Pension Politics and Challenges: Retirement Policy Implications*

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La question des régimes de pension est devenue une question d'ordre politique au Canada. En effet, beaucoup de changements surviennent ou sont susceptibles de survenir et ce, sur plusieurs fronts. Parmi ces changements, on retrouve entre autres la remise en question de l'universalité de la pension de vieillesse, le changement possible de l'éligibilité pour l'allocation au conjoint, l'allocation de crédits de pension au moment de la dissolution du mariage, les questions de droits acquis, de transférabilité, de couverture ainsi que de la répartition des droits et responsabilités entre employeurs et employés vis-à-vis des régimes de pension. En plus, il y aura des défis à relever au sujet de la retraite obligatoire, des changements dans la période de retraite et de la négociation de plan de retraite individuels. La retraite ainsi que le processus de retraite sont influencés par le contexte politique et social entourant les politiques de pension et leur pratique. Cependant, les implications des choix politiques liés aux régimes de pension pour la politique de retraite au Canada n'ont pas encore été examinées en profondeur alors que plusieurs problèmes ont été soulevés récemment. Ce texte décrit les politiques de pension actuelles, les changements qui viennent de survenir ainsi que leurs impacts sur la retraite, tout en suggérant des avenues pour de futurs travaux de recherche.

Pensions in Canada have become political, with challenges and changes occurring, and likely to occur, on several fronts, including the dismantling of universality in Old Age Security, possible alterations in eligibility for Spouse's Allowance, the allocation of pension credits upon marital dissolution, issues of vesting and portability, coverage, rights of employers/employees with respect to pension funds, among others. In addition, there have been challenges to mandatory retirement, changes in years spent in retirement, and in retirement negotiations at the individual level. Retirement and the retirement process are influenced by the social and political context of pension policy and practice, yet the implications of pension politics and challenges for retirement policy in Canada have not been fully explored and many new issues have lately arisen. This paper describes current pension policies, and changes to them, and explores their impacts for retirement, suggesting areas to which future research could be directed.

I Introduction

As the Canadian population ages, greater policy attention will be focussed on retirement and pension issues at all levels of government, as well as in the private sector. Research in these areas has burgeoned, but there are still many unanswered questions. Our goal is to focus upon four retirement policy implications of recent pension politics and challenges – age at retirement, mandatory retirement, income inequalities, and implications for women. These implications are interrelated in complex ways, but the general thrust appears to be that recent pension politics and challenges could have negative effects – lowering income levels in retirement, increasing income disparities, and constraining choices in later life.

It is curious that recent pension politics/challenges and their implications have been so little explored, not only with respect to retirement policy but also to a whole range of social policy issues. Wanner and McDonald (1989:13) characterize this inattention as 'inexplicable'. In a climate of increasing concern about population aging, a consideration of the consequences for retirement of recent pension politics is noticeably absent.

It is acknowledged that retirement is a complex phenomenon, related to political, economic, demographic, and social factors (McDonald and Wanner, 1990) and that our exploration touches on only some aspects of a complicated and multi-faceted issue. Our purpose is to be broad, contemporary, and speculative, in the hope of sparking future research and thinking on retirement and pension policy in Canada.

II Background Literature

Research on retirement has tended to focus on the experience of individuals – why individuals retire, how individuals decide to retire, and how well individuals adjust after retirement. As noted by McDonald and Wanner (1990:132), '[t]he vast preponderance of retirement research has been conducted from the individualistic, functionist point of view'. From this body of research, we know that: health and potential retirement income are the major determinants of the timing of retirement, particularly early retirement (e.g., Baillargeon, 1982; Monahan and Greene, 1987; Palmore et al., 1985; Quinn, 1977), although attachment to work (Monahan and Greene, 1987; Palmore et al., 1985; Schmitt and McCune, 1981) and marital status (Baillargeon, 1982; McDonald and Wanner, 1984) operate as secondary factors; the retirement decision is affected by attitudes towards work and retirement (Jacobson and Eran, 1980; Prothero and Beach, 1984); retirement is not necessarily traumatic for people (MacBride, 1976; Martin Matthews et al., 1982); retirement does not lead to health declines (Palmore et al., 1985; Shapiro and Roos, 1982); and retirement appears to have no direct effect on individual well-being (George and Maddox, 1977; George et al., 1984).

Pensions, in contrast, have been studied from macro societally-based perspectives. As pensions are an element of the social welfare apparatus of western democracies (Bryden, 1974; Fields and Mitchell, 1984, Graebner, 1980; Guest, 1985; Ismael, 1985; Myles, 1989; Townson, 1989), they have been conceptualized as political and economic, variously premised on social equity or entitlement. Thus, research on pensions has focussed upon labour market analysis, welfare, state politics, and the history of social policies. For example, according to the political economy perspective, pension policy functions to control the size and composition of the labour force; variations across countries in quality of pension entitlements are alternatively viewed as the result of differences in the strength of the working class, the importance of left-wing parties, the pattern of alliances between classes, policy legacy, position within the world economy, and idiosyncratic factors (Esping-Andersen, 1985; Myles, 1989; Orloff and Skocpol, 1984; Quadagno, 1988).

While the foci of research on retirement, on the one hand, and pensions, on the other hand, are quite disparate, there is a stream of research that provides linkages. This stream utilizes rate of income replacement as the 'connector' between pension policy and retirement behaviour. In other words, pension policy, by controlling the rate of income replacement, plays a key role in retirement behaviour. Representative research shows that level of income (a function of pension policy) is an important determinant of: the timing of retirement (Gunderson and Pesando, 1980, McDonald and Wanner, 1982; 1984; Palmore et al., 1985); returning to work after retiring

(Boaz, 1987); how dual earner couples jointly make the retirement decision (Henretta and O'Rand, 1983); and how women fare in retirement (Gee and Kimball, 1987). There is also work that examines the implications of the trend towards early retirement for the pension system (Wanner and McDonald, 1989). This paper builds upon this body of research, and extends it by exploring the possible linkages between recent pension changes and challenges and specific aspects of retirement. In addressing these linkages, our overall argument is that income security in later life is being threatened by recent (or likely) changes in the Canadian pension system, with consequential implications for retirement.

III The Canadian Public Pension System

Before turning to recent changes in the Canadian public pension system, it is useful to place the current system in a comparative perspective. In a six-country comparison (Canada, US, UK, West Germany, Norway, Sweden) (circa mid-1980s), Myles (1989) concludes that Canada's public pension system is not well-developed, especially compared with Norway and Sweden. The Canadian system is characterized by high levels of income inequality and relative poverty at older ages. Also, there is greater reliance on public pensions for income in the other countries, except the US. However, in Canada (and the US), the 'slack' is not picked up, as might be thought, by private (occupational) pension plans, but rather by investment income (and earnings, to a lesser degree).

With this brief comparative backdrop, we turn our attention to current pension politics and challenges. The overall thrust of pension politics in recent years has been toward privatization, initiated by the federal government. (This trend appears to be unique to Canada; even in the US, attempted moves in this direction have not been successful (Myles, 1991).) At the same time, there are challenges to the existing system and attempts at reform.

Old Age Security (OAS) – The Claw-back

In 1985, the federal government attempted to partially deindex Old Age Security (OAS), in a cost-saving gesture. The proposal was met with such strong public opposition, particularly by the seniors lobby, that it was dropped. While partial deindexation was, in 1985, unacceptable to the Canadian public, in 1989, a major assault on universality[1] (the 'claw-back') met with little resistance. The claw-back means that persons aged 65 and over with annual incomes of $50,000 or higher will continue to receive OAS and then, essentially, will have to pay it, or some portion of it, back through a special mechanism set up by Revenue Canada. At first glance, this might appear to be reasonable (does someone with $50,000 annual income really need OAS?) and may account, along with public sentiment that only elderly persons with low incomes should receive old age security (Northcott, 1990), for the fact that this important change in fundamental principle has met with little reaction. *But*, there is an insidious element in the claw-back that is not well-known. The claw-back ceilings are not fully indexed to inflation; therefore, the number of older persons subject to the claw-back will increase each year (National Council of Welfare, 1990a). It is estimated that, under the current proposal, persons who are retired in 2019 with as little as $20,000 in annual income (1989 dollars) will have OAS benefits reduced by the claw-back (Townson, 1989).

Canada Pension Plan (CPP)[2]

(a) The structure of CPP benefits has been the object of considerable political tension, of an off-and-on nature, for nearly 20 years.[3] The CPP is designed to pay benefits of up to 25 per cent of earnings, to a ceiling of one-half of the average industrial wage. In the mid-1970s, an attempt was made, led by the Canadian Labour Congress, to double benefits to 50 per cent. While there was no dissensus at the time about the need to improve old age income, there was considerable controversy as to how to do it. Groups 'on the left' favoured the expansion of CPP benefits; groups 'on the right' preferred improvements in private plans. Business interests and the province of Ontario (the site of Canada's major commercial, industrial., and financial corporations) were opposed to CPP reform, as it would mean the transfer of the economic power of pension funds from the private sector to the federal government. The attempt to expand CPP benefits failed, and the issue petered out in the recession of the early 1980s. When issues of pension reform resurfaced in the late 1980s, the focus was on improvements in the private system, a system that excludes more than one-half of Canadians, and more than two-thirds of Canadian women.

Recently, the National Council of Welfare (1990a) has brought the issue of expanding CPP benefits to the fore again – given that a large proportion of elderly persons, particularly women, who receive CPP still require the Guaranteed Income Supplement (GIS) in order to make ends meet. The argument has been for the 'Cofirentes Plus' approach: a pension that replaces 37.5 per cent of earnings at the average wage; the replacement rates for earnings below the average wage would range from 37.5 to 50 per cent. It is not known yet whether this proposal will be taken seriously enough, and receive enough public support, to bring the issue of CPP reform to the front of the pension battle arena again. Our guess is that it will not, given that maximum CPP contributions are increasing as it is.

(b) The financing of the CPP has become a concern in recent years. Canadians have been led to believe that increases in CPP contributions are necessary in order to prevent the fund from 'going broke' (Finlayson, 1988), an inevitable consequence of the economic exigencies of an aging population (McDaniel, 1987). And, since 1987, contribution rates have increased, and will increase annually until 2011 (although no concomitant increments in benefits will result). These increases have been accepted quietly, in part because of lack of knowledge on the part of most Canadians about how the CPP 'works,' i.e. is funded.

On one level, the Plan functions on a 'pay as you go' basis (i.e. benefits paid out at the present time come from the contributions made by persons currently employed in the labour force). This means that CPP contributions are, in effect, allocated to general revenues and the federal government meets its obligations from money collected from the contributions of present workers. As pointed out by Finlayson (1988:37–38), this means that contributions to the Plan are really a payroll tax, not an investment that accumulates in a pension fund. On another level, there really is a fund; however, money is not accumulating in it. Rather, under the terms of the CPP federal-provincial arrangements (i.e. the compromise that the federal government made in order to obtain provincial agreement to implement the CPP), the provinces have been borrowing from the fund (for such things as highways, schools, bail-outs to private industry, etc.) to such a degree that they are now borrowing the interest on what they have borrowed, and it is not clear that they will ever be able to pay it back (Finlayson, 1988).

In recent years, the CPP benefit structure has not been a politically contentious issue; and, Canadians have accepted increased contribution rates. However, the bases for future political cleavages regarding the CPP already exist. As more people are subject to the OAS claw-back, it will become apparent that expected retirement income is being eroded. CPP contributors will also come to realize that they are not paying into a pension at all, but rather are being taxed in an income transfer scheme. Coupled with increasing awareness of substantial provincial borrowing – itself a direct reflection of the nature of Canadian federalism – the Plan contains a 'Pandora's box' of political issues that will challenge the various actors – recipients, contributors, the federal government, the provincial governments, and indirectly, the private pension industry. Some of the underlying political issues include: the principle of universality in social programs; federal-provincial relations; income redistribution policies; and the relationship between public and private pensions.

(c) In 1978, equal pension splitting of CPP credits upon divorce or separation was introduced, seemingly an important step in addressing the financial difficulties of older women. However, equal splitting is not automatic – application must be made. Further, women (and men) may forfeit this right in divorce/spousal agreements. Given the dire financial situation that many women face after marital dissolution, the forfeiture of this right for immediate cash or property may seem like the only real option. The actual occurrence of credit splitting is low; between 1978 and June, 1989, fewer than 21,000 applications had been submitted and approved, while approximately 500,000 divorces took place (National Council of Welfare, 1990a). Clearly, this reform is not having the intended effect of bolstering women's pension income. Given the lack of correspondence between the appearance and the reality of reform, a reformulation of implementation procedures is required – an issue that should be high on the agenda of groups representing women's interests.

(d) Beginning in 1987, CPP benefits have been available to persons at age 60 (cf. 65). However, persons who claim benefits before the age of 65 receive smaller pension cheques, which are reduced by 0.5 per cent for each month prior to age 65. For example, persons who retire at age 60 lose 30 per cent of their full monthly CPP pension throughout the rest of their lives. This change in age at eligibility has been variously described as an encouragement to retire early (Wanner and McDonald, 1989) and as a penalty for early retirement (National Council of Welfare, 1990a).

The Spouse's Allowance (SPA)
The SPA, one part of OAS, provides an income supplement to couples where one spouse is aged 65 or over and a recipient of the Guaranteed Income Supplement and the other spouse is aged 60–64 (i.e. a poor couple), and to widowed persons aged 60–64, who have incomes below program-defined cut-offs. The SPA is being challenged in the courts in a number of provinces, based on allegations that it violates the Canadian Charter of Rights and Freedoms, by discriminating, depending upon the particular litigation, on the basis of marital status, gender, and sexual orientation. It will be some time before the outcome of these legal challenges will be decided. It it worth noting, however, that, should the plaintiffs be successful, the costs of expanding the SPA to all marital status groups could result in the complete abandonment of the SPA, or a considerable tightening up of income eligibility requirements, or an increase in the age of eligibility.

Provincial Income Supplements
At the present time, six provinces (Nova Scotia, Ontario, Manitoba, Saskatchewan, Alberta, and British Columbia) and the two territories provide income supplements to low-income seniors. In April, 1991, the Manitoba plan (Manitoba 55 Plus) was 'capped' by the provincial government (McIlwain, 1991). In other words, payments will not be indexed to the cost of living for the approximately 22,000 senior Manitobans who receive the supplement because their incomes are below the poverty line. This policy change, which will save the Manitoba government $450,000 this year (*MSOS Journal*, 1991) will have a negative impact on all low-income elderly persons in Manitoba, but particularly on unmarried persons (widows, for the most part) who are less well-protected from poverty by federal programs than are the married (National Council of Welfare, 1990b).

It is too early to tell whether other provinces will follow Manitoba's lead in de-indexing provincial income supplement programs for the poor aged, (or cutting back or eliminating such programs); much will depend on the success of the seniors' lobby in Manitoba in protesting the change. However, the Manitoba move cannot be ignored as a sign of possible things to come (or to be attempted) in other parts of Canada, especially in provinces that are subject, through Bill C-69, to caps on the increase in transfer payments, i.e. Ontario, Alberta, and British Columbia,[4] which do not receive equalization payments.

IV The Private Pension System

Before turning our attention to some of the recent political issues in the private pension system, it must be noted that the private system is not as 'private' as it might appear at first glance (Myles, 1988). Rather, there is considerable government involvement: (1) many of the private pension plans are ones in which the government is the employer; (2) private plans are subject to regulations set up by both federal and provincial governments and are expected to meet certain minimal standards;[5] and (3) both private pension plans and RRSPs receive large subsidies from the federal government in the form of tax concessions (National Council of Welfare, 1989).

In recent years, the governmental thrust in pensions has been to push for and support reforms in private plans, rather than to consider changes in the public pension system. In conjunction with the claw-back, this indicates a political will to dismantle universal social benefits and to turn pensions over to the private sector. This direction is not one that will likely lead to a strong system of income security for elderly Canadians: rather, research indicates that the highest quality pension systems (in terms of low levels of age-related poverty and low levels of income inequality) are found in countries, such as Sweden and Norway, with highly developed public pension systems (Myles, 1989).[6]

Certain reforms in the Canadian private pension system have been agreed upon by the federal and provincial governments, which they have the power to enforce through their respective Pensions Regulations Acts (although BC and PEI have no such Acts). Reforms have been made in vesting, portability, survivor benefits, and coverage for part-time employees (who work for employers with pension plans for full-time employees). While changes in the rules regarding vesting and portability, in particular, carry the potential for significantly improving the private pension system, the crucial problems of coverage and indexation remain unresolved.

Only 41.6 per cent of men and 31.0 per cent of women in the paid labour force are covered by a private pension plan (Statistics Canada, 1990b).[7] However, as these data are cross-sectional., they are somewhat misleading, particularly for women. Private plans 'pay off' in later life only if one is covered for many years. Given that women are more likely than men to have extended periods out of the labour force, the above figure of 31 per cent probably underestimates the percentage of women who will receive 'decent' benefits from private plans. Thus, even if significant reforms were made in the private pension system, the majority of Canadians would not benefit. Indeed, it is worth noting that the percentage of the total labour force with private pension coverage has decreased somewhat in the last decade – from 39.6 per cent in 1978 to 37.0 per cent in 1988 (Statistics Canada, 1990b).

Indexation in the private pension system has become an extremely contentious issue. Overall, the extent of indexation is low: of public sector plans, 29.9 per cent are fully indexed to inflation and 37 per cent are partially indexed; of private sector plans, 0.4 per cent are fully indexed and 6.6 per cent are partially indexed. While indexation is crucial to ensure adequate income in later life (and retroactive compensation is important for current retirees whose incomes have been eroded by inflation), the interests of business and industry are to maintain the status quo. The Ontario Liberal government pushed for mandatory private pension plan indexation (and one expects that the NDP government will follow suit, given its strong support for mandatory indexation before taking office), but employers and the pension industry are opposed. Briefs to the 1987 Friedland Task Force (on Inflation Protection for Employment Pension Plans) from employers and the pension industry warned that mandatory indexation could result in employers changing their plans from defined-benefit to money-purchase ones[8] (which are fraught with uncertainty, from the point of view of the employee), or in terminating them altogether (Finlayson, 1988).

The key issue in the indexation debate is control of pension assets. It is clear that employers do not want to lose control of the surpluses obtained in the years of high inflation and high interest rates. And *a lot* of money is at stake. In the first quarter of 1987, private pension plan assets were in the order of $130 billion. In that quarter, they earned $5 billion and netted, after expenditures, $3.4 billion (Finlayson, 1988).

Another example of the privatization trend in the Canadian pension system is increased governmental support for private savings plans such as RRSPs. Until recently, self-employed individuals and persons without private pension coverage could contribute up to $7,500 annually to an approved plan. In the case of persons with private coverage, the maximum was $3,500, minus their contribution to their own plan. New, more complicated, and administratively costly rules are now in place. The overall thrust of the changes is to make it possible for Canadians to contribute more to RRSPs. The message is clear – policy-makers see individuals as responsible for their retirement income.

Plans such as RRSPs serve to perpetuate economic inequality. Only Canadians with extra disposable income (or the assets to take out a loan) can benefit from RRSPs, both in the short-run (tax deferment) and in the long-run (retirement savings). Approximately 19 per cent of Canadians purchase RRSPs in a given year: among high-income earners, the figure is about 60 per cent; among low-income earners, it is approximately 5 per cent (National Council of Welfare, 1989). Thus, accessibility to RRSPs is clearly linked to income. Another aspect of inequity in RRSPs relates to tax savings, as larger tax savings accrue to persons with higher income. This is because RRSP contributions continue to be handled as tax deductions; the federal government refuses to convert RRSP deductions to tax credits (which are more equitable). And, it should not be forgotten that these tax deductions represent a substantial government subsidization of the well-off segment of the population. We do not know how much this subsidization is costing Canadians at the present time, as the federal government will not release this information.

The current politics of pensions represent a complex array of competing interests and forces. The federal government is playing a curious game: on the one hand, the claw-back hits well-off retirees; on the other hand, policies regarding RRSPs subsidize those with higher incomes. Overall, it appears that the federal government desires no major changes in the public pension system[9] (save for dismantling universality), and is encouraging reforms in the private system. The corporate sector is resisting major changes, particularly with regard to indexation. Canadians appear to be caught in a political fight over control of pension capital, on the one hand, and a trend towards privatization, on the other. In the political arena of pensions and pension policy, the real issue of ensuring income security for older Canadians seems to be almost of peripheral concern.

At first glance, it seems odd that pension issues have not loomed large in public debates in recent years. The moves towards privatization and the erosion of universality (the claw-back), appear to have been accepted.[10] One possible reason for this is that the Canadian public has 'bought' the idea that population aging inevitably spells an economic burden that necessitates the curtailment of social spending (McDaniel, 1987; Northcott, 1990). Even though research indicates that the 'crisis' scenario is exaggerated (Denton et al., 1986; Foot, 1982; McDaniel, 1986) and that Canadian expenditure on pensions is small relative to many other western, industrialized countries (Myles, 1989), federal budget deficits and an increasing national debt fuel public opinion regarding the economic unaffordability of an aging population (Northcott, 1990). This perception is very useful to those who seek to erode the public pension system as it directs attention to demographics and away from a close scrutiny of policy changes and their implications.

V Retirement as a Social Process

The concept of not working while still able to do so is a new one in human history, prevalent only in advanced, industrial societies. From the point of view of the individual, retirement marks the end of one's primary working life, and the beginning of a new stage of life, one less clearly defined by society.[11] From the point of view of society, retirement means the existence of a proportion of older persons who are not engaged in productive labour, i.e. not 'attached' to the labour force.

In Canada's past, few people retired from productive work (McDonald and Wanner, 1990). In part, this was a function of lower life expectancy, and the non-availability of income sources except from one's labour for the majority of people. As well, the idea of living without working was neither viable nor imaginable in the past. Work out of necessity, or in the service of the community, was an essential part of living. Additionally, in most of Canada's past, the kinds of work in which people engaged – from farming to small businesses, to hunting and trapping – did not lend themselves to the concept of retirement.

Myles (1989) suggests that two changes occurred which led to the development of the modern concept of retirement. The first was the emergence of the *retirement principle*, the concept whereby at a given age, a person leaves paid work and is superannuated. The second is the creation of the *retirement wage* – the notion that income will be provided from the public purse upon retirement. The acceptance of the two concepts grew out of changes in economic structuring concomitant with developments in 20th century capitalism. Specifically, the retirement principle flourished in a system of economic production based on wage labour, capital concentration, and a 'deskilling' of the labour process, which rendered older, skilled workers less necessary and easily replaced by cheaper, younger workers. However, the removal of older persons from the labour force could be accomplished only if a 'livable' income could be assured. As it became apparent that personal savings, private pensions, and family resources could not suffice to ensure an adequate income in retirement, the state increasingly took over this function – hence, the retirement wage.

Although retirement as a practice became more widespread in post-World War II Canada, it was not institutionalized as a phase of life until quite recently. Myles (1989:21) states that '[b]y 1980, the institution of retirement had been consolidated and old age had become a period in the life cycle defined and sustained by the welfare state'. This development was parallelled and reinforced by the idea that a working wage ought to be continued in retirement through the provision of a pension income. Thus, the role of pensions in the retrenchment of retirement as a stage of the life course in Canada (and elsewhere) is very important. Given this close association between pensions and retirement, we turn our attention to the implications of the earlier-outlined pension policy changes, politics, and challenges for retirement.

VI Retirement Policy Implications

The implications for retirement policy of recent pension politics and challenges are many and diverse. Most remain to be fully explored. Possible implications surround such issues as: the age at retirement; conflicts over mandatory retirement; the retirement process and decision; the family context of retirement; women's financial situation; the quality of life in retirement and outcomes for other areas such as health care, housing, etc; income inequalities in later life; income redistribution policies and practices; potential shortages of skilled labour; conflicts vis-à-vis immigration policy; and federal-provincial relations. Here, only some of these implications are explored. While there is a definite link between pensions and retirement, it exists on shifting ground as the pension arena is changing, as outlined above. Much more research attention needs to be paid to the pension-retirement equation. Here, we are broad and speculative in an attempt to spark research of a more detailed and specific nature on pension and retirement linkages.

Implications for Age at Retirement

As life expectancy increases and as quality of life (i.e. life free from major health problems or disabilities) is extended, it might be predicted that the additional healthy years would be divided between work and retirement. Such has not been the case. As Keyfitz (1989:4) states, '... retirement is coming to be earlier not only as a fraction of life, but absolutely'.

In other words, the trend in recent years has been towards earlier retirement. Of Canadian men aged 65 and over in 1971, nearly one-quarter were working; by 1987, this figure had declined to 5 per cent (Keyfitz, 1989). A 1984 Gallup Survey found that 47 per cent of workers wanted to retire before the age of 65 (McDonald and Wanner, 1990). A 1989 study conducted in Alberta found that 56 per cent of those interviewed planned to retire before the age of 65 (Population Research Laboratory, University of Alberta, 1989). The strength of the preference to retire early is such that people do not wait for eligibility for public pensions, but increasingly, as US data have shown, use their own savings as a bridge between leaving their last job and the age of 62 when Social Security eligibility begins (Packard and Reno, 1989). Parallelling this preference for early retirement, Pampel and Weiss (1983) reported, in a longitudinal study of 18 developed countries, that all were easing workers out of the labour force by making retirement more attractive.

As previously discussed, potential retirement income is one of the key predictors of age at retirement; higher retirement income is associated with younger age at retirement. Knowing this, we can ask what are the implications of recent pension politics/challenges for age at retirement? The claw-back will mean de-indexation of pensions, even if in a de facto way. In future, the longer in retirement, the less pension income will be pegged to the cost of living. While at first only well-off seniors will be affected, it will be relatively few years before middle and lower-income seniors are affected as well (National Council of Welfare, 1990a). (The direct de-indexation of the Manitoba income supplement program, especially if other provinces follow suit, will accelerate the trend towards less disposable income in later life.) Dismaying evidence of how this might work is provided in a simulation done by the National Council of Welfare in 1990 which shows that from 1984 to 1991, the federal and provincial tax burdens on poor persons will increase 60 per cent, while for high-income persons, they will decrease 6.5 per cent (James, 1990). The implications are that: more retirees will be poor; more persons who contemplate (or long for) retirement may continue working out of financial exigency, perhaps at reduced efficiency because of their preference not to be working; and more people will be pushed back to work, probably in low-paying jobs in the service sector. To the degree there are future labour shortages of young, low-paid workers, this latter possibility becomes more likely (and we have already seen TV advertisements portraying seniors in the 'McMaster's programme' at the McDonald's fast food chain). These results are likely to be felt by women more than men, given their substantially lower lifetime earnings.

The overall implication of the claw-back is to increase the age at retirement. Recent policy changes in the CPP may have this effect as well. At first glance, the implications for retirement of pension splitting seem minimal, given that so few women are able or willing to take advantage. Yet, in not taking advantage, there are retirement implications; women may be forced to work as long as health and policy allow in order to ensure some income security in old age. Also, if one views the lowered age at eligibility for CPP benefits at a reduced rate as a penalty for early retirement, then this recent change in policy can be seen as reinforcing older age at retirement. Also, if contemporary challenges to the SPA succeed and the predictions we made earlier come to pass, this would create a situation in which more older persons, particularly women, would have to work out of financial necessity.

With respect to private pensions, the issue of indexation is crucial. Without full indexation, those fortunate enough to have private pensions will find it increasingly difficult to fulfil their wishes to retire early. The prospect of a non- (or partially) indexed private pension, in conjuction with the claw-back of OAS, may force people to stay in their jobs longer, especially those with benefits based on years of service and best average earnings.

It seems, then, that one implication of a number of pension policy changes and challenges will be to increase the age at retirement. It should be noted that this prediction is at odds with current trends and the expressed wishes of Canadians. It looks as if Canadians will have to choose between early retirement and lower disposable income in retirement. As it stands now, the majority of Canadians undergoes a drop of at least 25 per cent in standard of living upon retirement (McPherson, 1990). Research needs to address how much more of a drop will be incurred as a result of recent changes, and how much reduction would be acceptable to older people. Armed with this knowledge, we would be able to better predict trends in age at retirement, which is an important variable in economic planning given its effect on the size and composition of the labour force.

Mandatory Retirement

Until the 1991 Supreme Court ruling upheld mandatory retirement at age 65, it was a social practice instituted, not by law, but by a combination of social custom and pension incentives and disincentives. The practice, and now the law, of mandatory retirement reveals the intertwining of retirement policy issues and pension politics and policies.

The first private pension plan in Canada – the CNR (1874) – contained a mandatory retirement (at age 65) provision. The plan was put into place, primarily, in an attempt to stabilize workers (i.e. to create 'company men') and, secondarily, to ensure income security in old age (although benefits could be revoked at any time) (McDonald and Wanner, 1990). In recent times, the goal behind mandatory retirement provisions in pension plans has been to rid employers of older workers, presumably to make way for younger, less expensive workers. The point is that government and business have used the same policy (mandatory retirement) to achieve opposite outcomes (retention of workers vs. expulsion of workers), using the same rationale (older workers are useless), depending upon the economic climate (McDonald, 1991). Thus, the politics of mandatory retirement are not really about the usefulness of older workers, although the mandatory retirement 'debate' is often couched in such terms (Guppy, 1989); rather, they are about the maximization of profits.

How many of today's retirees were forced to retire as a result of mandatory retirement provisions at their place of employment? No one seems to really know, although there is a general consensus that the numbers are quite small (Guppy, 1989). Most people retire before, or at, the mandatory age, sometimes encouraged by early retirement incentive schemes. However, persons forced to retire early due to poor health or the inability to obtain/sustain employment cannot be ignored (McPherson, 1990).

The fundamental question of how many people will be forced to retire at age 65, given the Supreme Court ruling, cannot be answered at this time. One complicating factor is that some provinces[12] have human rights legislation prohibiting mandatory retirement. In other words, depending upon where one lives in Canada, one may or may not be subject to mandatory retirement. Another issue is the degree to which mandatory retirement will be 'circumvented'. Those familiar with the university setting (the site of the majority of the challenges to mandatory retirement) will know that 'post-retirement' contracts are the order of the day. These older professors will, for the most part, be continuing to do their same jobs – what changes is the distribution of the sources of their income (less earnings, compensated for by private and public pension benefits).

Up until now, Canadian research on mandatory retirement has been framed in terms of a debate on its pros and cons (Guppy, 1989). Given the Supreme Court ruling, researchers now need to turn their attention to the consequences of the ruling, at both individual and societal levels. Some questions are: how many people will be affected; what are their social and economic characteristics; what are their opinions; what are their 'post-retirement' employment options (and how do they vary by social and economic status)? How will employers react? What are the social implications of a ruling that states that certain types of age discrimination are just?

At the present time, the effects of the mandatory retirement ruling would seem to be minimal, given trends towards earlier retirement. However, the long-term consequences of the pension changes may have important impacts. Persons facing a grim prospect in terms of post-retirement income – due to the expansion of the clawback to the less well-off, the low coverage rates and low levels of full indexation in private pensions, and the lack of disposable income to purchase RRSPs in the working years, for example – may find it necessary to work past the age of 65 and, hence, pressure for changes in the Supreme Court ruling. Or, they may find creative ways to circumvent mandatory retirement, which would likely be more of an option for persons with relatively high social and economic resources who wish to maintain a given standard of living. Or, they may reenter the labour force at low-paying jobs, and struggle to make ends meet in later life (as long as health allows). Or, an 'underground economy' of older persons may flourish.

Another issue for speculation at this time (and research in the future) is the interrelationships among mandatory retirement, lower than expected pension income, labour shortages at younger age groups, and immigration policy. The present federal government position and practice is to increase immigration levels as a mechanism to 'compensate' for population aging, even though public opinion is rather strongly opposed to increasing immigration (Northcott, 1990). If, and when, these public sentiments are combined with the social facts of older Canadians facing low incomes and the desire/necessity to work later than age 65, the stage will be set for major public policy conflicts.

Income Inequalities in Later Life

As indicated earlier, Myles' (1989) comparative work revealed relatively high levels of income inequality in later life in Canada. Recent Canadian data indicate the degree of financial diversity that exists among the older population. In 1988, among households with a head aged 65 or over, 15.4 per cent had incomes less than $10,000 whereas 11.7 per cent had incomes of $45,000 or more (Statistics Canada, 1990c). If household income is divided into quintiles, 34.5 per cent of households in the lowest income quintile had an aged (65+) head, and 7.1 per cent of households in the highest income quintile had an elderly head (Statistics Canada, 1990a). While these data show that there are proportionately more elderly people who are poor rather than well-off, they also clearly indicate that there are rather large inequalities in income within the elderly Canadian population. Some elderly are very well-off; in recognition of this, increased advertising and marketing has been aimed at the 'gray market,' (perhaps inadvertently directing attention away from the dire financial situtation of many elderly persons, particularly women – see the following section) and, indeed, an International Association of Gerontological Entrepeneurs had been formed to 'explore the relationship between the business world and the aging community' (McPherson, 1990:416).

Income inequalities in later life are largely a function of income inequalities at younger ages. However, it is not only the case that the 'poor stay poor and the rich stay rich'; income inequalities in later life tend to widen due to the long-term impact of income- and education-related differences in the ability to generate investment income (Myles, 1981). Other factors contributing to income inequality in old age are worker location in the 'dual economy' (McAllister, 1981) and gender (Gee and Kimball, 1987).

The pension changes outlined above may serve to widen income differentials in later life in the future. The trend toward privatization of the pension system, and the anticipated reforms in private pension schemes, will benefit a small fraction of today's workers. If current trends continue, the focus on individual retirement savings plans such as RRSPs will serve to benefit persons in relatively advantaged financial situations at younger ages, thus exacerbating income inequality in later life. The resistance of employers in the private sector to fully index pensions will serve to differentiate even those with private pensions into the more and less advantaged vis-à-vis real pension income.

Within the sphere of public pensions, the overall implication for income inequality is less predictable. Changes such as the de-indexation of the Manitoba 55 Plus plan will widen income differences, as the poor only will be affected. If the SPA challenges are successful, some of the lower-income persons currently eligible could lose benefits, which would serve to widen income disparities. The OAS claw-back could have the opposite effect, at least in the short-run. It does not appear that the CPP will have much effect on altering income inequities, unless the 'Cofirentes Plus' approach is implemented. However, reforms in the implementation of credit-splitting upon marital dissolution could assist in improving the pension income situation for women.

Future research needs to focus on the relative roles of pension policy vs. pre-retirement social and economic factors as predictors of income inequality in later life. If pre-retirement factors turn out to be dominant, this would turn attention to the issue of life-long, structurally-based inequalities and how public policy (via income redistribution, for example) can attempt to ameliorate these disparities that only get larger with age. If recent pension policy changes will have the exacerbating trend that is predicted here, then the issue is one of re-examining those changes, and the political and economic factors underlying them.

Retirement Implications for Women

It is common knowledge that older women fare much less well financially than older men. Canadian data for 1988 indicate that poverty rates for elderly women are about double those for elderly men: among families with a head aged 65 and over, 14.2 per cent of female-headed households are poor compared with 7.3 per cent of male-headed households; among unattached persons aged 65 and over, 43.9 per cent of women and 23.3 per cent of men are poor[13] (Statistics Canada, 1990c). When one remembers that older women outnumber older men, due to longer life expectancy, these percentages translate into proportionately more poor elderly women in absolute terms.

One of the factors contributing to the poor financial situation of older women is their life-long dependence on men; our society is organized on the premise that women will be financially 'cared for' by men (Gee and Kimball, 1987). And, as long as a woman is married, she is reasonably well protected from poverty. However, only 41 per cent of women aged 65 and over are married (compared with 77 per cent of men) – most of the rest are widows due to the combined effects of differential life expectancy and older ages of husbands (National Council of Welfare, 1990b). Thus, women's poverty becomes evident when their 'financial carer' dies (or leaves).

The characteristics of women's employment play a key role in poverty in later life: the degree of gender segregation (and the associated lower pay levels and lesser likelihood of benefits such as pensions in jobs that women are likely to have); the preponderance of part-time work (which is also associated with low salaries and the absence of fringe benefits such as pension plans); and the non-continuous nature of women's work careers, due to family responsibilities and needs, as well as the fact that women are often in less secure jobs. Thus, a set of social factors operates in tandem to create female poverty in old age, particularly among the 'unattached'.

Pensions have never been 'user-friendly' to women, but recent politics/challenges, despite some moves towards improvements, make pensions generally even less user-friendly for women (Myles, 1989; National Council of Welfare, 1990a). A major issue is indexation of public pensions, since so few women have access to private plans. The claw-back, while making it difficult for both men and women in retirement, will make it much harder for women in the future. Women have lower pensions to start with, so de-indexation, by whatever means, cuts deeper for women. In addition, women live longer in retirement than men, so experience the de-indexation of their pensions for a longer period. If changes are made in eligibility for the SPA as a result of the forthcoming court challenges, women's quality of life in retirement could be seriously affected. The emphasis on RRSPs will have negative implications for women's retirement income, given the lower salaries of women and the general inaccessibility of RRSPs for many women. Reforms in the private pension system will benefit a small portion of women; however, for them, the hold-out on indexation has serious negative ramifications.

The recent pension changes also have implications for the family context of retirement. It has been found that retirement is often a joint decision between a husband and a wife, i.e. they retire at the same time (Campione, 1987). Different pension prospects may mean that joint retirement is less of an option in the future. Women without pension access might be more likely to work after their husbands retire. Clearly this could have implications for the experience of retirement – it could lead to resentment, to an inability to move in retirement, and to domestic stress. Adding further strain may be the continuing presence of dependents in the home, as grown children do not leave the family home, or return. Also, an increasing proportion of people at around the age of 60 will have surviving parents who require care and time (Gee, 1990).

There are several policy implications of the pension changes. From the point of view of married women, the family context of retirement may change; retirement policy challenges of the future include ways to acknowledge the family context of retirement to facilitate people's family lives rather than viewing the 'retiree' in atomistic terms. From the point of view of the numerically dominant unattached women, the recent pension changes suggest a gloomy future – as an already bleak financial situation worsens, more older women will be in need of health care, chronic care, seniors' housing, etc. These are expensive outcomes of current pension policy changes.

The research agenda for the future in terms of retirement implications of pension policy change for women must first address two differing views of the role of pension change (and reform) for women in later life. Wanner and McDonald (1989:12) state that '[t]inkering with pension policy is probably not the most efficient way for solving the retirement problems faced by Canadian women ...' given that 'the inequities women face in retirement are rooted in the sexual division of labour, both in the labour market and in the household'. Gee and Kimball (1987), while acknowledging the life-long structural roots of women's economic plight in later life, argue that pension policy changes can have an impact, either positive or negative, on elderly women's economic situation. Second, research efforts should be directed to ascertaining the role of varying family, social, economic, and pension policy situations/conditions in determining women's retirement age, retirement experience, and quality of life in retirement. It may well be that different retirement models for men and women are needed (McDonald and Wanner, 1990). Third, research on the differential impact of the pension changes discussed here for men and women would be a fruitful avenue of inquiry.

VII Conclusion

Our aim here has been to describe recent changes in pension policy, to provide possible linkages between these changes and four retirement implications, and to suggest specific issues/areas to which future research may be directed. We have raised more questions than we have answered.

Wanner and McDonald (1989:11) state that the 'shifting role of public pensions in the retirement equation has not been thoroughly researched, making policy predictions risky'. We would add that the shifting role of private pensions and individual retirement savings plans also requires further investigation. We agree that predictions are a risky business, given the insufficient research attention paid to pensions and retirement. Nevertheless, we have made a number of speculations, the overall thrust of which is that pension changes represent an attempt by the federal government to eliminate universal social benefits and to shift responsibility for pensions to individuals and employers and that this attempt represents a threat to the income security of elderly Canadians in the future. Our interpretation and our prediction may be wrong, or they may be wrong in certain ways, or under certain conditions, or for certain people. More researchers – utilizing perspectives and models from economics, sociology, gerontology, political science, etc. – need to apply their skills to current pension policy and retirement issues and linkages.

Notes

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1 OAS has never been universal due to its residence requirements. In June, 1989, approximately 56,000 persons aged 65 and over, out of a total of 2.9 million, did not receive the full benefit (National Council of Welfare, 1989). It has been pointed out that, given recent immigration trends, increasing proportions of elderly persons in the future, particularly women, will be ineligible or will receive reduced benefits (Boyd, 1989).

2 The Quebec Pension Plan (QPP) is managed and administered separately from the CPP. It is managed through its investment arm, the Caisse de Dépot, which is now the fourth largest financial institution in the country (Deaton, 1989).

3 For a review of the CPP reform debate, see Bryden (1974) and Hum (1985).

4 Indeed, the May 1991 BC budget has buried within

it a reduction of $2 million in the funding of the provincial income supplement to low-income seniors. No details have been provided yet as to what this reduced funding means or how it will affect low-income elderly persons.

5 Federal and provincial governments agreed in 1986 to improve the standards of private pension schemes, and to make them uniform. The necessary legislation has yet to be enacted.

6 However, as Myles (1989:129) notes, a non-privatized pension system (i.e. one with heavy reliance on public funding) does not necessarily guarantee 'real welfare' in old age.

7 The comparable figures for employed paid workers (which exclude unpaid family workers, the self-employed, and the unemployed) are 51.0% for men and 37.2% for women (Statistics Canada, 1990b).

8 Defined-benefit plans specify the amount of pension to be provided, which is usually related to previous earnings and years of service. Money-purchase plans specify the amount of contribution but not the amount of pension that will be provided. Upon retirement, money built up over the years is withdrawn and used to purchase an annuity that pays a fixed monthly amount. The interest rate at the time of retirement (an unknown) determines the amount of income the annuity will bear.

9 Indeed, the 1991 Federal Budget (speech of 26 February) exempted seniors' income support from its Expenditure Control Plan. However, at the same time, the federal government's decision to extend through 1994–95 the freeze on Established Programs Financing will mean the withdrawl of many billions of dollars in federal support for medicare (and post-secondary education). This could mean the death of medicare as a national program in just over five years from now (National Council of Welfare, 1991). As seniors have greater health care needs than younger people, this move has the potential for reducing the disposable income of aged Canadians in the near future.

10 It remains to be seen how much the de-indexation of the Manitoba 55 Plus Plan will be resisted in that province, or others.

11 As pointed out by Quinn and Burkhauser (1990), much research has viewed retirement as dichotomous, i.e. people are categorized as retired or not, by any number of criteria such as acceptance of pension benefits, complete labour force withdrawal, departure from a primary job, sudden drop in hours worked, or self-defined retirement status. Apart from the male bias inherent in such categorization (Connidis, 1986), it obscures the varying exit patterns that exist, particularly partial retirement (Quinn and Burkhauser, 1990).

12 At the present time, these provinces are New Brunswick, Quebec, Manitoba and Alberta. In these provinces, employers, invoking provincial human rights legislation, may retain employees over the age of 65. While this contravenes the Supreme Court ruling, the practice can/will continue unless sucessfully challenged by the federal government or some other agency or individual.

13 These figures are based on Statistics Canada low-income cut-offs, and are conservative, i.e. provide underestimates of poverty.

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