

Facing retirement

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Almost 3 million Canadian workers will be retiring over the next two decades. Financial preparedness is one of the factors that will determine whether they approach retirement with optimism or anxiety. Clearly, present financial resources determine in large measure just how extensive preparations for retirement can be: the more disposable income a person has, the more he or she is able to save. And there is no doubt that some workers will be considerably better placed than others to play the role of "woofies" - well-off older folks - whether or not they had planned it that way.

Using data from the Survey of Ageing and Independence (SAI), this article looks at some of the basic retirement planning done by working Canadians aged 45 to 64. It examines the resources that will enable them to enjoy retirement: what they have in the way of financial assets - registered employer-sponsored pension plans (RPPs), registered retirement savings plans (RRSPs) and other investments - and the value of the property they own (see [Data source and definitions](#)).

Income and occupation - the inextricable link

In 1991, 1.7 million male and 1.2 million female workers were aged 45 to 64, and all of them expected to retire over the next 10 or 20 years. A plurality of these workers (37%) had annual personal incomes between \$20,000 and \$39,999; an almost equally large group (36%) had \$40,000 or more ([Table 1](#)).⁽¹⁾



Table 1 Workers aged 45 to 64 by personal income and occupation, 1990

Source: *Survey on Ageing and Independence*

Younger workers aged 45 to 54 were somewhat better off than their older colleagues, but this may be because a higher proportion of 55 to 64 year-olds worked part time. Men were more likely to have higher incomes than women: over half of them received \$40,000 or more, compared with just over 1 in 10 women.

Of course, occupation ⁽²⁾ has a profound impact on a worker's annual income. Managers and professionals brought home the biggest incomes: 29% reported \$60,000 or more and 30% between \$40,000 and \$59,999. Workers in the service occupations generally had much lower incomes - 60% reported less than \$20,000. Fully 60% of service workers were women, over one-third of whom worked part time.

Financial assets

Over 50% of workers have RPPs

For many workers, the most important source of retirement income will be a pension. At present, government pensions are the main source of income for 66% of Canadians aged 65 and over, while private pensions are the main source for only 18%. However, trends suggest that reliance on private plans will rise: in 1991, 55% of working Canadians aged 45 to 64 participated in RPPs.

Younger workers had better rates of pension coverage: 58% of 45 to 54 year-olds compared with 50% of 55 to 64 year-olds. This, however, is insignificant compared with the profound disparity in pension coverage among the different income groups. Just 24% of workers with incomes of less than \$20,000 had RPPs, compared with 81% of those with personal incomes between \$40,000 and \$59,999.

The link between income and pension plan participation is, of course, reflected in the coverage rates for the major occupational groups. Over two-thirds of workers in material handling and managerial and professional occupations were covered, where 45% and 59% of workers, respectively, reported incomes of at least \$40,000. ⁽³⁾ Furthermore, over 60% of workers in these two occupations were employed in manufacturing, community services (which includes education and health services), or government services. These industries are characterized by a high level of unionization, which is in turn associated with high rates of RPP coverage. ⁽⁴⁾

Coverage also differed markedly by sex. While 60% of male workers aged 45 to 64 could expect to receive employer-sponsored pensions upon retirement, only 48% of their female colleagues enjoyed the same security. ⁽⁵⁾ To a large extent, this disparity can be explained: 25% of women worked part time, and pension coverage is estimated at only 28% for part-time employees in this age group, compared with 59% for full-time employees. Women's financial situation at retirement may improve as their labour force participation in full-time jobs grows ([Galarneau, 1991](#)), but a large proportion of the next generation of female retirees is still clustered in occupations and industries in which incomes and rates of RPP coverage are low. ⁽⁶⁾ This fact is implicitly acknowledged in women's concerns about the adequacy of their retirement incomes (see [Pre-retirees look to the future](#)).

RRSPs most common among high-income earners

Fully two-thirds of all working Canadians aged 45 to 64 have contributed to RRSPs. Not surprisingly, participation rates were highest (79%) among workers with personal incomes of \$40,000 or more, yet half of workers making less than \$20,000 also had RRSP savings ([Table 2](#)).



Table 2 **Financial assets of workers aged 45 to 64 by personal income, 1990**

Source: Survey on Ageing and Independence

Generally speaking, managers and professionals had the highest RRSP participation rates. Rates were almost as high in sales occupations, where pension plan coverage is low, so it seems likely that these workers were using RRSP contributions to compensate for lack of RPP coverage. On the other hand, participation in both RPPs and RRSPs was low in service occupations, where few workers had personal incomes of \$40,000 or more.



Chart A **Pension plan coverage in 1991 differed significantly by occupation.**

Source: Survey on Ageing and Independence

Other investments are made by younger workers

Decidedly fewer workers, about 37%, prepare for retirement using investments other than RRSPs (for example, stocks and bonds, buying property other than a home). On average, 39% of workers aged 45 to 54 were preparing for retirement this way, compared with about 32% of older workers. The highest rate of "other investment," at 61%, was found among workers with personal incomes of \$60,000 and over.

Younger workers have more consumer debts

While a majority of workers had RPPs or RRSPs, and a substantial minority had other investments, 21%

had debts of at least \$5,000 (other than their mortgages). Half of this group had car loans, one-third had personal loans, and another third had other debts - including credit cards - to pay off (these figures are not mutually exclusive).



Chart B In 1991, RRSPs were the most popular form of retirement savings for workers aged 45 to 64.

Source: Survey on Ageing and Independence

Younger workers were more likely to have such debts: 23% versus 15% of older workers. This probably reflects the fact that almost 60% of 45 to 54 year-old workers were financially responsible for a child or other family member. In contrast, less than one-third of 55 to 64 year-olds had dependants.

Property ownership

Property is generally a family, not an individual, asset: the needs, expectations and resources of the family dictate the size and cost of its home and whether it can afford to own other real estate, such as a vacation home or rental property. [\(7\)](#) Therefore, the property ownership of workers aged 45 to 64 is discussed in terms of household, not personal, income. [\(8\)](#)



Chart C About one in four workers owned other property in 1991.

Source: Survey on Ageing and Independence

Most workers are homeowners

For many working people, their most important capital asset is the equity invested in their homes. About 80% of working Canadians aged 45 to 64 owned their homes in 1991, with the proportion being slightly higher for younger than for older workers. Almost all workers in the \$60,000 and over household income bracket owned their homes; over half of those with incomes under \$20,000 owned the house they lived in.

Almost 51% of homeowners estimated that their house was worth less than \$150,000; another 42% placed its value in the \$150,000 to \$299,999 range. As expected, workers with high household incomes were

much more likely to own expensive homes: over two-thirds of those with at least \$60,000 had homes priced at \$150,000 or more.

Two-thirds of homeowners are mortgage free

For most workers, home equity seems to far outweigh their mortgage liability. In 1991, 66% owned their homes free and clear. And although the remainder did have mortgages, the balance owing was generally quite modest. It amounted to less than \$25,000 for 33% of mortgage-holders, and \$25,000 to \$50,000 for another 27%. As one would expect, younger workers were more likely to carry a mortgage -- 39% compared with 24% for workers aged 55 to 64. And, of course, younger mortgage-holders tended to owe the bank more, but it was the higher income households (\$60,000 and over) who were most likely to carry large mortgages on their more expensive homes.

One in four own property for leisure or business

One-quarter of working Canadians aged 45 to 64 owned property other than the house they lived in.

Such ownership could represent either a leisure or a business asset, but whatever the reasons for acquisition, they appear to be equally compelling for both age groups, as there was no real difference in the average ownership rates of both older and younger workers. However, older workers were more likely to hold valuable properties -- 38% compared with 30% of younger workers estimated that their other property was worth at least \$150,000.

Equity in most property is over \$100,000

The equity in property-whether a home, other property, or both-can be calculated by subtracting the amount still owing on the mortgage from its estimated selling price. ⁽⁹⁾ This reveals that almost two-thirds of property-owning workers had a net equity of \$100,000 or more. The higher the worker's household income, the greater their equity: 44% of workers with incomes of \$60,000 and over had equity of \$200,000 or more, compared with the average of 31%. Well over half the workers in the lower household income brackets (less than \$40,000) had equity of under \$100,000.

Summary

Generally speaking, working Canadians aged 45 to 64 seem to be heading towards retirement with reasonably solid financial security. The majority have private pension plans, RRSPs, and own their homes. Many have made other investments in preparation for retirement, and own property other than the home they live in. The equity of the majority of home and property owners exceeds \$100,000.

The essence of the matter is income: from that well-spring flows most of the benefits working Canadians

are accumulating for their retirement. Workers with high personal incomes have greater resources with which to make financial plans for the future, starting with the much greater likelihood that they have an employer-sponsored pension plan. In addition to private pensions, high income workers have higher RRSP participation rates, more opportunities to make other investments, and homes of above-average value.

On the other hand, many pre-retirees do not now enjoy such favoured circumstances, and probably will not achieve them before retiring. For these workers, their "golden years" may be tarnished.

Pre-retirees look to the future

About two-thirds of Canadian workers believe they will have enough income to enjoy retirement. Younger workers (those aged 45 to 54) are a little more confident about the soundness of their financial situation. But this might be expected, since relinquishing a steady paycheque is a more imminent prospect for older workers.

There is also a definite difference in the attitudes of men and women. Women are somewhat less sanguine about their financial security: 60% of them, compared with 67% of men, believe their retirement income will be sufficient. The concern is even more marked among women aged 55 to 64: only one-half are satisfied with their projected retirement income compared with almost two-thirds of younger women. One-quarter of older women workers have part-time jobs, and although recent legislation requires that pension plans be offered to part-timers with two years of seniority, this measure is not likely to provide much financial assistance to older workers soon heading into retirement.

Data source and definitions

The Survey on Ageing and Independence, conducted by Statistics Canada in September 1991, was intended to measure the factors that are important to people remaining independent, active members of their community as they grow older. The sample consisted of approximately 20,000 former respondents to the Labour Force Survey (LFS), who had been surveyed at some point between September 1990 and June 1991. One person aged 45 years or over was interviewed in each household.

The survey was designed around an analytical framework developed by the Canadian Aging and

Retirement Network (CARNET). CARNET proposed that independent living in later life is determined by three major factors: health, income, and social activity. This article focuses on the income component, specifically how working Canadians aged 45 to 64 are making financial preparations for retirement.

Worker - a person who was a paid worker or self-employed at some time in the 12 months preceding the survey. The data include only those workers who believe that they will eventually retire, even if they cannot specify the age at which they intend to do so.

Almost 9 in 10 (87%) workers aged 45 to 64, whether working full time or part time, had worked for the entire year in the 12 months preceding the survey. This proportion held firm for both sexes and both age groups - among 45 to 54 year-olds, 90% of men and 83% of women had worked all year, as had 86% of men and 84% of women aged 55 to 64.

RPP - a registered employer-sponsored pension plan in which the respondent participates through employment, excluding the Canada and Quebec Pension Plans. This measures current participation and does not include the accrual of pension benefits in a previous job.

RRSP - a registered retirement savings plan to which the respondent has contributed at some time.

Other investments - includes buying property, as well as putting money in financial instruments such as stocks and bonds.

Home - the principal place of residence, owned by the respondent and/or the respondent's spouse or partner.

Other property - vacation homes, rental property, business property, and so on, owned by the respondent and/or the respondent's spouse or partner, but excluding the respondent's home.

Property value - the price that respondents thought they could receive for their homes at the time of the survey in September 1991. Estimates therefore undoubtedly reflect the local housing market, as well as the subjective assessment of the homeowner.

Income - pre-tax income in 1990 from all sources, including employment, pensions, government transfer payments, investments, and other sources (alimony, inheritance, estate). Employment earnings was the main source of personal income for 86% of workers aged 45 to 64.

Income information was collected for ranges of annual income, for example, less than \$10,000, \$10,000 to \$19,999 and so on; therefore, averages and medians could not be calculated. As is often the case, non-response rates for financial questions were much higher than those for other questions. About 23% of respondents did not disclose information about their personal income and 31% were silent about their household income. Therefore, the figures may misrepresent, to some degree, the financial position of the population under study.

Notes

Note 1

These income data cover pre-tax income received from all sources in the 1990 calendar year. The response rate for this question was 77%; all estimates in this article have been calculated excluding non-response.

Note 2

The nine occupational groupings in this article comprise the following:

- **Managerial and professional:** managerial and administrative; natural science, engineering and mathematics; social science; religion; teaching; medicine and health; artistic, literary and recreational
- **Clerical**
- **Sales**
- **Service**
- **Primary:** farming, fishing, forestry and mining
- **Processing:** processing, machining and product fabricating, assembling and repairing
- **Construction**
- **Transportation**
- **Material handling:** material handling, other crafts

Note 3

The "other crafts" component of the material handling occupational grouping includes a high proportion (60%) of workers with personal incomes of \$40,000 or more in 1990, compared with 16% of those in material handling occupations. Despite the dissimilar income distribution, the two occupation groups are amalgamated to meet sample size requirements for analysis of other variables. Also, these two groups have traditionally been amalgamated in Labour Force Survey-based data releases.

Note 4

These characteristics match the profile revealed by [Frenken and Maser](#) (1992). They showed that the rate of pension plan coverage in the public sector is almost double that of the private sector, and that over three-quarters of unionized workers had registered pension plans compared with less than one-third of non-unionized workers.

Note 5

Since the survey did not ask respondents if they had contributed to a pension plan in a previous job, these

figures may underestimate the benefits accruing to the workers in this age group.

Note 6

Pension coverage is lowest in trade, business and personal services, and miscellaneous services - industries that employ almost 40% of the total female workforce. These industries also have a heavy concentration of workers in sales and service occupations, which provide pension coverage at rates well below the average. See also [Frenken and Maser](#) (1992).

Note 7

It is assumed that for most people, inheritance does not play a part in the direct acquisition of real estate.

Note 8

Household income is 1990 pre-tax income from all household members. The response rate for this question was 69% and all estimates were calculated excluding non-response.

Note 9

The net worth of financial assets, (that is, RPPs, RRSPs and other investments) is not known.

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Author

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Source

Perspectives on Labour and Income, Spring 1993, Vol. 5, No. 1 (Statistics Canada, Catalogue 75-001E). This is the fourth of six articles in the issue.



Table 1

Workers aged 45 to 64 by personal income and occupation, 1990

	Total*	Less than \$20,000	\$20,000- \$39,999	\$40,000- \$59,999	\$60,000 and over
	%				
All workers aged 45-64	100	27	37	21	15
45-54 years	100	25	37	23	15
55-64 years	100	31	39	17	13
All occupations	100	27	37	21	15
Managerial and professional	100	11	30	30	29
Clerical	100	38	50	--	--
Sales	100	40	31	18	--
Service	100	60	33	--	--
Primary	100	38	31	--	--
Processing	100	22	46	26	--
Construction	100	--	50	32	--
Transportation	100	23	43	24	--
Material handling	100	--	35	28	--

Source: Survey on Ageing and Independence

** Excludes respondents who did not disclose personal income information.*

Table 2

Financial assets of workers aged 45 to 64 by personal income, 1990

	Number of workers*	Proportion with		
		Employer-sponsored pension plans (RPPs)	Registered retirement savings plans (RRPSs)	Other investments**
	'000	%		
All workers aged 45 to 64	2,220	57	67	37
Less than \$20,000	600	24	49	26
\$20,000 - \$39,999	830	64	69	31
\$40,000 - \$59,999	470	81	79	48
\$60,000 and over	320	69	79	61

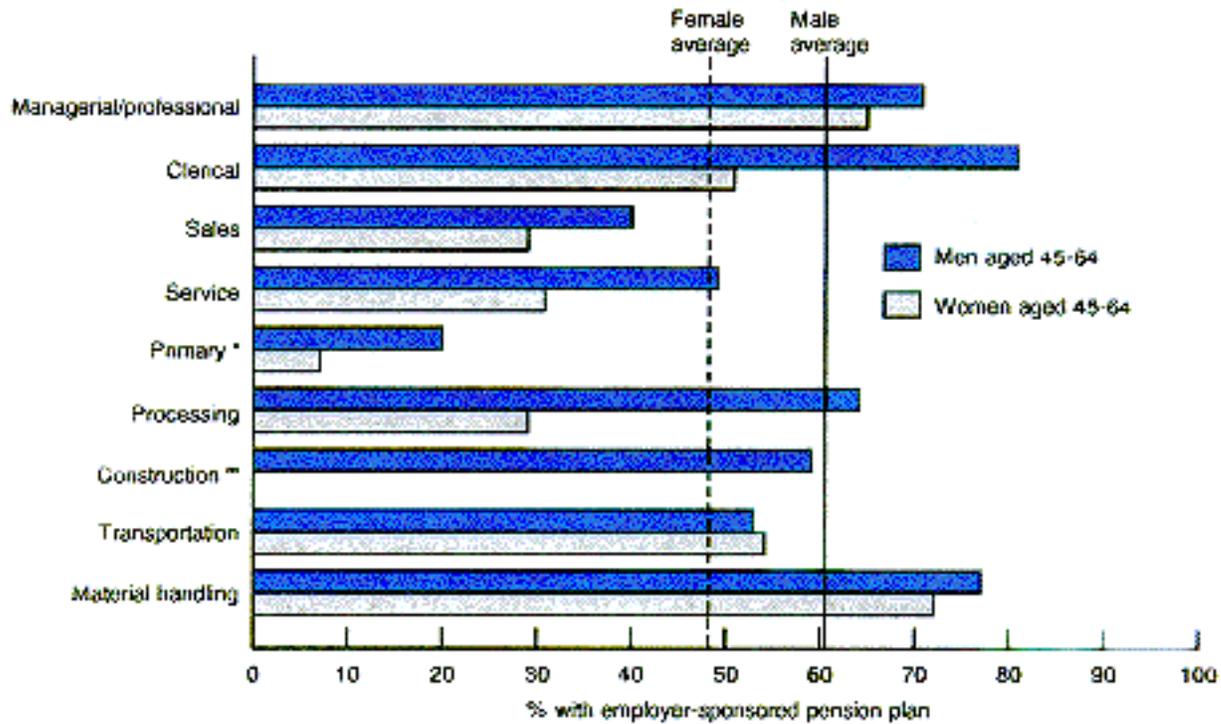
Source: Survey on Ageing and Independence

* *Excludes respondents who did not disclose personal income information.*

** *Includes property bought for investment purposes and financial instruments such as stocks and bonds.*

Chart A

Pension plan coverage in 1991 differed significantly by occupation.

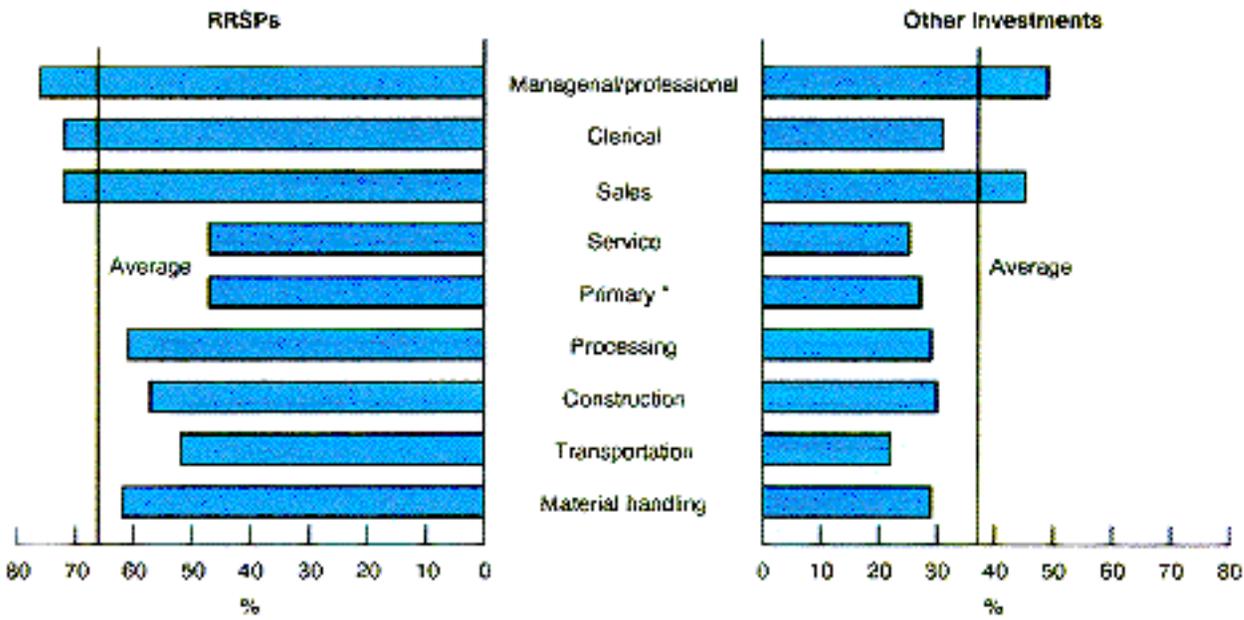


Source: Survey on Ageing and Independence

- * Includes farming, fishing, forestry and mining.
- ** Estimate too small to be released.

Chart B

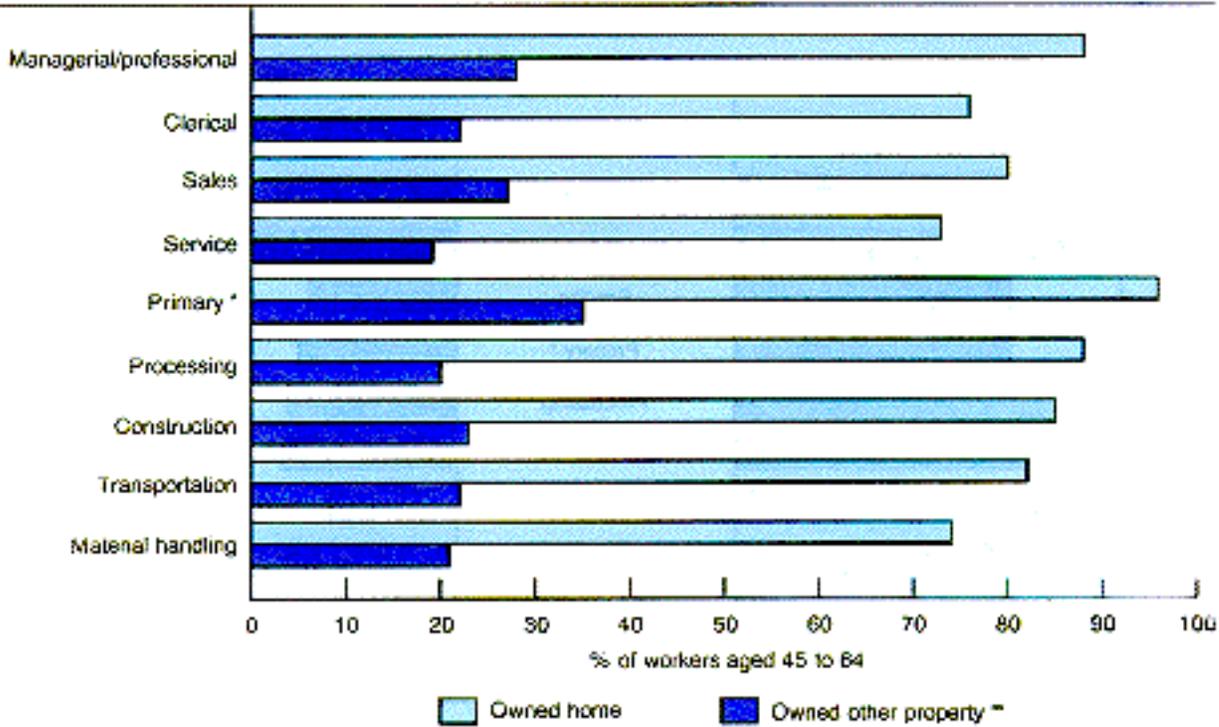
In 1991, RRSPs were the most popular form of retirement savings for workers aged 45 to 64.



Source: Survey on Ageing and Independence
 * includes farming, fishing, forestry and mining.

Chart C

About one in four workers owned other property in 1991.



Source: Survey on Ageing and Independence

* Includes farming, fishing, forestry and mining.

~ Includes vacation homes, rental or business property.