

Women and Public Pensions: Working Towards Equitable Policy Change



*An Initiative of the
Women's Centres in the
Western area of Nova Scotia:
Tri-County Women's Centre in Yarmouth,
Second Story Women's Centre in Bridgewater, and
The Women's Place Resource Centre in Bridgetown.*

Georgia Barnwell
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In 2005, the Canadian Government increased the Guaranteed Income Supplement by \$36 a month for single recipients. This amounts to \$1.20 a day.

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Executive Summary

This paper was completed during Phase II of the Women and Public Pensions project. In Phase I, “In Her Own Name: Public Pensions, Advancing Equality for Rural Women,” described rural women’s experience with Canada’s retirement income system. The purpose of this paper is to:

- map out the historical context of policy assumptions and the economic, political and social forces that created the pension system;
- examine outdated or faulty assumptions of: the male breadwinner/female homemaker economic model, the market solution, women’s assumed equality, and gender neutrality;
- debunk the myths that the present system has no capacity to meet future demands and that we will not be able to afford the Canada Pension Plan;
- document how diverse senior women¹ are disadvantaged by the present pension and tax system; identify specific policy gaps within the pension system and related policy areas; and,
- highlight recommendations that foster equitable policies for public pensions.

The analysis used both gender and rural lenses, and focused on identifying newly emerging trends that threaten Canada’s social safety net. The paper was used as background information to stimulate discussion at a forum on “Women and Public Pensions: Working Towards Equitable Policy Change”, held in November of 2005.

Despite the best of intentions by policy-makers, there are political, economic and social forces as well as systemic and structural factors that determine policy directions. Ineffective and inequitable outcomes are often the result.

¹ For the purpose of this paper, we are defining “senior” women as those aged 60 to 64, and 65 and above. This distinction and its implications will be discussed in some detail throughout the paper.

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Systems that purport to provide benefits for the long term require regular review and adjustment. An outdated legislation and regulatory regime with its inevitable 'momentum', combined with the demands of economic globalization, threaten women's economic security in retirement. Both pension and tax policies play significant roles in causing problems in their present form, however, both offer avenues to increase access, adequacy and equity, and to reduce poverty amongst senior women.

The policy environment is becoming more complex, and at the same time, more and more power is being exerted by the private sector than ever before. Despite promises to the contrary, globalization has caused the gap between rich and poor to continue to grow. The National Council on Aging (NCA, 2003) in its 2003 "Interim Report Card" shows this polarization clearly in figures which demonstrates that in 2000 36% of senior Canadians were living in poverty. 21% of unattached senior women were living in poverty (NACA, 2003). In other words, more than half of poor seniors were unattached, single women (NACA, 2005). Current trends suggest that more senior women will be living in poverty in the future. With labour market changes, non-standard work will increasingly be the norm. (Townson, 2003) Non-standard work includes, temporary, part-time, contract, seasonal casual and self-employed work. It is characterized by a lack of benefits such as workplace pension plans, and often by low wages. An increase in this kind of work limits workers' ability to contribute to CPP and private pension savings.

Reflecting the increased influence of the private sector, governments the world over are arguing that the preferred approach is to encourage people to save for their own retirement and not to rely on government programs. Governments claim that they cannot afford to provide income replacement programs for the growing number of baby boomers who will retire over the next 20 years. We disagree.

Current policy directions are creating another underclass, for whom poverty in old age will be the final indignity. There are many well-respected academic researchers and seniors' advocacy groups who feel that a 'solution', based on individual rather than collective responsibility will, in fact, increase the numbers of seniors living in poverty and will therefore increase the need for governments to target special programs to the poorest of the poor. This will have high costs and negative implications for the well-being of all citizens, if equitable policy change is not implemented.

This paper begins by describing the current situation regarding economic security for women pensioners. It traces the historical factors behind the initial policy and looks at the current economic, political and social forces that are shaping current trends in pension policy. It also describes assumptions, myths and entitlements, where policies work adversely against women and areas where experts recommend change. The discussion provides a gendered and rural perspective, and describes inequities, gaps and inconsistencies in the policy framework. Finally, it discusses several key 'solutions' that are consistent with the principles of access, adequacy and equity, which are key components of 'women friendly pension policy' as identified during the first phase of this initiative.

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This paper investigates the following questions:

1. a. Looking at the time the policy was written, who was considered?

To develop an understanding of how the present situation was created, we explored key assumptions behind the policies and compared these to present-day reality:

#1 The Male Breadwinner/Female Homemaker Economic Model

When Canada's pension system was developed, men were considered to be, and most often were, the primary breadwinner, and married women's unpaid domestic labour kept them out of the paid work force. Their unpaid work in the home was recognized through the Spouse Allowance and Widow's Benefit, in what has proved to be an inadequate and inequitable way. The Canada Pension Plan, which is a social insurance program based on the contributions of wage earners, was targeted to the male breadwinner, and to single, wage-earning women. The Old Age Security benefit, which is a social support program funded through general tax revenues, was provided to both women and men. Because of the assumption that women performed unpaid reproductive work in the home, special regulations were developed to benefit married women in particular, but these are neither adequate nor equitable to all women.

The reality is that, today, most women, married or single, now spend some time in the paid work force, however this has done little to alleviate women's poverty in retirement. Today, almost 31% of marriages end in divorce, and this has significant implications for women's future economic well-being.

2 The 'Market' will provide for all

Because most women are now in the paid work force, it is now assumed that future seniors will be better off. In other words, it is assumed that the market will solve women's poverty.

The reality is the "paradox of women's poverty":

Whereas the poverty and dependency of women has traditionally been blamed on their relative exclusion from the waged labour force, their recent inclusion seems to offer little more. Because of conditions under which inclusion is occurring, women have no greater expectation to retire in comfort because they continue to be marginally employed, disproportionately represented in low-wage, intermittent, and part-time work with less access to fringe benefits, and subjected to the least desirable employment practices. Labour market participation is not providing most women with the capacity to earn a decent living and to become financially independent. (Smith, 1984)

#3 Women Have Achieved Equality

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Women have made significant gains towards political and legal equality in the latter part of the 20th century, but much less in economic equality.

The reality is that policy-makers often use this mistaken perception as an excuse to assume that women now have equality, especially now that most women are in the paid work force for some portion of their lives. As this assumption gains strength, benefits that women receive by virtue of their attachment to a husband could easily be eroded.

#4 Gender Neutrality Ensures Equality

It has long been assumed that equal treatment ensures equality of outcome, and it has long been argued by feminists, minority groups and social justice advocates that this only perpetuates and heightens inequity and inequality.

The reality is that gender neutral language assumes that there is no diversity between women and men, and further, that there is no diversity amongst women. Gender equality has not been achieved, and has been eroded over the past decade. Gender neutral language has the opposite effect of what is intended: it increases inequality by not articulating the differential impacts of pension policy on women, especially women who fall into certain categories of diversity. Gender ideologies continue to shape both public pension policies and women's experience of the policies.

1.b. What other forces drive policy development?

Assumptions may determine the starting place for policies. A range of social, political and economic forces, however, can influence the direction and quality of policy change over time. One additional force, public opinion, can be a strong motivating force. Controlling public opinion is therefore both a goal and a tool of political power brokers, and creating a specific mythology is a key strategy for winning public opinion.

The Business Agenda - Economic globalization and the increasing influence of corporations on public policy has resulted in what Finkel (1997) calls the "demise of the welfare state" in which wages, social programs, business taxes and environmental standards have all been adjusted to suit the objectives of business, rather than the social objectives previously valued by Canada's social safety net.

The business agenda is privatization.

Manipulating Public Opinion: The 'Necessity' for Privatization is Fueled by The Myths of the Demographic Time Bomb and Intergenerational Inequity

The business agenda is supported by two key myths:

- The demographic time bomb refers to the changing age profile of

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Canadian society as the large number of baby boomers become pensioners. There will be significantly more seniors drawing pensions than ever before, and concurrently, there will be fewer younger people of working age to contribute to the CPP.

- Because there will be fewer younger workers contributing to the CPP, their contributions will have to increase to support the CPP fund. It is predicted that this intergenerational inequity will cause resentment and resistance amongst younger workers, and Canada will be unable to afford the CPP.

While both of these situations have elements of truth, the 'spin' placed on them by corporate-driven media, paints a picture that supports the business agenda and puts this agenda forward as the only solution to a crisis. In fact, there are solutions to the growing demands for pensions that could maintain the social safety net and could assure adequacy and equity for Canadian pensioners.

Canadian policy makers have a choice:

- They can choose to create a retirement income system based on individual, private retirement savings accounts and in so doing, can increase profits to the financial industry while increasing poverty amongst vulnerable seniors, most of whom are women, or
- They can choose to strengthen Canada's public pension system, and reduce poverty while supporting social cohesion and well-being.

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2. What parts of the system are beneficial to women?

Canada's public pension system has many excellent characteristics that cannot be reproduced by the private sector. The social insurance principles upon which it is based are invaluable to maintaining both the social and economic well-being of Canadian society.

Although CPP payments to women are lower than those to men, (Townson,1995) compared to workplace pension plans, the CPP has many advantages for recipients, both women and men. However, the majority of women rely on the public pillars of the pension system for their retirement income.

- The CPP covers all sectors of the economy and most significantly, covers areas not normally covered by workplace pension plans, such as the service sector where most women are employed.
- It covers part-time and self-employed workers, however it does exclude workers earning less than the Year's Basic Exemption. (This is a problematic regulation that will be discussed in more detail in section 6).
- It is portable from one job to another and from one province to another.
- It accommodates family responsibilities by allowing a "drop-out" provision for child rearing, which removes up to seven non-earning years from calculations of pension benefits. This was developed so that women are not penalized for leaving the paid work force to raise children.
- Pensions can be shared on divorce. Credit Splitting regulations were introduced to recognize the contribution of the wife to the well-being of the household.
- Spouses can share pension benefits in order to reduce the amount of tax a couple pays. CPP benefits can be transferred to the lower-income spouse (usually the wife).
- There is inflation protection. The CPP is indexed to the Consumer Price Index (which is problematic and will be discussed in section 6.)
- There is a flexible retirement age. Benefits (although reduced) can be claimed at age 60, or claims can be delayed up to age 70.
- There are benefits for surviving spouses.

3. Who benefits and who is excluded?

Women who have the same labour force experience as men tend to receive benefits similar to those of men. Women who have different relationships to the paid labour force

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can experience significant disadvantage. The following women are all vulnerable to poverty in retirement: unattached women between the ages of 60 and 64, low-income women, women in non-standard work (part-time, seasonal, casual, contract, temporary), self-employed women, women not in the paid labour force, lesbian women, Aboriginal and racialized women, Atlantic Canadian women, rural women and women with disabilities.

4. What happens when a gender lens is applied to these policies, especially in the present day?

The Federal Plan for Gender Equity (1995 - 2000) and the *Agenda for Gender Equality* (2000-2005) commits to a gender-based analysis of all federal policies in which the differential impacts of a policy or program must be identified. Although gender-based analysis is mandatory, it is not always carried out, and when it is, it is often seen as an 'add-on' and is not done in a way that reveals the realities of diverse Canadian women.

In 1997, the Canadian Government did undertake a gender-based analysis of pension policy and released the document *Gender Implications of Changes to the Canada Pension Plan* (FPTGC 1997). This document described changes that would take place in January of 1998 and stated that these changes would be fair to women and men. They base this claim on the fact that the lifetime benefit/contribution ratio is higher for women than men. An analysis of the Government document by Sayeed, in 2002, however, revealed that this measure of equity is skewed due to the relatively longer life span of women and therefore the increased length of time over which they collect benefits. **This measure does not indicate women's economic well-being.** The effects of the 1997 changes need to be considered in the broader context of relatively low earnings for women in the paid work force and low incomes for many women after retirement.

It is essential that a gender-based analysis consider the broader context of both unpaid work and women's relationship to the work force. The analysis must also consider how policies in different sectors impact on women's retirement income. The tax system has a significant negative impact on women's retirement income, and combined with provincial policies in the health and social sectors, women can be seriously disadvantaged.

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5. What happens when these policies are considered in a rural context?

Because adequate retirement income in general, and CPP benefits in particular, are dependent on life-long connections to the paid labour force and adequately paid work, it is obvious that rural women are among the most vulnerable for poverty in old age.

The depopulation and aging of rural Canada has significant implications for the remaining residents. A spiral effect occurs in which the shrinking population cannot support existing businesses and services through their patronage and tax dollars, leading to cuts in services and closed businesses. More people move to urban areas to find work and the cycle continues.

Rural women are doubly-disadvantaged by retirement income policies. Women are more likely to be employed in low-paying, seasonal, part-time, casual or self-employed work, and are likely to have extended periods away from the work force due to inadequacies in the rural job market and/or because of family and child rearing responsibilities. They are therefore more likely to have lower CPP pensions, and more likely to rely on OAS/GIS as primary sources of income.

6. What are the obvious gaps in these policies?

Adequacy - This is a central issue and overlaps to a certain extent with other issues. It is estimated that pensioners will need approximately 70% of their pre-retirement income in retirement. The OAS is based on 15% of the average pensionable wage, and the CPP is designed to replace 25%. The combination of the public pillars of the retirement income system are assumed to provide for 40% of retirement income needs. For women who receive significantly lower CPP benefits than men, what they receive will be much lower than even 40% of their needs! Many advocates argue for an increase in the 'replacement rate' of the CPP, especially for low income Canadians. Other issues are related to adequacy and include:

- *Accumulation of Private Retirement Savings* - It is assumed that pensioners will have built up retirement savings through RRSPs and workplace pension plans and will also have enough personal savings to meet their needs. These expectations are simply unrealistic. For over two-thirds of Canadian seniors OAS and CPP/QPP are the main sources of income. (NACA, 2005) The consequences of ignoring this fact will be rising demand on public tax dollars to meet the needs of a growing number of seniors living in poverty.
- *Methods of indexation* are related to adequacy; indexing pensions to changes in the Consumer Price Index (CPI) has the effect of eroding the value of pensions over time. If pensions were indexed according to wages instead, the value would be maintained. The Canadian public is not generally aware that indexation to the CPI ultimately saves Government money over the long term at the expense of pensioners.

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Recognition of women's unpaid work, including child-rearing and elder-care has been a glaring gap since the beginning of the CPP, and is probably the most urgent and most challenging problem to resolve. Because women interrupt their paid work throughout their adult lives, their ability to accumulate pension benefits and retirement savings through the labour market is severely limited. Assumptions about which work has 'market value' is at the root of the problem, and confounds efforts to develop a solution.

Women's non-standard work, like their unpaid work, limits their ability to have the same work force involvement as men. Although women have entered the paid labour force in increasing numbers over the last two decades, more and more of those in paid employment are working in non-standard jobs. While standard jobs are generally defined as full-time, full-year employment with a single employer on a permanent, long-term basis, "non-standard" jobs include contract work, self-employment, temporary work and part-year work, or multiple jobs with a series of employers. This type of work is often poorly paid and offers little or no job security.

The tax system favours medium and higher income earners by giving significant tax preferences to RRSP and Registered Pension Plan contributions. These tax preferences include: tax breaks for contributions and for income earned in the plan. Tax preferences for RPPs and RRSP combined exceeded \$22 billion in the 2000 taxation year! **This is, in effect, a public expenditure funded by tax payers as it represents \$22 billion in foregone tax revenue for government programs.**

In addition, the Caregiver Tax Credit cannot be claimed by most women caregivers due to their low taxable incomes.

7. How can pension and tax policies be revised?

Possible options for reform have been identified through three venues: interviews with senior women conducted during Phase I of this project, a literature review of policy analyses and options conducted in Phase II, and from suggestions made by participants

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of a forum held in November of 2005: “Women and Public Pensions: Working Towards Equitable Policy Change”. A complete list of possible options for policy reform can be found in Appendix III.

8. How do we move forward?

The information presented in this paper was discussed at a forum, “Women and Public Pensions: Working Toward Equitable Policy Change” in November of 2005. The forum brought together rural senior women; senior’s groups; equality-seeking, women’s community-based organizations; federal and provincial government employees; labour representatives and elected provincial officials to discuss strategies for action in making equitable policy change in the public pension system. There were 69 participants in total.

Discussions resulted in recommendations for policy change and an action plan to move the recommendations forward in Phase III of the project.

In addition to specific suggestions for policy change, forum discussion groups identified the following issues of concern, which also impact on the economic well-being of seniors, especially in rural communities:

- Social cohesion, local economies, social support networks and community-based services are disappearing. This decline is felt most urgently in rural communities, where many seniors, especially unattached women, live in poverty and isolation.
- The nature of work is changing, with more people in unstable, temporary and low-waged “non-standard work”. This increases poverty amongst low-income workers and will contribute to poverty in retirement as these non-standard workers retire.
- Government should assume responsibility for informing people about their pension entitlements and for reducing complications in the application process.
- Government should also inform people (future pensioners) about options for accumulating retirement income that do not expose them to excessive and unfair taxes.
- Definitions were seen to be problematic: definitions of poverty as reflected in the post-tax Low Income Cut-off were seen as not reflecting the reality experienced by many low-income seniors; definitions of disability were identified as being too narrow and should be revised to include mental health disabilities.

A complete list of “Possible Options for Policy Reform” can be found in Appendix III. These will form the basis of discussions to be held in Phase III.

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Next Steps

The forum finished by identifying an action plan for a third phase of this project. The key message is: “Our elder women matter - create fair public pensions!” The working groups identified components of a presentation to be used during an education campaign, strategies for working with government, identified diverse communities for outreach, and potential alliances for Phase III.

In addition to the ideas generated by forum working groups, participants unanimously endorsed the position paper of the British Columbia Women Elders in Action (WE*ACT), entitled *Pensions in Canada: Policy Reform Because Women Matter*.

Phase III of the Women and Public Pensions Project will include the development and delivery of a comprehensive public education campaign, as well as regional and national consultations to build consensus, identify priorities, develop specific recommendations for policy reform, and open a dialogue with Government.