

Employer-sponsored pension plans - who is covered?

Hubert Frenken and Karen Maser

Registered employer-sponsored pension plans (RPPs) provide an important source of income for Canada's retired population. In 1990, \$15 billion in RPP benefits was paid out to Canadians aged 55 and older. These benefits are, however, far from universal. They are paid only to retired workers (and in some cases to their spouses) who were able to accumulate such pension credits during their working years. In 1989, not even half the paid workforce were members of RPPs.

Worker participation in retirement income programs, particularly RPPs, has become a much discussed topic recently. ⁽¹⁾ But employer-sponsored pension plans are not, of course, the only retirement savings option. All workers aged 18 and older belong to the Canada or Quebec Pension Plan, and each year a growing number take advantage of the tax-assistance opportunities provided by registered retirement savings plans (RRSPs).

This article, however, focuses on pension plans provided by employers and on the workers they cover. Have the coverage rates for employer-sponsored pension plans changed in the past decade? Can factors that affect these rates be identified? What are the prospects for improvements in coverage given current economic and, particularly, labour market conditions?

Decreasing coverage

Between 1979 and 1989, the proportion of the employed paid workforce 15 years of age and older covered by employer-sponsored pension plans declined from 48% to 45%, according to data from the Pension Plans in Canada (PPIC) database ([Chart A](#)). This drop was mainly due to the fact that the number of men covered by RPPs did not grow as fast as the number of male paid workers. The coverage rate for men, which had increased slightly from 54% in 1979 to 55% in 1983, fell to 50% in 1989. Meanwhile, the proportion of women who were covered remained relatively constant (at about 37%) in the early 1980s, but increased to 39% by 1989. Changes in pension legislation concerning part-time

workers may have been a factor in the growth in the women's coverage rate.



Chart A Pension coverage is declining for men, while it is increasing for women.

Sources: Pension Plans in Canada database and Labour Force Survey

Who is covered?

The overall coverage rate, evident from the PPIC data, says little about the types of workers most or least likely to be covered by RPPs. Using data from the Labour Market Activity Survey (LMAS), coverage can be determined for a number of characteristics related to employers (sector, industry and firm size) and to jobs (full-time/part-time status and union affiliation). These data also provide information on the characteristics of covered workers themselves (sex, age and earnings). For this study only paid workers 20 years of age and over were considered (see [Data sources](#)).

Public sector coverage much higher

According to the LMAS, almost 49% of paid workers aged 20 and older were covered in 1989. However, coverage in the public sector was 73%, compared with just 39% in the private sector (see [Public and private sectors](#)). This difference was evident for both men and women. In the public sector 81% of men and 66% of women

were covered, while the comparable rates for the private sector were 47% and 30%, respectively ([Chart B](#)). Similar differences in public versus private sector coverage rates were apparent for other characteristics of workers and of jobs ([Table 1](#)).



Chart B In 1989, pension coverage was much lower in the private sector than in the public sector.

Source: Labour Market Activity Survey



Table 1 Pension coverage rates, 1989.

Source: *Labour Market Activity Survey*

The high incidence of RPP coverage noted among public sector workers is reflected in the higher-than-average rates in those industries that are considered to be primarily public sector for this study. By far the highest coverage was in government services (78%), but the rates in transportation, communication and other utilities (67%) and community services (health and social services and education) (64%) were also notable.

Not surprisingly, smaller firms are much less likely than larger ones to provide RPPs. Fewer than 15% of paid workers in firms with less than 20 employees were pension plan members in 1989. This proportion climbed to 72% for those in firms employing 500 or more workers. [\(2\)](#)

Full-time and unionized jobs more likely to be covered

The pension plan coverage rate for workers in full-time jobs was 53% in 1989 - 80% for those in the public sector and 43% for private sector workers. Part-time employees, who accounted for one out of every seven paid workers (but one out of every four for women), had a coverage rate of only 24%. Recent changes in pension legislation require that part-time employees meeting certain minimum conditions must now be eligible to participate in employer pension plans. Many, however, may choose not to participate or may not have worked long enough to be eligible. [\(3\)](#)

Pension plan participation is also much more common for union members and those covered by collective agreements than for those who have no such protection. In 1989, over three-quarters of union members belonged to pension plans, compared with just over 30% of employees in the latter group.



Table 2 Pension coverage rates by industry, 1989.

Source: *Labour Market Activity Survey*

Coverage by sex, age and earnings: big differences

The proportion of men aged 20 and older covered by pension plans in 1989 far exceeded that of women (54% versus 42%). The lower coverage rates for women can be partly attributed to the fact that they

account for a higher proportion of part-time workers. Also, they are over-represented in industries such as business and personal services, where coverage rates are lower. The difference in rates for men and women was much more pronounced for those aged 35 and older than for those under 35.

At 58%, paid workers aged 35 to 54 were the most likely to be pension plan participants ([Chart C](#)). The rate dropped slightly, to 51%, for those 55 and older. Fewer than one-quarter of 20 to 24 year-old paid workers belonged to RPPs. Nearly 21% of these younger workers have part-time jobs and for them pension plan membership, if available, was generally voluntary and of low priority. Even among full-time workers, the participation rate was lower for this age group than for older groups because of eligibility conditions.⁽⁴⁾



Chart C Paid workers aged 35 to 54 had the highest pension coverage in 1989.

Source: Labour Market Activity Survey

Only 27% of workers with annual employment earnings ⁽⁵⁾ of less than \$20,000 were pension plan members in 1989 ([Chart D](#)). Almost one-half of paid workers fell into this range and the majority (over 62%) were women. At the \$40,000 to \$59,999 level, 82% were covered. This rate decreased to 73% for those with earnings of \$60,000 or more.



Chart D In 1989, paid workers earning less than \$20,000 were the least likely to have pension coverage.

Source: Labour Market Activity Survey

The low coverage rate for workers earning less than \$20,000 is partially because many part-time workers are found in this group. It also reflects the lower wages more often associated with small firms, which have lower pension coverage rates. Large firms, on the other hand, tend to pay higher wages and are also more likely to provide pension plans ([Morissette](#), 1991).

Future prospects for RPP coverage

It appears that prospects for growth in pension plan coverage are limited, considering the changes taking place in the Canadian labour market. (6) Labour Force Survey (LFS) data show that many of the high coverage areas identified above have experienced extensive job losses in recent years, while a number of areas with low coverage rates seem to be growing faster than the workforce in total.

In 1981, just 9% of paid workers aged 20 and older were employed in part-time jobs. Ten years later this proportion had increased to 12%. In fact, part-time workers accounted for nearly one-third of the 1.4 million gain in the number of paid workers during this period. Despite legislative changes affecting part-time workers, it is not yet known to what extent these employees will opt for RPP participation.

LFS data also show that self-employment has been growing much faster than paid work. Owners of unincorporated businesses are, by definition, excluded from RPP participation, since they are not employees *per se*. Owners of incorporated businesses can participate in RPPs, although their plans are subject to Revenue Canada restrictions that are not applicable to other RPPs. Traditionally, relatively few of this latter group have been covered. (7) The number of self-employed workers aged 20 and over grew 35% from 1981 to 1991, while the number of paid employees in this group increased only 15%.

Employment in business, personal and other services, where the coverage rate is only 20%, rose by 40% from 1981 to 1991. Trade, which also has a low coverage rate, increased by 20%. On the other hand, significant job losses occurred in manufacturing and in mining, industries that have always had high RPP coverage rates.

A recent study (Wannell, 1992) showed that "the percentage of jobs found in small firms ... increase(d) in the 1980s." While the proportion of workers employed in the largest firms (500 employees and over) decreased from 44% in 1978 to 39% in 1988, the shares of jobs in companies with 1 to 19 employees and with 20 to 99 employees both increased. This trend appears to have continued since 1988, an important issue since, as previously indicated, small- and medium-sized firms are less likely to provide pension plans for their workers than large ones.

Much recent discussion has centred on how regulatory legislation has affected employers' willingness to provide RPPs (Bramm, 1991, Jarvis, 1992 and Noakes, 1991). It has been argued that legislative requirements not only discourage employers without RPPs from implementing them, but also entice others to terminate existing plans. (8)

Conclusion

Employer-sponsored pension plan coverage has not kept pace with employment growth. Moreover, coverage is far from homogeneous. Pension plans are much more prevalent in some industries than in others, and in the public sector compared with the private sector. As well, those who have full-time jobs and jobs covered by union agreements are much more likely to belong to pension plans than those who work part-time or who are non-unionized. Large firms tend to offer pension plans to their employees

much more frequently than medium- and small-sized firms.

Many of these factors are related, of course. Some industries with low pension coverage are dominated by small employers; for example, trade and personal services. Similarly, the low coverage rates for women reflect their heavy representation in some industries with low coverage, in part-time work and in non-unionized jobs.

Continued employment growth in industries with low RPP coverage rates, coupled with more part-time work and a rising share of jobs in small businesses suggest further erosion of coverage rates in the future.

The focus of this article has been employer-sponsored pension plan coverage. Other ways of accruing retirement benefits should not be ignored, however. The dramatic growth in RRSPs, both individual and group, evident in recent years may compensate to some extent for any perceived inadequacy in pension coverage (see Frenken, [1990](#) and [1991](#)). More and more employers and workers seem to be considering these plans as an alternate vehicle for accumulating retirement savings. [\(9\)](#)

Public and private sectors

Pension plan coverage rates are not only vastly different for the public and private sectors, they have also tended to remain much more stable for the public than the private sector.

In the Pension Plans in Canada (PPIC) database, public sector plans are defined as those offered to employees of the three levels of government, including Crown corporations, boards and commissions. RPPs for teaching and non-teaching employees of school boards (elementary and secondary), for staff of post-secondary, non-university institutions, for hospital workers and for employees of other public health care institutions and social services agencies are also included in the public sector. Plans for the remaining employers make up the private sector.

The Labour Market Activity Survey (LMAS) data were split into two portions, to produce similar public and private sector approximations. LMAS public sector workers were identified as those whose principal jobs (see [Data sources](#)) were in industrial sectors that consist totally or mostly of government operations or services or whose principal employers were Crown corporations or government agencies. The remaining LMAS respondents were assumed to be private sector workers. An examination of the LMAS data shows public and private sector portions that are comparable to the PPIC data.

Data sources

This article uses data from: the Pension Plans in Canada (PPIC) database, the Labour Force Survey (LFS) and the Labour Market Activity Survey (LMAS).

The PPIC database provides comprehensive data on a wide variety of characteristics of all registered employer-sponsored pension plans (RPPs) in Canada. It is updated annually, using information supplied to Statistics Canada by the federal and provincial agencies responsible for the supervision and regulation of pension plans in their jurisdictions. Generally, the membership reported reflects the total number of active participants at the end of the plan year (usually December 31), including those persons on temporary layoff whose participation has not been terminated. For further details on the PPIC program consult *Pension plans in Canada* (Statistics Canada, [1990](#) and [1991](#)) or contact the Pensions Section, Labour Division at (613) 951-4034.

The LFS provides monthly estimates on employment, unemployment and non-labour force activities. Pension plan coverage rates can be calculated using the PPIC membership data and various LFS-based annual averages. The most widely quoted rate is the percentage of the total labour force that is covered. This rate may be somewhat misleading, however, since portions of the labour force, such as the unemployed, the self-employed and unpaid family workers, are precluded from pension plan participation. A more useful rate is the percentage of employed paid workers that are covered.

The LMAS, an annual survey from 1986 to 1990, collected information on labour market participation patterns and the characteristics of jobs held during the year. It identified up to five jobs held by each respondent and provided data on a variety of attributes for each job, including pension plan coverage. For this study, pension plan participation means having at least one job that provided pension plan coverage during the calendar year.

The LMAS uses the individual's principal job to classify respondents in terms of attributes such as industry, firm size and union membership. With multiple jobholders, the principal job is determined by considering the number of hours worked at each job during the year. For multiple job holders with just one job with pension plan coverage, that job is considered the principal job, notwithstanding the amount of time spent at other jobs during the year.

Paid workers includes all employed workers except unpaid family workers and self-employed working owners of incorporated and unincorporated businesses. Only 5% of paid workers under 20 years of age participated in RPPs in 1989. Therefore, this study has been limited to persons 20 and over. For more information, contact Stephan Roller, Household Surveys Division, at (613) 951-4625.

Notes

Note 1

The issue has been studied by the Pension Commission of Ontario and was the focus of a September 1991 conference, jointly sponsored by the Canadian Pension Conference (CPC), the Canadian Association of Pension Supervisory Authorities (CAPSA) and the Canadian Institute of Actuaries (CIA). The CPC (renamed the Canadian Pensions and Benefits Conference in May 1992) is dedicated to promoting understanding of income security and employee benefits in Canada. CAPSA is an association of federal/provincial government officials responsible for the implementation and enforcement of regulatory pension legislation. The CIA is a self-governing body regulating the practice of actuarial science in Canada. The data presented here are an update and expansion of a paper presented by Karen Maser at that September 1991 conference.

Note 2

Employer size is based on the size of the "company" at the national level, not on the size of individual local operations. It was not possible to determine the employer size for some jobs in the LMAS. Therefore, 11% of paid workers aged 20 and older, for whom the employer-size group was undetermined, are excluded from this portion of the analysis. The RPP coverage rate for this 11% was very close to the overall coverage rate.

Workers employed by small public sector "firms" (for example, small municipalities, hospitals or government agencies) have greater access to RPPs than their private sector counterparts, because of the widespread use of multi-employer plans in the public sector. The Hospitals of Ontario Pension Plan, for example, covers nearly 100,000 workers employed by both large and small health care institutions in Ontario. In the private sector, only 13% of workers employed by firms with fewer than 20 employees have pension coverage, while 65% of employees of firms with 500 or more workers participate in RPPs.

Note 3

RPPs are subject to regulatory legislation of provincial governments and, in the case of certain employers, the federal government. By the end of 1989, five jurisdictions had recently modified their pension legislation, including provisions affecting part-time workers. Since then, two others have implemented similar regulations. The impact of these legislative changes on coverage rates is difficult to determine. According to the PPIC database, in 1990 most pension plans members (89%) belonged to plans requiring compulsory participation; however, for about 56% of all participants some condition, usually based on years of service, had to be met before membership was possible.

In general, employers tend to have mandatory participation for full-time workers (once the eligibility condition is satisfied), while part-time employees are given the option not to join. (Pension plans subject to Manitoba's legislation, which mandates participation for all workers meeting minimum standards of service and income, are an exception.) Many part-time workers may have taken advantage of the

opportunity provided by the legislation. The growth in the female coverage rate may be partially the result of such a response.

Note 4

See note 3.

Note 5

For purposes of this analysis, employment earnings refers to earnings from all paid jobs held during the year.

Note 6

This subject has been discussed in a previous article using different data sources ([Leckie and Caron, 1991](#)).

Note 7

The PPIC database seems to substantiate this low coverage rate. In 1990, there were just 5,300 RPPs designated as being exclusively for executive employees (including owners of incorporated businesses) and these plans covered just 24,000 members. LFS data show nearly 600,000 self-employed working owners of incorporated businesses that year.

Note 8

Recent changes in legislative requirements, particularly those affecting defined benefit RPPs, have presented new administrative complexities for plan sponsors, increased their costs under certain circumstances and possibly weakened their arguments for ownership of surplus assets.

Note 9

Supplementary information on plan discontinuations tends to support the widely held belief that more and more employers are terminating their RPPs, with the purpose of replacing them with RRSPs. Data from the Alberta Pension Supervisory Authority show that, for nearly two-thirds of RPPs discontinued in that province in the 1990-91 fiscal year, the reason for discontinuation given by employers was "replaced by RRSPs" ([Alberta Labour, 1991](#)). As recently as 1987, the incidence of replacement by RRSPs as a reason for discontinuation was so infrequent that this reason was not separately identified. Another example of the growth of group RRSPs may be found in the Revenue Canada data on new RRSP contracts. These data show that in 1990, 500,000 new RRSP contracts were registered under group arrangements, 71% more than the previous year.

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Source

Perspectives on Labour and Income, Winter 1992, Vol. 4, No. 4 (Statistics Canada, Catalogue 75-001E). This is the fourth of six articles in the issue.

 **HIGHLIGHTS**

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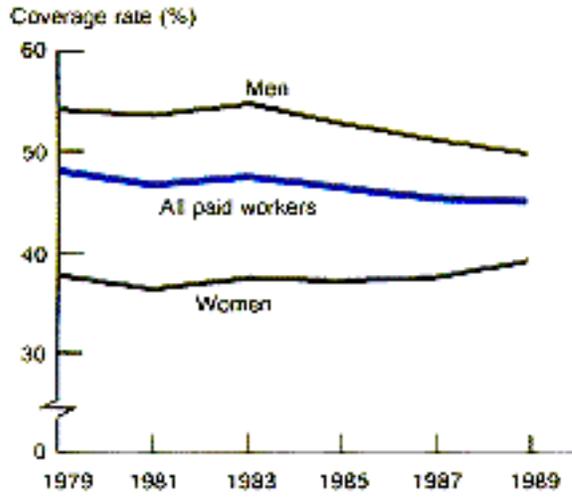
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Chart A

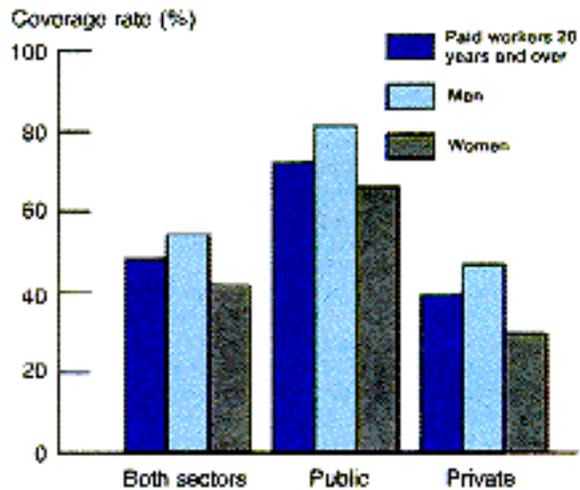
Pension coverage is declining for men, while it is increasing for women.



Sources: Pension Plans in Canada database and Labour Force Survey

Chart B

In 1989, pension coverage was much lower in the private sector than in the public sector.



Source: Labour Market Activity Survey

Table 1

Pension coverage rates, 1989

	Both sectors	Public sector	Private sector
	%		
All paid workers aged 20 and over	49	73	39
Age			
20-24 years	24	43	20
25-34 years	47	72	39
35-54 years	58	79	48
55 years and over	51	72	42
Earnings			
\$1 - \$19,999	27	47	22
\$20,000 - \$29,999	59	83	49
\$30,000 - \$39,999	72	90	63
\$40,000 - \$59,999	82	95	73
\$60,000 or more	73	92	65
Type of work			
Full-time	53	80	43
Part-time	24	43	13
Union affiliation			
Unionized	76	85	67
Non-unionized:			
Covered by collective agreement	58	68	49
Not covered by collective agreement	31	41	29
Firm size			
1-19 employees	15	31	13
20-99 employees	34	63	27
100-499 employees	57	73	48
500 employees or more	72	83	65

Source: Labour Market Activity Survey

Table 2

Pension coverage rates by industry, 1989

	Coverage rates			Distribution of paid workers		
	Total	Men	Women	Total	Men	Women
	%					
All industries	49	54	42	100	53	47
Goods-producing						
Agriculture	9	12	5	100	55	45
Other primary*	50	52	43	100	84	16
Manufacturing	55	61	39	100	71	29
Construction	35	37	20	100	87	13
Service-producing						
Transportation, communication and other utilities	67	70	60	100	72	28
Trade	29	35	24	100	51	49
Finance, insurance and real estate	59	63	56	100	34	66
Community services**	64	75	59	100	28	72
Business, personal and other services†	20	27	15	100	39	61
Government services	78	82	72	100	56	44

Source: Labour Market Activity Survey

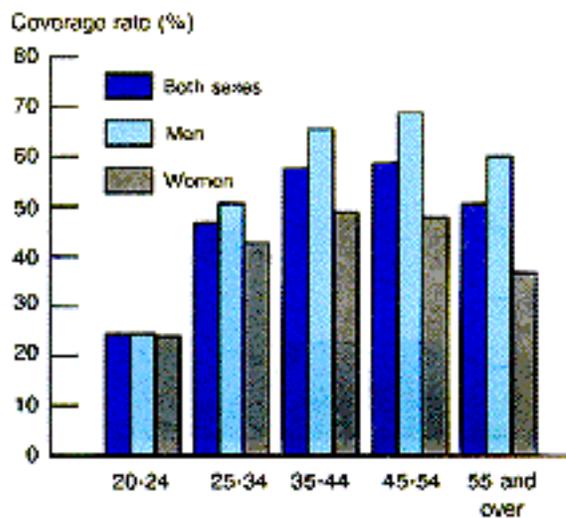
** Includes forestry, fishing and mining.*

*** Includes health and social services; and education services.*

† Includes business services; accommodation, food and beverage services; and other services.

Chart C

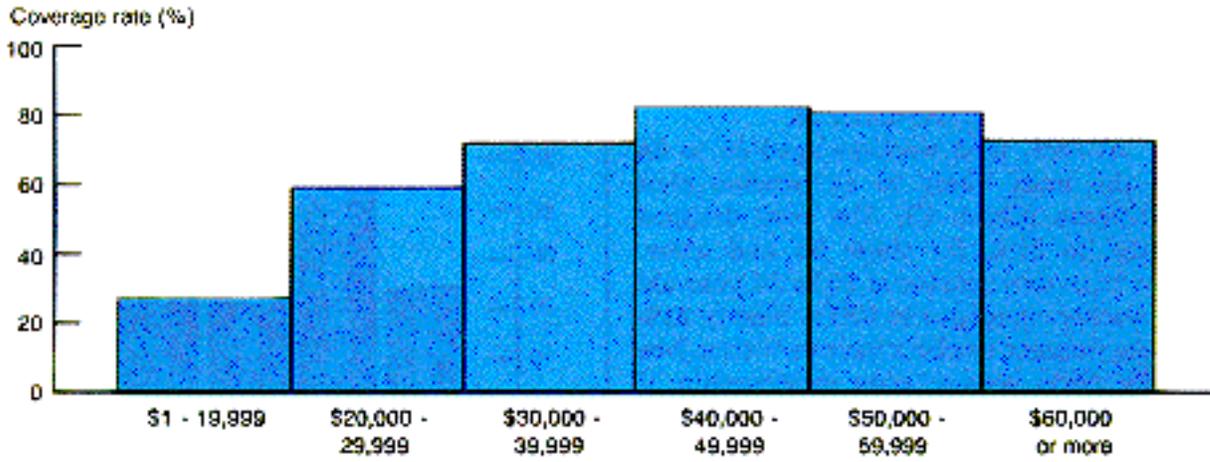
Paid workers aged 35 to 54 had the highest pension coverage in 1989.



Source: Labour Market Activity Survey

Chart D

In 1989, paid workers earning less than \$20,000 were the least likely to have pension coverage.



Source: Labour Market Activity Survey