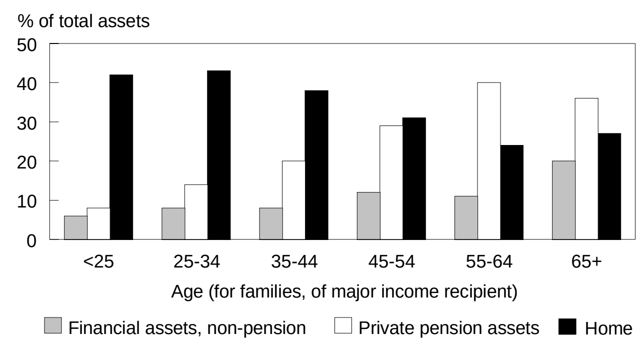
Chart C: Median private pension assets are greatest for those 55 to 64.



Source: Survey of Financial Security

As the age of the major income recipient increased, private pension assets became a much larger proportion of total assets. For family units with a major income recipient aged 55 to 64, pension assets were by far the most significant component of total assets (40%). On the other hand, pension assets represented only about 20% of the assets of family units with a major income recipient between 35 and 44; for these families the home was the most valuable asset (38% of total assets). Financial assets held outside private pension plans were a more important asset for the older age groups—for those family units with a major income recipient 65 years and older, these assets accounted for 20% of the total. These assets are important since they generate income for this age group.

Chart D: Private pensions are the largest asset for those 55 and over.

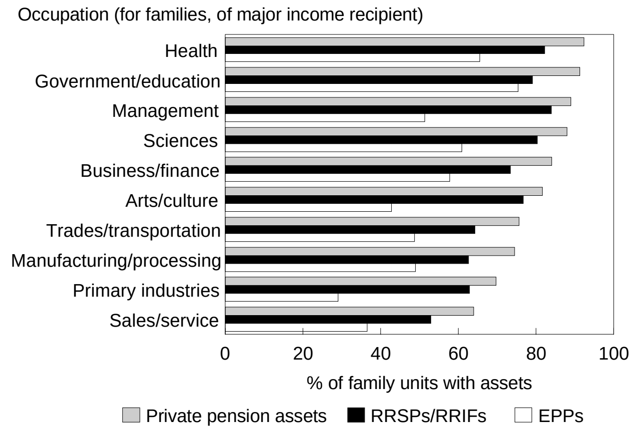


Source: Survey of Financial Security

Families with a major income recipient employed in the public sector (with the government or in education) were not only among the most likely to have private pension assets (91%), they also had the highest median pension value ($84,400). Almost all public-sector employers offer an employer pension plan.

Family units with a major income recipient whose occupation was classified as "management" also had relatively large private pension assets; the median value was $74,300. In addition, this group had the highest median RRSP/RRIF holdings ($35,000). This is likely because they had the highest median after-tax family income ($56,100) and therefore were in a better position to save.

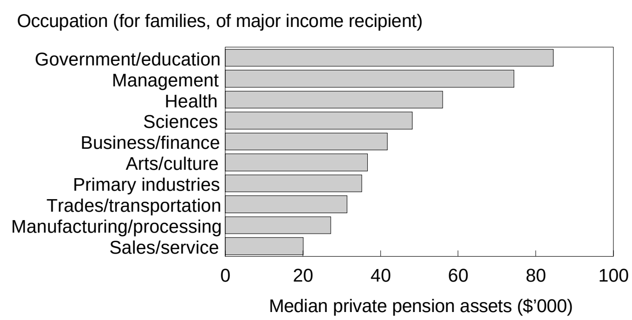
Chart E: Government, education and health employees are the most likely to have private pension assets.



Source: Survey of Financial Security

Those employed in certain occupations in the private sector were not only less likely to have pension assets, they also had assets with a lower median value. Some of these occupations account for a large proportion of the labour force. For example, 13% of individuals or major income recipients were employed in sales and service. A much lower proportion of the family units in this occupation had pension assets (64%), and the median value of those assets ($20,000) was lower than for any other occupation. Family units with a major income recipient also had the lowest median after-tax family income, providing them with less opportunity to contribute to RRSPs.

Chart F: Those employed in government and education have the highest median private pension assets.



Source: Survey of Financial Security

Data source

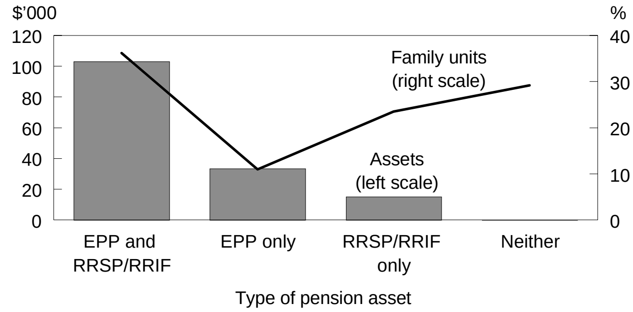
The 1999 Survey of Financial Security, which covered about 16,000 responding households, collected information from May to July 1999 on the assets and debts of families and unattached individuals. It captured the value of all major financial and non-financial assets, as well as money owing on mortgages, vehicles, credit cards, student loans and other debts. The survey was developed with the support of Human Resources Development Canada, Canada Mortgage and Housing Corporation, Industry Canada and the Policy Research Initiative.

This note analyzes Canadians' retirement savings. It makes a number of assumptions such as the age of retirement, income required, assets available to generate that income, and the expected earnings on those assets. These assumptions and the methodology used are described in more detail in *Survey of Financial Security: Methodology for estimating employer pension plans benefits* (Catalogue no. 13F0026MIE), free on Statistics Canada's Web site (www.statcan.ca).

Families with both employer pension plan assets and RRSP/RRIF assets had significantly higher pension assets than those holding only one or the other. The 36% of families with both types had a median pension value of $102,900, compared with $33,300 for those with only EPP assets and $15,000 for those with only RRSP/RRIF assets. Interestingly, people who belong to EPPs tend to contribute more to their RRSP than those who do not. This is largely related to income. Half of the family units with EPP and RRSP assets had after-tax family incomes of $40,000 or more, compared with 17% of those family units that had only EPP assets.

Significantly more family units had only RRSP assets than had only EPP assets (24% compared with 11%). This is largely because RRSPs are more widely available. Any person with earned income (largely employment income) could have contributed to an RRSP, while only those working for an employer that provided a pension plan would have EPP assets.

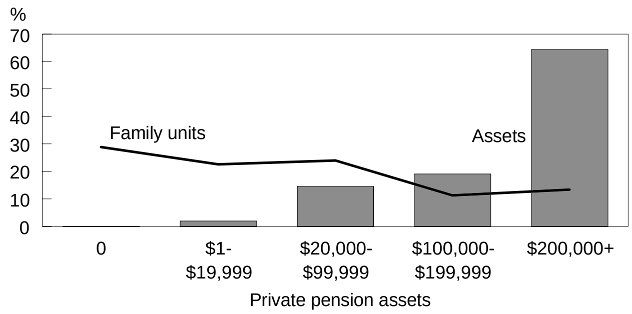
Chart G: Largest median private pension assets held by family units with both EPPs and RRSPs/RRIFs.



Source: Survey of Financial Security

Family units holding only EPP assets had much higher median pension assets than those with only RRSP/RRIF assets. Again, this is because EPPs require that regular contributions be made, while RRSPs do not.

Chart H: About 25% of family units had 84% of private pension assets.



Source: Survey of Financial Security

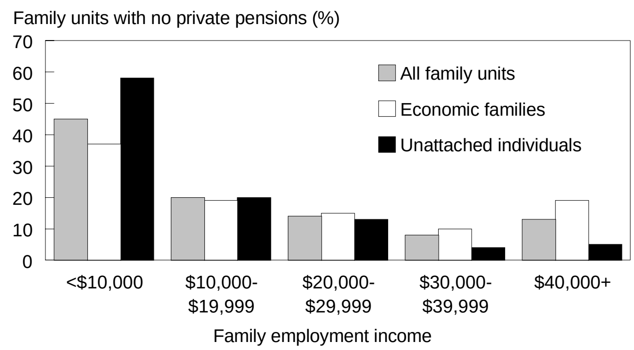
Private pension assets were concentrated in a relatively small percentage of family units. The 25% of family units with $100,000 or more in private pension savings held 84% of these assets. About half of these (13%) had at least $200,000 in pension assets—this group alone held close to two thirds (64%) of the total. However, almost 29% of all family units did not have any private pension assets in 1999.

Close to half (49%) of the family units in which the major income recipient was between 55 and 64 had at least $100,000 in private pension assets. This age group also had the lowest percentage of family units with no pension assets (21%). A much smaller percentage (36%) of family units in which the major income recipient was likely to be retired (being 65 or older) had pension assets of $100,000 or more. Many of these family units would already have been drawing on their pension assets, thereby reducing the amount held.

Notably, 34% of the family units with a major income recipient 65 or older had no pension assets. These families may not necessarily be less well off than in pre-retirement years since their income from government programs (OAS/GIS and C/QPP) may be sufficient to maintain their former standard of living.

The large majority of family units with no private pension assets had lower employment incomes. Considering only those economic family units with a major income recipient between 25 and 64, just over 70% of families of two or more with no pension savings had earnings of less than $30,000. Approximately 78% of unattached individuals had earnings of under $20,000. Even though these families and individuals have little saved privately, public plans such as OAS/GIS and C/QPP will provide them with a minimum income in retirement. This income would replace a substantial portion of their pre-retirement earnings. Using 1998 rates, a single person with no other income would receive from OAS/GIS an annual income of just under $11,000 at 65; a couple, both 65, would get about $17,800.

Chart I: Most family units aged 25 to 64 with no private pension assets had earnings of less than $30,000.

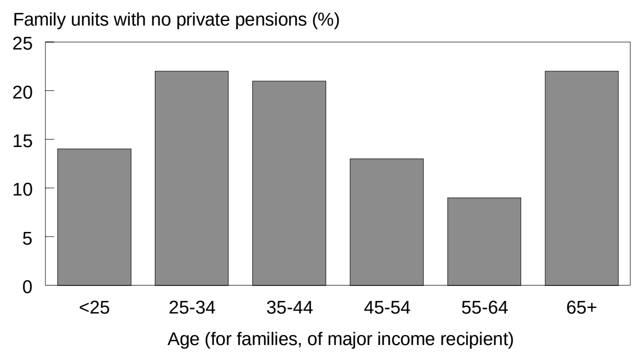


Source: Survey of Financial Security

Most of those with no private pension assets were relatively young. This puts them further from retirement and means they still have a number of years in which to accumulate assets. More than half (57%) of families with no private pension assets had a major income recipient under age 45.

However, the remaining 43% of family units (1.5 million in total) without private pension assets had a major income recipient 45 or older. For these family units, the government-sponsored programs (OAS/GIS and C/QPP) will, or do now, constitute an essential source of income in retirement.

Chart J: The majority of family units with no private pension assets were under 45.

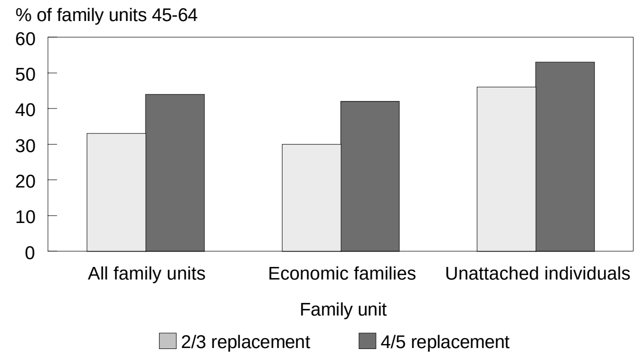


Source: Survey of Financial Security

How much income does a family require in retirement? Because certain work-related expenses (for example, contributions to C/QPP, Employment Insurance, and employer pension plans) cease at retirement, it is not necessary to have the same gross income after retirement in order to receive the same net income. Also, because expenditures for consumer goods often decrease while mortgage payments and child-rearing costs are eliminated or reduced, a similar standard of living after retirement is possible with less net income than was earned through employment.

An estimated 33% of family units with a major income recipient aged 45 to 64 may not, given their current asset situation, have saved enough to replace two-thirds of their earnings, or to generate an income in retirement that is likely to be above the low income cutoff (LICO). This increases to 44% if four-fifths of the pre-retirement earnings is to be replaced. The proportion is much higher for unattached individuals because of the number that may not be able to generate an income above the LICO.

Chart K: One-third of family units aged 45 to 64 may not have sufficient retirement savings.



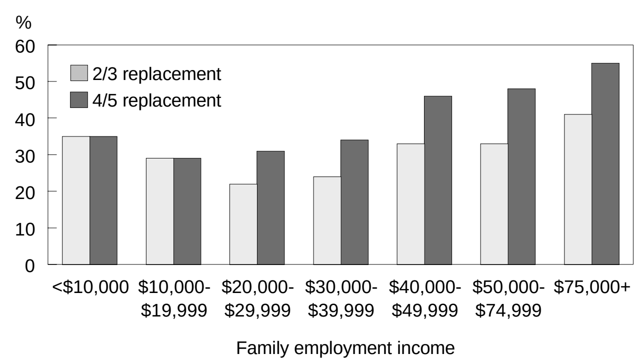
Source: Survey of Financial Security

The amount of income that a family must replace from private sources increases with their pre-retirement earnings. It is therefore not surprising that the percentage of family units with high employment incomes (of $75,000 or more) that might not be able to replace two-thirds of their earnings is relatively high, at 41%. Family units earning at least $75,000 represent over one-third of all family units that might not have saved enough; their median net worth was $235,300. By comparison, those with earnings of $75,000 or more that appear to have sufficient savings had a median net worth of $628,400.

A lower proportion (just under one-quarter) of those with employment incomes of between $20,000 and $40,000 may not be able to replace two-thirds of their earnings. The income this group will receive from public pension programs (OAS/GIS and C/QPP) will help most of them to maintain a similar standard of living in retirement.

Just over 35% of those with employment incomes under $10,000 may not have saved enough to generate an income in retirement above the low income cutoff. For many in this group, the result may not be a drop in standard of living but a continuation of one that is restricted.

Chart L: Family units with lower and higher employment incomes are the least likely to have saved enough.

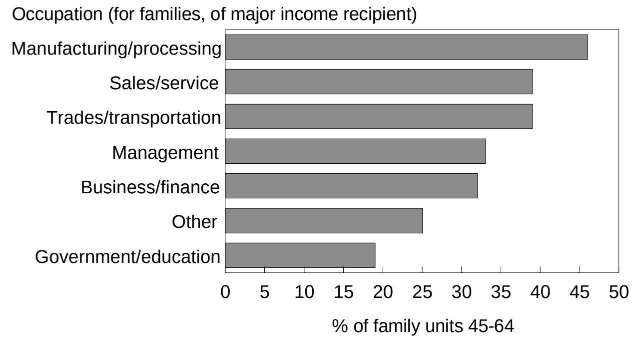


Source: Survey of Financial Security

Family units with a major income recipient employed in the public sector—with some level of government or in an education-related occupation—were most likely to have saved enough for retirement. A relatively small 19% of this group did not appear to have sufficient assets. This group also had the largest proportion of family units with both employer pension plan assets and RRSPs (63%). Only 9% had no savings in either of these private pension programs.

The family units that may have the most difficulty replacing two-thirds of their earnings in retirement have major income recipients working in occupations associated with processing and manufacturing (46%). About 26% did not have any assets in employer pension plans or RRSPs.

Chart M: Those working in manufacturing and processing are more likely to have difficulty replacing at least two-thirds of their earnings in retirement.

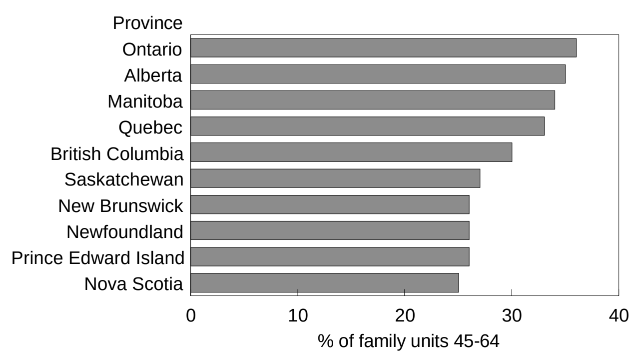


Source: Survey of Financial Security

Alberta and Ontario had the largest proportion of family units aged 45 to 64 that may not have saved enough to replace two-thirds of their earnings in retirement (just over 35%). This is true even though the median net worth of all family units 45 to 64 in Alberta and Ontario was higher than in any other province except British Columbia ($255,000 in Alberta and $267,000 in Ontario). However, median employment income for this same population was also among the highest in these provinces and, as was seen earlier, the proportion who may have difficulty replacing their earnings when they retire rises with income.

The Atlantic provinces and Saskatchewan had lower proportions of family units that may not have saved enough. For the most part these provinces have lower median employment income; income from OAS/GIS and the C/QPP will help many family units in these provinces to maintain their standard of living when they retire.

Chart N: The proportion of family units aged 45 to 64 that may not be able to replace at least two-thirds of their earnings in retirement is highest in Alberta and Ontario.

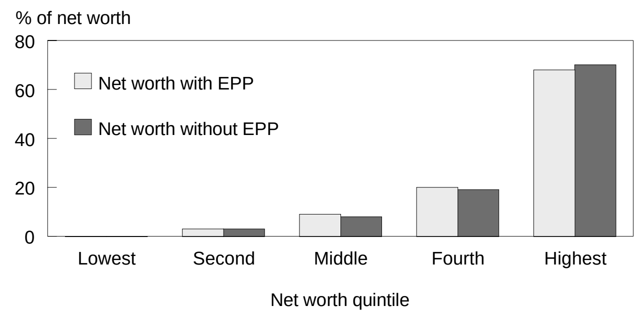


Source: Survey of Financial Security

The net worth of Canadians, excluding the value of employer pension plan benefits, is about $81,000. Including EPP benefits increases net worth by almost 35% to approximately $109,200. This indicates the importance of considering these retirement savings when examining the financial situation of Canadians. Although EPP benefits are not savings that can be withdrawn and used for other purposes prior to retirement, they nevertheless constitute an essential part of the financial picture of Canadians.

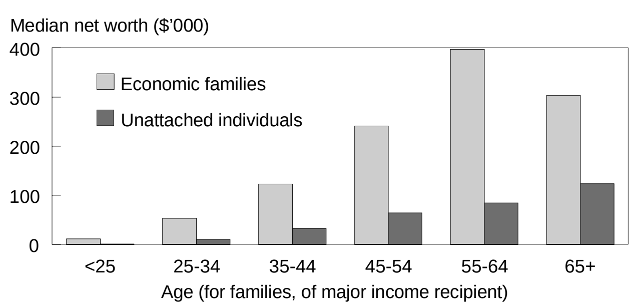
Including the value of employer pension plan benefits in the net worth of Canadians changed the distribution of net worth only very slightly. Because a relatively large proportion of Canadians belong to employer pension plans (47% of family units had at least one member who belonged to an EPP), it might be expected that adding the value of the EPP benefit would result in a more even distribution of net worth. However, using the estimate of net worth including the value of EPP benefits, the wealthiest 20% of family units continued to hold the largest percentage of personal wealth: 68%. This is slightly less than the 70% excluding EPP. The proportion of the net worth held by the 40% of Canadians with the lowest personal wealth did not change.

Chart O: Including the value of employer pension plan benefits changed the distritution of the net worth of Canadians only slightly.



Source: Survey of Financial Security

Chart P: Median net worth is highest for families with the major income recipient aged 55 to 64.



Source: Survey of Financial Security

Families and individuals generally acquire their assets over their lifetime, so it is not surprising that net worth increases with age. Median net worth was highest for those families of two or more in which the major income recipient was 55 to 64 years of age ($397,000). It dropped for those 65 and over to $302,800. This is to be expected since many elderly families may be required to use some of their assets to generate or supplement their income.

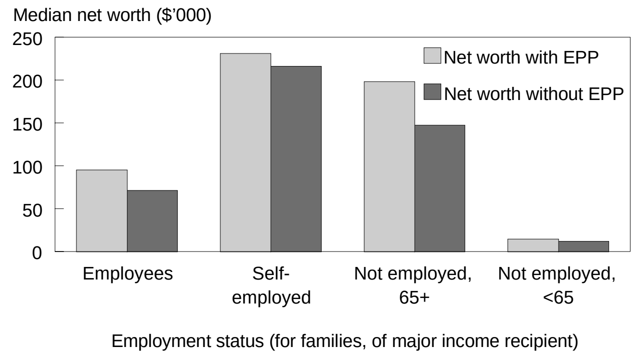
The net worth of unattached individuals was well below that of economic families for every age group. Although net worth increased with age for the unattached, the median net worth of all age groups under 65 was substantially lower than for those 65 and older. Many of the unattached 65 and older may have spent a large part of their lives as part of a family—their higher net worth may be a reflection of this.

Those under 25, who have had less time to accumulate savings and purchase assets, had the lowest median net worth. Unattached persons under 25 had a median net worth of $1,000. Families in which the major income recipient was under 25 had a median net worth of $11,400.

Adding the value of employer pension plan benefits to net worth increased the median net worth of employees by 33%, compared with 7% for the self-employed. Despite this, the median net worth of family units in which the major income recipient was self-employed was still almost two and a half times greater than for an employee ($231,100 compared with $95,200). This reflects the effect of business equity on the net worth of the self-employed; for that group business equity represented 31% of total assets, compared with 6% for employees.

The net worth of those not working and at least 65 years of age also increased substantially (to $198,300) with the addition of the value of employer pension plan benefits. Many in that group were retired and collecting pensions from previous employment. The net worth of those not working and under 65 also increased 22% because of those receiving pensions or having employer pension plan assets from previous employment.

Chart Q: Median net worth of the self-employed is higher than for employees.

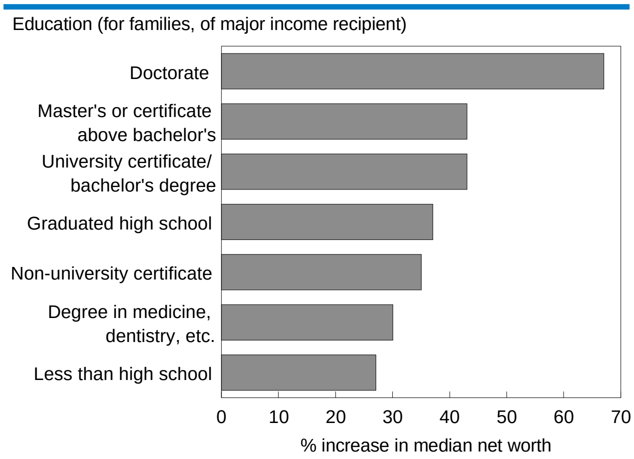


Source: Survey of Financial Security

The highest level of education makes a significant difference to the financial situation of the family unit. It is one of the most important determinants of net worth, since it affects both income and occupation. Median net worth for family units in which the individual or major income recipient had not graduated from high school was $79,600, compared with $419,600 for those with a professional degree in law, medicine, dentistry, veterinary medicine or optometry.

Adding the value of employer pension plan benefits to net worth had the largest effect on those with doctorates. This group had the largest percentage of family units with EPP assets (71%). Although those with a professional degree in law, medicine, dentistry, veterinary medicine or optometry had the highest median net worth, they were less affected by the addition of the value of EPP benefits since a much smaller percentage of family units in that group belonged to EPPs (37%). Many are self-employed and would therefore not be eligible to participate in an EPP. This group would depend more heavily on RRSPs.

Chart R: Increase in net worth with addition of the value of EPP is greatest for those with doctorates.



Source: Survey of Financial Security