

Demographic, Economic, and Political Background

2.1 Introduction

Why have significant changes been made recently to Canada's social security systems? This chapter presents the demographic, economic, and political context in which these reforms are taking place. The first section defines population aging and describes Canada's demographic environment as a foundation for later discussion. The following section describes the economic and political context in which social security reform is taking place. It is shown that the demographic, economic, and political factors are interdependent and interconnected, resulting in the impetus for reform.

Finally, this chapter presents the income and consumption profile of today's seniors. It also discusses the ability of the elderly to save and the effect population aging is expected to have on national savings. Further, it examines the prevalence of wealth and poverty among the elderly and the income replacement ratios experienced at retirement.

2.2 Demographic Background

2.2.1 Introduction

One reason that Canada's social security schemes are being modified at this time is the fear that exists at the public policy level that these schemes may not be affordable as the population ages (McDaniel 1987). While "population aging" has several possible definitions (see McDaniel 1986, pp. 9–15), this book adopts the definition used by the United Nations, namely, "growth over time of the proportion of old persons according to some chronological age (usually 65), in the total population" (Chen 1987). One aspect of population aging is increased life expectancy as experienced in

Canada during this century (see Table 2.1). Not only do elderly Canadians live longer, but proportionately more people attain advanced ages. In 1921, 58% of males and 60% of females survived to age 65. Eighty percent of males and 89% of females born in 1991 are expected to survive to age 65 (Statistics Canada 1986, 1995b).

Individual aging is not the only, or even the most important, way that the proportion of aged increases, or a population ages. Population aging, as defined, also occurs if the birth rate decreases.

2.2.2 *Canada's Changing Demographic Profile*

Figure 2.1 shows total fertility rates for Canada and the United States (1920–92). (The total fertility rate is the sum of the age-specific fertility rates, which, in turn, measure the rate at which women of various age groups are having children in a particular year.) Several observations can be made. First, the baby-boom/baby-bust wave was higher in its peak and lower in its trough in Canada than in the United States. This means that future demographic changes should be more dramatic in Canada than in the United States, which, as will be seen later in the chapter, is the case.

Second, fertility rates declined steadily and consistently from 1901 to the mid-1930s. If one were to project the trend in fertility rates in Canada based on the first third of this century, one would arrive at projected rates similar to those experienced in the late 1980s. What is, and was, surprising was the sharp rise in fertility rates in the late 1940s and the 1950s, commonly referred to as the "baby boom."

This book adopts the widely held definition of the baby boom as the population born in the 20-year period from 1947 to 1966, inclusive (see, for example, Foot

TABLE 2.1
LIFE EXPECTANCY IN CANADA,
1931-94 (IN YEARS)

Year	At Birth		At Age 65		At Age 75	
	Male	Female	Male	Female	Male	Female
1931	60.0	62.1	13.0	13.7	7.6	8.0
1951	66.3	70.8	13.3	15.0	7.9	8.8
1971	69.3	76.4	13.7	17.5	8.5	10.7
1991	74.6	80.9	15.7	19.9	9.6	12.5
1994	75.1	81.1	16.1	20.1	9.9	12.7

Source: Statistics Canada 1986, 1995b, 1997a.

and Stoffman 1996). With this definition, there were 9.8 million baby boomers in Canada in 1996, or 33% of the Canadian population. While the leading edge of the baby boom turns 52 in 1999, the youngest of the baby boomers are only 33 years old.

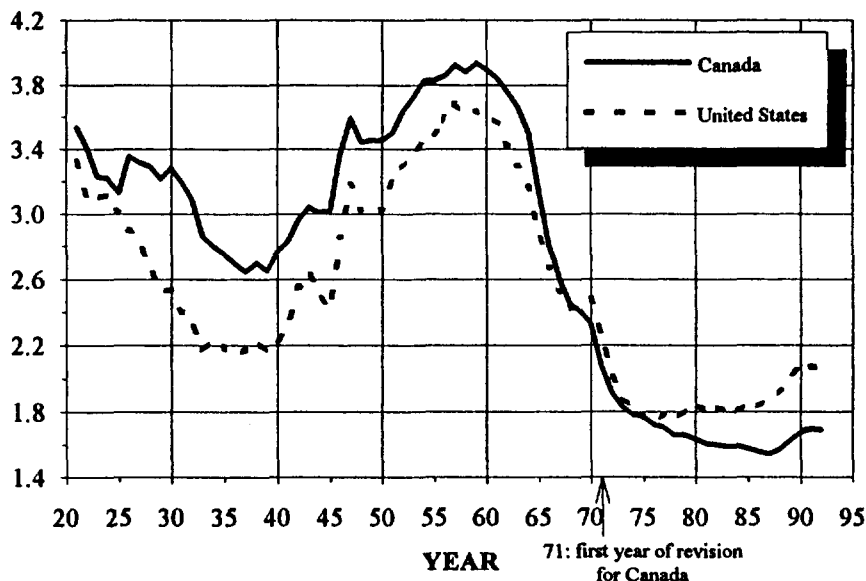
What followed the baby boom was the equally important "baby bust." The demographic effect of the baby boom/baby bust wave is illustrated in Figure 2.2. Each bar represents a quinquennial age interval, starting at age group 0-4 and peaking at age group 95 and over. While in 1991 Canada had a large potential labor force age group, and two small dependent age groups (the elderly depression cohort and the young baby bust generation),

in 2031 the baby boom will populate the elderly age group, and the economy will turn to the smaller baby bust generation for the production of wealth.

Today, because of the baby boom, only 11.8% of Canada's population is aged 65 and over. That does not even put Canada among the "older" populations around the world, as seen in Table 2.2. However, in the period 1990 to 2025, Canada will have the fastest rate of increase of those aged 65 and over, among the developed nations, as shown in Table 2.3.

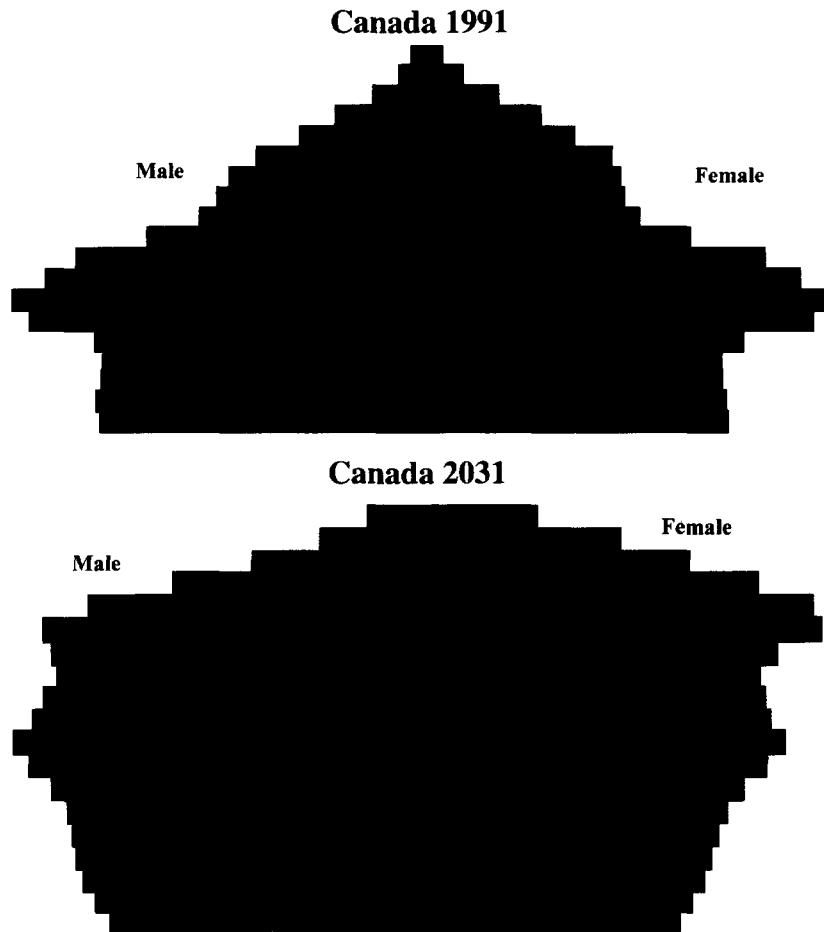
For example, while Sweden now has the world's "oldest" population, Sweden will not face as significant a shift in the distribution of wealth in the next 30 years

FIGURE 2.1
TOTAL FERTILITY RATES,
CANADA AND THE UNITED STATES,
1920-92



Source: Brown 1997, p. 32.

**FIGURE 2.2
POPULATION AGE STRUCTURE
CANADA 1991 AND 2031**



Source: Murphy 1996, p. 3.

**TABLE 2.2
PERCENTAGE OF POPULATION
AGED 65 AND OVER, 1992**

Country	Aged 65 and Over
Sweden	17.9%
United Kingdom	15.7
Italy	15.2
France	15.0
Germany	15.0
Japan	12.8
United States	12.6
Canada	11.8

Source: U.S. Department of Commerce 1993, p. 11.

as will Canada. Thus, public policy issues over the next 30 years should be less severe in Sweden than in Canada, as only a 33% growth in its elderly population is anticipated. In Canada the proportion of elderly will grow 141%, with most of that growth being experienced after 2010. While this gives some time for public policy responses to be developed, the rapid rate of increase in the Canadian elderly population after 2010 could mean a difficult political period in terms of accepting the rate of cost increases in those government-funded programs that will be affected by aging. The leading programs of consequence are retirement income security (referred to here as social security) and health care (see Fellegi 1988; Denton and Spencer 1995). As Denton and Spencer state, "health care, and more especially social security, will absorb an

TABLE 2.3
ESTIMATED PERCENTAGE
INCREASE IN THE POPULATION
AGED 65 AND OVER,
1990–2025

Country	Increase
India	242%
China	220
Canada	141
Australia	137
Japan	129
Israel	120
United States	101
New Zealand	100
Germany	66
France	65
Italy	63
United Kingdom	45
Sweden	33

Source: U.S. Department of Commerce 1993, and author's calculations.

increasingly large share of GNP. Reduced share for education can be expected, but that would provide only a partial offset" (1995, p.180). Specific allocations of wealth to health, education, and retirement income security are analyzed in detail in Chapters 4 and 7.

On a macropopulation basis, the decline in birth rates and increased life expectancy mean that Canada will have fewer young people to provide economic security for the larger number of elderly. This is also true on the individual level. Whereas today's elderly have approximately three children who survived to adulthood, the cohort born in 1960 will have approximately 1.6 (Gee 1995, p. 24). A new demographic reality has emerged: "we have almost become a different species. Retirement used to be rare, because most people died during their work lives. At least one parent had usually died before the last child left home. Orphans were common and old people were scarce. Now the opposite is true" (Pifer and Bronte 1986, p. 267).

Despite these significant shifts, older people have not been abandoned by or isolated from their families (Connidis 1989; Bengtson and Harroten 1994; Rosenthal and Gladstone 1994). The family continues to be a vital part in the lives of older Canadians (Gee 1990, p. 195; Marshall and McPherson 1994, p. 12). However, society cannot rely on the family to be the sole support for the elderly. To do so would ignore the desire of the majority of the elderly to maintain their independence, the high labor force participation of women, and the growing minority of elderly persons who have no children:

Most of us, for example, think of older people as having children. However, about one in five persons aged 65 or older have no living child, and another one in five have only one living child. Some people never marry, some are infertile, some are voluntarily childless, and some outlive their children. The result is that a significant minority of older people have few or no children as possible resources in time of need (Marshall and McPherson 1994, p. 9).

There is no reason to expect a significant rise in fertility rates. The marriage rate continues to decline, and women continue to have their first child at older ages (Statistics Canada 1994b, pp. 28, 38; 1996a, pp. 1, 2; 1996d). In the future, not only will older people have fewer children than is the case today, but they will also have fewer siblings, and, indeed, a smaller pool of close relatives than did previous generations (Rosenthal and Gladstone 1994, p. 170).

Having fewer children means having fewer support persons, and it also increases the chance of living alone. Another reason for the elderly living alone is divorce. From 1969 to 1982 there was uninterrupted growth in both absolute numbers and rates of divorce, which then leveled off. A further relaxation of divorce laws in 1985 led to a further increase. Divorce rates fell slightly in 1989 and 1990 and have remained more-or-less stable since then (Statistics Canada 1997a, p. 34).

Marital disruption and remarriage have existed throughout history; the basic change is that the cause of disruption at young ages is now commonly divorce, not death. These high divorce rates may result in more elderly individuals looking to government for their health and social-support services (for discussion see Connidis 1989, pp. 33–37). Older people in general do not wish to rely on their children for health and social-support services. While older people prefer to seek emotional support from their children, they use other services, often formal services, for instrumental assistance (Rosenthal and Gladstone 1994, p. 171).

In analyzing the effects of shifting demographics in later chapters, the focus is not only on the growth in the proportion of those aged 65 and over, but also on the expected growth of those aged 75 and over and 85 and over. Denton, Feaver, and Spencer (1996, pp. 28–30) provide the projections in Table 2.4 (midrange assumptions) (see also Statistics Canada 1993, p. 12).

Over the next 40 years the percentage of the population aged 65 and over will double, while the percentage of the population aged 85 and over will more than triple. This has an important impact on the funding requirements of both health and social security programs, as will be discussed in later chapters.

TABLE 2.4
DISTRIBUTION OF CANADIAN
POPULATION BY AGE,
1956–2036

Age	1956	1976	1996	2016	2036
Under 20	39.4%	35.6%	26.7%	22.0%	20.2%
20 to 64	52.9	55.8	61.1	61.4	55.0
65+	7.7	8.6	12.2	16.6	24.8
75+	2.5	3.2	5.1	7.1	12.8
85+	0.4	0.7	1.2	2.2	3.8

Source: Denton, Feaver, and Spencer 1996, pp. 28–30.

Note: Midrange assumptions are based on a total fertility rate of 1.8 throughout; immigration at 250,000 declining to 200,000 by 2000 and then constant; emigration of 0.16% of the previous year's population; and life expectancy improving at rates consistent with the last two decades.

2.2.3 The Case of Women

In any discussion of population aging, women require special attention:

Although boys outnumber girls in childhood in all countries, elderly women greatly outnumber elderly men in most nations. Thus, the health and socioeconomic problems of the elderly are, to a large extent, the problems of elderly women. . . . The percentage female within the elderly population rises with age and may exceed 70 percent among the oldest old. (U.S. Department of Commerce 1993, p. 46)

In Canada in 1996, women made up 58% of the population aged 65 and over, 63% of the population aged 75 and over, and 70% of those 85 and over (Denton, Feaver, and Spencer 1996, p. 10).

Table 2.1 shows that female life expectancy in Canada exceeds male life expectancy at all ages. In fact, the improvement in female life expectancy exceeded the improvement in male life expectancy until 1981, when the trend began to reverse somewhat. As yet, it is not entirely clear what has caused this reversal; however, Statistics Canada (1997a, p. 65) states that the increase in deaths due to cancer of the respiratory system is responsible for the poorer improvement rate for women.

The higher life expectancy of women presents several policy challenges. For example, inflation protection is more important to an elderly woman than to an elderly man. Given a life expectancy of 20.1 years at age 65 and an inflation rate of only 3.5% (a long-term average rate), a Canadian woman on fixed income would see the purchasing power of that income cut in half during her expected lifetime.

While 28.2% of all seniors in Canada live alone, elderly women are three times more likely to do so (see Table 2.5). The relatively high proportion of women living alone can be explained by the longer life expectancy of women, the general tendency of the husband to be older than the wife, and the greater likelihood of men to remarry.

Statistics Canada (1995c, p. 84) states that the probability that men aged 60 and over will remarry is approximately four times that of women. The greater likelihood of widowhood for women and their low likelihood of remarriage mean that a substantial proportion of elderly Canadian women live alone, as seen in Table 2.5. A spouse is one of the most important resources for an older person. The fact that many elderly women live alone must be addressed in any public policy alternatives.

TABLE 2.5
PERCENTAGE OF CANADIANS
LIVING ALONE, 1991

Age	Men	Women
45–64	9	14
65+	16	43
80+	23	59

Source: Norland 1995, p. 23.

Fully 30% of the total noninstitutional population aged 75 and over are women living alone. Forty percent of those (or 12% of all older elderly) live below Statistics Canada low-income cutoffs. Among men and women 75 and over who live alone, only 20% report that they have a close family member in the same neighborhood (Moore and Rosenberg 1997, pp. 61–62).

The rapid entry of women into the labor force during the past 20 years has changed the Canadian labor profile. This has already resulted in increased pressure on the government for more child-care facilities and may translate into increased demands for expanded elder-care facilities if women are forced to abandon or curtail their traditional role as caregiver.

It may be, however, that the upward trend in labor force participation among women has ended. The labor force participation rate for women was the same in 1994 as in 1990 (Butlin 1995, p. 31). However, much of this work was part-time. In 1993, 26% of all employed women worked part-time compared with 10% of men (Statistics Canada 1994a). While some may conclude that women are now capable of saving for their own retirement, part-time work, interrupted career paths, and

low wages mean that women generally do not have the level of disposable income necessary to allow for saving for retirement (Townson 1996c, p. 3).

The entry of women into the labor force has both positive and negative implications for social security. On the positive side, the financing of social security (for example, the Canada/Quebec Pension Plan [C/QPP]) has been enhanced by the entry of these new worker participants (Fellegi 1988, p. 4.1). On the other hand, the entry of middle-aged women into the paid labor force may decrease their ability to provide care to older family members, meaning that such elderly persons might have to rely on government-subsidized care to a greater extent. Policy planners need to allow for such potential expansion in their strategies.

As Canadians have moved from an agrarian society through an industrial to a postindustrial society, some have turned to the government to provide services for the elderly previously assumed by the extended family. Examples are meals-on-wheels and home-care services. Governments have also assumed the responsibility for providing seniors with some minimum safety net of retirement income. However, with the decline in birth rates, there may now be the perception that there will be too few workers in the next century to provide economic security to the rapidly rising number of elderly (see Section 7.2).

2.3 The Economic and Political Context

Canada has been coming to grips with an ever-growing debt. At the end of the Mulroney administration, the annual deficit was \$44 billion; that is, Canada was adding \$44 billion a year to total national debt. More recently, because of lower interest rates, increased economic activity, and federal government expenditure cutbacks, the deficit has disappeared and a surplus is expected this fiscal year (1998/99). However, the federal debt totals \$594 billion, and the combined federal-provincial debt is \$858 billion, a huge increase (almost 50%) since 1990. This is 108% of GDP, up from 87% in 1990, and it means that 35% of federal revenue is spent on debt interest. Further, because 36% of the total debt is held in foreign hands, Canada is vulnerable to the fickle winds of international financial markets (*Financial Post* 1996). Without the interest on the debt, the federal government would be running an operating surplus of close to \$30 billion. It is the accumulated debt, and the interest paid on it, that has been the major stumbling block in eliminating the deficit.

In this climate, the federal government has been working to decrease spending and to increase revenues. It expects resistance to any increase in taxation, although a survey by Northcott (1994, p. 74) found that the majority of respondents would endorse raising personal taxes to support an aging population. The government's reluctance to raise taxes may be because Canada already has some of the highest rates of taxation in the industrialized world. Table 2.6 shows Canada's 1993 level of taxation in comparison with other members of the G-7 (Canada, the United States, the United Kingdom, France, Germany, Italy, and Japan).

TABLE 2.6
CANADIAN TAXES AND RELATIVE RANKING
OF G-7 COUNTRIES

	Canadian Taxes (All Levels of Government) as a Percentage of GDP	Rank among G-7 Countries
Direct Taxes on Individuals (Including Income Tax and GST)	14.3%	1
Direct Taxes on Corporations	2.1	4
Social Security Contributions	5.5	7
Indirect Taxes	14.1	2
Other Taxes	0.3	2

Source: Canadian Institute of Actuaries 1995b, p. 20.

Personal income taxation continues to rise. In 1993 federal and provincial income taxes accounted for 16% of personal income. By the first half of 1996, income taxes took 17.2% of personal income. Factoring in other levies, such as Employment Insurance and C/QPP contributions, makes the total 1996 tax burden 24.2% of income, compared with 22.9% in 1993 (*Globe and Mail* 1997b). One of the main reasons is that income tax brackets are not indexed to inflation. Therefore, each year many Canadians find that their income is taxed at higher rates.

On the expenditure side, one of the main methods of trimming the federal budget has been to decrease the cash flow to, and cost sharing with, the provinces. This in turn means that the provinces have had to find ways to trim their budgets. Later chapters will explore the competition between the federal and provincial governments and analyze the federal government's proposals for trimming social security costs.

Social security reform is back on the agenda around the world. Japan, Italy, the United States, and others have announced that they will raise the age of eligibility for retirement benefits. Chile privatized its social security system in 1981 and is viewed by some as a model for social security reform for developing nations (see the World Bank 1994). Indeed, in 1996, Mexico adopted a system very similar to Chile's. In Canada, the Reform Party, the Fraser Institute, the C. D. Howe Institute, and the *Globe and Mail* are calling for similar reform for the C/QPP. As Myles and Street observe, "Clearly, times have changed. Although the retirement income system remains much as it was in 1980, the emergent view of the 1990s is that the system once judged to be inadequate can now be safely cut" (1995, p. 337). Or as Gee and McDaniel state, "[Pension trends reflect] a resurfacing of the residual approach [to social policy] which favours the free market and the meting out of its own justice—rewarding work, thrift, and foresight" (1994, p. 221).

Population aging has not caused social security costs in Canada to rise beyond affordable limits at this time, since Canada has a relatively young population. As is discussed in Chapters 4 and 7, the cost pressures of an aging population do not really accelerate until the next decade. The underlying reason for this conservative fiscal stance is an apparent fear that the economy will not be able to continue to deliver the promises made in the 1960s. The level of economic growth that made these programs appear affordable in the 1960s (and a level of growth that at that time had been the norm for nearly 20 years) has disappeared over the past decade. Were Canada to return to the economic growth rates of the 1950s and 1960s, there would probably not be this financing concern and the political squabbles that come with it.

In particular, between the mid-1960s and today, real economic growth dropped from 5% per annum to 2%, real wage growth dropped from 3% per annum to zero, real interest rates (that is, net of inflation) increased from 1% to 6%, and fertility rates plummeted (Hamilton 1996, p. 86). As Ilkiw states, "[This] underscores the inescapable truth that you can only sustain public pension programs if you have economic growth" (1996, p. 102).

Thus, it can be said that there is a new political reality in Canada. Gone are the days of designing and implementing new social programs. Today progressive Canadians are fighting hard to maintain what has been promised, and often losing the battle. Fighting the deficit has become more important than fighting poverty.

Providing good returns to shareholders has surpassed the desire to provide seniors with economic security. As Michael Prince suggests,

Social policy is subordinated, in large part, to the fundamental goals of deficit reduction and debt management. The fiscal posture of Ottawa's effectively sets the context for policy priorities, reform objectives and initiatives for the foreseeable future. Pension reforms will be assessed by their implications for the Liberal's plan of "bringing government's size and structure into line with what we can afford" (Paul Martin). (Prince 1996, p. 62)

Governments and business make the claim that poverty among the elderly has all but been eradicated (McDonald 1995, p. 498), which is questionable given the poverty statistics presented in Section 2.4. McDonald refers to this as the "greedy geezer" attitude, first expressed in the United States, that makes it easier to reduce social security benefits. As Robert Binstock argues, "the long-standing compassionate stereotypes of older persons have been undergoing a substantial reversal" (1994, p. 727). Monica Townson describes the new attitude as "No more of this coddling of seniors, we've given them far too much anyway. Our notion of a collective responsibility for and to seniors has now been abandoned" (1996a, p. 125). This attitude seems to pervade similar pension reform proposals in Europe, Australia, New Zealand, and the United States. All of these countries are looking at restructuring their retirement programs to minimize the role of government and to put the emphasis on individual responsibility in providing for retirement (Townson 1996a). These policy issues are reviewed and analyzed in later chapters of the book.

2.4 Income and Expenditure Patterns of the Elderly

2.4.1 Sources of Income

In the remaining sections of this chapter, the income and expenditure patterns of the elderly are presented. These will give an indication of the reliance of the elderly on certain sources of retirement income security (for example, the government versus employers) and the shift in this reliance over time. Later sections also discuss indications of the level of poverty experienced by the elderly.

Table 2.7 compares sources of income for persons 65 years and over in 1971, 1985, and 1994. These data indicate a remarkable change in income sources during

TABLE 2.7
PERCENTAGE OF INCOME FROM VARIOUS SOURCES FOR TAXPAYERS AGED 65 AND OVER,
1971, 1985, 1994

Source	1971		1985		1994	
	Men	Women	Men	Women	Men	Women
Private pension	16.5%	8.6%	20.5%	9.0%	28.9%	15.4%
C/QPP	2.2	1.1	15.5	10.1	21.0	19.8
Old Age Security/ Guaranteed Income Supplement	29.3	60.5	26.1	45.2	22.1	40.3
Investment Income	20.5	19.7	21.2	28.0	13.0	14.3
Other Income	31.6	10.1	16.8	7.8	14.9	10.2

Source: Statistics Canada 1988b, pp. 97, 105; 1997b, pp. 106–8. See also Burbidge 1996, p. 35.

this period. The proportion of income from the C/QPP has increased significantly. In fact, the C/QPP were a very small source of income for both men and women in 1981, because the C/QPP were not introduced until 1966 and did not pay full benefits until 1976. Hence, in 1981, only a few Canadians aged 65 and over were receiving full C/QPP retirement benefits.

As the C/QPP mature, the importance of C/QPP income can be expected to continue to rise, especially for women given their increased presence in the labor force. Since C/QPP benefits are earnings related, women who have not been in the workforce do not earn C/QPP credits. Until recently, most benefits that they have received have been as survivors of spouses with C/QPP benefits (see Section 3.2.5). However, because of increased female labor force participation, women are now accruing their own C/QPP credits. Between 1969 and 1989, women's Canada Pension Plan (CPP) contributions grew at a rate double that of men's (Dickinson 1994, p. A-I-6). The historic progress of women as contributors to the C/QPP is shown in Table 2.8.

TABLE 2.8
C/QPP CONTRIBUTORS BY SEX,
AS A PERCENTAGE OF THOSE
AGED 20–64

Year	Women	Men
1971	53.1%	97.4%
1976	55.6	95.6
1981	62.1	92.7
1986	62.4	86.0
1991	68.4	81.6
1993	66.4	78.4

Source: Revenue Canada, Taxation Statistics.

The recent drop in female contributors and the continuing drop in male contributors is heavily influenced by the recent introduction of flexible retirement in the C/QPP. As is discussed in Chapter 3, many workers have taken this opportunity and have chosen (or been forced) to retire prior to age 65. Among women aged 20 to 59, the percentage contributing to the C/QPP is rising and is expected to continue to rise.

According to the 1994 Actuarial Report of the Quebec Pension Plan (QPP), 99% of men and 62% of women receive QPP retirement pensions. However, according to QPP projections, by 2030, 98% of men and 93% of women will qualify for retirement pensions (Quebec 1995, p. 63). Similar estimates for the CPP can be found in MacDonald (1995, p. 5). This is expected to cause substantial improvement in the incomes of senior women in the future (Dickinson 1994, p. A-I-7).

However, because of lower wages and more part-time employment, C/QPP retirement benefits paid to women still lag behind those paid to men. In January 1996, the average CPP retirement benefit paid to women was \$279.71 a month or \$3,357 a year, while for men it was \$487.02 a month or \$5,844 a year. Thus, women have benefits that are 57% as large as for men (Caledon Institute 1996b, p. 2).

With respect to employer-sponsored pensions, historically, relatively few women earned benefits from private pension plans as wage earners. Lack of coverage for part-time workers, long vesting periods (the length of period of employment required to gain rights to the employer's contributions), and lack of benefit portability resulted in women obtaining minimal retirement incomes. Further, relatively few widows received survivors' benefits from their husband's private pension plans. While many of these issues were addressed by the pension reform legislation of the late 1980s (see

Section 3.3.4), women still lag behind men in achieving economic security through private pensions for several reasons. As long as women participate in the paid workforce to a lesser extent than men, earn lower wages than men—while the gap is narrowing, women in full-time jobs still make only 73% percent as much as men (Statistics Canada 1997b)—and hold more part-time jobs (25% of women work part-time versus 8% of men), retirement income for women will not be as large as for men.

Income sources vary from province to province especially for the aged poor. Six provinces and the two territories provide supplements over and above the federal Guaranteed Income Supplement (GIS) (see Tables 2.9 and 2.10). The other four provinces (Quebec, PEI, New Brunswick, and Newfoundland) do not. It should also be noted that the incomes of the elderly have increased considerably relative to the rest of the Canadian population since 1967, as indicated by the data in Table 2.11 from Myles and Street (1995, p. 343; confirmed in Burbidge 1996, p. 29) that compare the median family income of different age groups to the overall median family income (all ages combined).

While Table 2.7 illustrated that pension income has been a decisive factor in this improvement, Norland says that educational level is also an important factor in the improved economic situation of the elderly: “This suggests that as Canada’s future seniors have higher educational levels than they have currently, the gap between their income and the income of the total population will likely decrease, and their dependence on

TABLE 2.9
PROVINCIAL AND TERRITORIAL
SUPPLEMENTS FOR THE ELDERLY, 1995

Plan	Maximum Annual Benefit	
	Single Person	Two Pensioner
Ontario GAINS-A	\$996	\$1,992
Manitoba 55 Plus	446	959
Saskatchewan Income Plan	1,080	1,740
Alberta Seniors Benefits (Renters)	2,350	3,500
British Columbia GAIN	592	1,446
Yukon Seniors’ Income Supplement	1,200	2,400
Northwest Territories Senior Citizens’ Benefits	1,620	3,240
Nova Scotia Special Social Assistance	n.a.	n.a.

Source: National Council of Welfare 1996a, p. 14.

TABLE 2.10
PROVINCIAL TAXATION AND SHELTER
ASSISTANCE PROGRAMS FOR SENIORS

Province	Program
Newfoundland	School Tax Exemption
Prince Edward Island	Tax Deferral for Senior Citizens Residential Property Tax Credit Provincial Tax Credit
Nova Scotia	Property Tax Rebate for Senior Citizens Rental Assistance Program
New Brunswick	Assistance for the Payment of Rent or Board or Lodging Expenses
Quebec	LOGIRENTE (Senior Citizens’ Rental Assistance) Property Tax Refund
Ontario	Property Tax Grant Sales Tax Grant
Manitoba	School Tax Assistance for Tenants 55 Plus Pensioner Homeowners’ School Tax Assistance Property Tax Credit Shelter Allowances for Elderly Renters Cost of Living Tax Credit
Saskatchewan	Senior Citizens’ Heritage Program Saskatchewan Tax Reductions
Alberta	Property Tax Reduction Benefits (Including Senior Homeowner Benefits) Remote Area Heating Allowance Senior Citizens’ Renter Assistance Grant Senior Citizens’ Home Heating Protection Program
British Columbia	Land Tax Deferment Program Home Owner Grant Shelter Aid for Elderly Renters
Yukon	Home Owners’ Grant Pioneer Utility Grant
Northwest Territories	Senior Citizens’ Land Tax Relief Home Owners’ Property Tax Rebate Program

Source: Human Resources Development, Canada 1994.

government will likely lessen” (1994, p. 40). However, that does not mean that the elderly are all comfortable. Table 2.11 shows that, while their position has improved, the elderly are still measurably below the median family income.

2.4.2 Other Sources of Economic Security

The elderly have other sources of economic security. For example, some benefits designed for the elderly are not paid in cash and are often called “Income-In-Kind.”

TABLE 2.11
MEDIAN FAMILY INCOME BY AGE AS A
PERCENTAGE OF OVERALL MEDIAN
FAMILY INCOME,
1967-91

Age of Family Head	1967	1981	1991	Change 1991-67
20-26	114%	95%	78%	-32%
26-34	114	113	106	-7
35-44	106	117	115	+8
45-54	117	124	136	+16
55-64	114	110	109	-4
65-74	58	60	71	+22
75+	45	50	61	+35

Source: Myles and Street 1995, p. 343.

Table 2.12 lists the minimum guaranteed benefits available to either an individual or a couple living in Ontario in 1995. The table shows that this minimum guaranteed income is above the Statistics Canada low-income cut-offs in all categories listed.

Other examples of provincial noncash benefits to the elderly were summarized in Table 2.9 and 2.10. There were an estimated 250,000 seniors in Canada receiving provincial/territorial income supplements in 1995 (like the GAINS-A in Ontario). The total value of the benefits was in the order of \$285 million a year (National Council of Welfare 1996a, p. 13).

The elderly also have several age-related tax advantages that enhance their after-tax income (a better

TABLE 2.12
ANNUAL INCOME GUARANTEE, OCTOBER 1995

Income	Single	Couple
OAS	\$4,700	\$9,418
GIS	5,596	7,290
GAINS-A Max	996	1,992
Subtotal	11,292	18,700
Drug Program: Automatic Drug Plan (ODB and the Trillium Drug Plan):		
Sales Tax Grant	100	200
Property Tax Grant	Up to 1,000	Up to 1,000
Total	12,392	19,900
Statistics Canada Low-Income Cutoffs for 1995		
Low End (Rural)	10,728	14,543
High End (Metropolitan)	11,569	15,263

Source: Ontario Benefits: Ontario Ministry of Revenue; Health Canada; Canada: Inventory of Income Security Programs.

indicator of purchasing power). Two tax advantages, the sales tax grant and the property tax grant (for homeowners), are listed in Table 2.12 and vary from province to province. Two other tax concessions for seniors are legislated to disappear in 2001.

First is the age credit, which reduces the taxable income of elderly taxpayers (by \$3,482, providing a tax savings of \$935 in 1995). The maximum age credit goes only to seniors with net incomes below \$25,921. Seniors with higher incomes have the gross amount of the credit reduced by 15 cents for every dollar over \$25,921. The entire credit disappears once net income reaches \$49,134 (National Council of Welfare 1996a, pp. 47-48).

A second tax credit, also set to disappear in 2001, is the pension income credit, which provides a tax credit on the first \$1,000 of private pension income or personal retirement income. The maximum federal tax break is 17% of \$1,000 or \$170. With savings on the federal surtax and provincial taxes added in, the total tax break is \$269. Also, until 2001 Revenue Canada allows married seniors with little or no taxable income to transfer any unused age or pension income credits to their spouses. That has the effect of doubling the maximum tax break for some couples (National Council of Welfare 1996a).

The current cost of the age credit to the federal government is around \$1.5 billion a year, and the cost of the pension income credit is about \$340 million a year. Provincial governments also lose tax revenues because of these tax breaks (National Council of Welfare 1996a).

Further, price reductions and various subsidies are widely available to persons aged 65 and over, and in some cases to persons as young as 55. These include retail discounts (for example, senior citizen discount shopping days), subsidies for transportation, and a variety of other income-in-kind transactions.

Retired people also have more time available to do "home production," such as making gifts rather than buying them. While the value of this time may be low per hour, its total value can be considerable, and it is not counted as part of measured income (Task Force on Inflation Protection 1988, p. 249).

Canadians also benefit from a health care system funded from general tax revenues. It has been estimated that the incomes of elderly Canadians would have to be as much as one-third higher if they had to pay for the various services covered under public health insurance (National Council of Welfare 1984, p. 62).

Finally, an important part of income security of the elderly is home ownership. This aspect of wealth is not reflected in the income statistics, nor is it reflected in the needs test required for income supplementation (which

are solely income based), even though home ownership contributes to economic security (see Section 2.4.6). In 1995, 71% of all families with a head aged 65 and over were mortgage-free homeowners, whereas this was the case for only 26% of families headed by people aged 15 to 64 (Statistics Canada 1997b, pp. 30–31). Similarly, 43% of all unattached seniors owned homes on which the mortgages were paid off, compared with just 7% of unattached people aged 15 to 64 (*ibid.*, pp. 43–44).

In a special evaluation done of the Old Age Security (OAS) system, it was found that using disposable income measures rather than gross income measures significantly reduces the prevalence of poverty among all subgroups of the elderly (for example, from 52% to 28% for nonmarried women). The reason for the large difference between the two measures is the special tax allowances for seniors (most of which are expected to end in 2001) and the nontaxability of GIS benefits (Dickinson 1994, p. A-I-13). The measurement of poverty has important public policy implications. It is interesting to note, therefore, that Statistics Canada is now producing both gross-income and after-tax-income “low-income cutoffs.”

2.4.3 Consumption Patterns

Table 2.13 compares consumption patterns for those under age 65 to those aged 65 and over. Many of the

apparent differences in expenditure patterns can be explained by the simple fact that those 65 and over have lower income levels than those under age 65. It has also been shown that average consumption expenditure rises with age up to age group 45 to 54, and then declines for each subsequent age group. This decline in consumption mirrors the decline of average income (Task Force on Inflation Protection 1988, p. 249). Family units, over the ages analyzed, spend less than their current income on consumption. Even people age 75 and over appear to continue to accumulate assets rather than spend their income on current consumption (*ibid.*; Foot and Trefler 1983).

The Task Force on Inflation Protection (1988, p. 253) reanalyzed these patterns while controlling for the effects of other variables such as spending unit size (for example, one or two persons), income level, education of head, and so on. They showed that the effects of age are even less pronounced than indicated in Table 2.13. Therefore, age may not be the most significant factor in consumption patterns.

The task force also concluded that for spending units with heads aged 75 and over, average expenditure levels decline when compared with younger age groups. However, because of a lack of information on health status, it is impossible to know the degree to which reduced consumption levels may be due to poorer health, and the resultant curtailment of certain activities (1988, p. 289).

TABLE 2.13
PERCENTAGE DISTRIBUTION OF HOUSEHOLD EXPENDITURES
BY AGE OF HEAD AND EXPENDITURE CATEGORY, 1992

Category	Household with Head under Age 65	Household with Head Aged 65 and Over
Food	12.3%	15.1%
Shelter	16.9	17.6
Household Operation	4.3	4.4
Household Furnishings	3.1	3.2
Clothing	5.1	4.2
Transportation	12.4	14.7
Health Care	1.8	2.7
Personal Care	1.9	2.0
Recreation	5.1	4.2
Reading Material	0.4	0.7
Education	1.1	0.4
Tobacco and Alcohol	3.0	3.0
Personal Taxes	21.4	16.0
Security	5.5	1.5
Gifts and Contributions	2.6	6.2
Miscellaneous	2.9	3.3

Source: Statistics Canada 1997b, p. 113.

2.4.4 Savings

A myth exists that there is a well-defined life cycle to savings. Young workers and families go into debt as they acquire homes and furnishings. With time, they pay off their debt and become net savers. Then they “dis-save” in retirement as they live off their accumulated wealth. Hence, one might expect individual savings to peak at the time of retirement. However, empirical evidence suggests otherwise. Kotlikoff and Summers (1981) and Burbidge and Davies (1994) found that savings remain positive well into the early retirement years, that the aged do not run their wealth down during their early retirement years. In fact, their wealth increases. Foot and Trefler (1983, p. 11) determined that, while real per family net income peaks at a slightly later age than consumption, namely, around age 44, net savings peak much later. Because total consumption declines at a faster rate than income, per family saving does not peak until age 52.5. Since income in this period is falling, the savings rate does not peak until age 67.

Foot and Trefler (1983) conclude that an aging population may generate more total savings and, therefore, more capacity for economic growth. This conclusion is in contrast to that reached by others who argue that high levels of aged dependency impose a constraint on the potential for saving and growth (see, for example, Feldstein 1974; Soderstrom 1982; Burbidge 1996).

2.4.5 The Prevalence of Poverty

The material presented to this point indicates that Canada is providing significant economic security for the elderly: Canadians are able to continue to save even after retirement; the implementation of the C/QPP and pension reform legislation (see Section 3.3.5) have improved security; the elderly have significant nonmoney sources of financial security (for example, income-in-kind).

Statistics from the National Council of Welfare (1997) indicate a continuation of poverty for many, however. This agency defines the Canadian poverty line as the income level at which, on average, 56.2% of income is used for the essentials of life. This is based on gross rather than net (after-tax) income and is 20 percentage points above the average. These lines correspond to the Statistics Canada “low-income cutoffs.”

Some, like the Canadian Council on Social Development, feel that the Statistics Canada criterion understates poverty in Canada, while others argue that it results in an excessive indication of poverty (for example, Sarlo 1994). Ruggieri, Howard, and Bluck (1994)

argue that using pre-tax income to define poverty ignores several tax exemptions available to the elderly as well as the fact that the elderly do not face employment-related expenses. They propose a measure called net purchasing power, an after-tax measure. On that basis, for 1991, they found that 4.7% of the elderly were low income.

Poverty, measured using the Statistics Canada “low-income” criterion for the elderly, fell from 33.6% in 1980 to 16.9% in 1995. For couples 65 and older, the poverty rate has fallen from 22.2% in 1980 to 7.5% in 1995. Many of the rates for seniors in 1995 were record or near-record lows (National Council of Welfare 1997, pp. 13, 17, 87). Fellegi states that the most important contributing factors are

- The maturing of the C/QPP
- Substantial increases in the GIS and introduction of the Spouse’s Allowance program
- A noticeable increase in private pension income because of more people either being covered by such plans or having Registered Retirement Savings Plans (RRSPs)
- An increase in “other income,” primarily from investments (1988, 4.8).

Between 1971 and 1985, the proportion of the elderly receiving C/QPP benefits increased from less than 15% to almost 60%; private pension recipients increased from one-fifth to one-third of the elderly; and the proportion receiving investment income grew from 44% to 57% (Fellegi 1988, p. 4.33). In a more recent study, Dickinson (1994, p. A-I-18) shows that from 1981 to 1989 the proportion of seniors with income from C/QPP and private pensions increased, as did the share of their income from these sources (see Table 2.14).

TABLE 2.14
SENIORS WITH C/QPP OR PRIVATE PENSIONS,
1981 AND 1989

Group	1981	1989
Singles with C/QPP	46%	64%
Singles with Private Pension Income	26	35
Couples with C/QPP	78	89
Couples with Private Pension Income	46	57

Source: Dickinson 1994, p. A-I-18.

Before concluding that older people are financially comfortable, however, one needs to examine poverty rates for unattached persons. Unattached elderly Canadians (meaning those who live alone or in a household where they are not related to other members) are the

TABLE 2.15
PERCENTAGE OF INCOME BY SOURCE AND QUINTILE GROUP,
SINGLE PERSONS AND COUPLES COMBINED, 1992

Source	Q1	Q2	Q3	Q4	Q5	Total
OAS/GIS	67%	41%	22%	16%	9%	30%
C/QPP	17	23	20	15	9	18
Private Pensions	3	14	26	30	24	20
Employment Income	0	3	7	13	18	8
Investment Income	5	2	18	21	36	18
Other Income	8	7	7	5	5	6

Source: Baldwin 1996a, p. 22.

largest identifiable group living in poverty, after children. In 1995, 43.4% of unattached women aged 65 and over (versus 68.7% in 1980) and 21.3% of unattached men (versus 57.8% in 1980) were below the poverty line (National Council of Welfare 1997, p. 19).

Sources of income for the elderly poor are different from those of the nonpoor as can be seen in Table 2.15. The elderly poor in Canada are heavily dependent on government transfer payments as seen in Tables 2.15 and 2.16, and dependency on government benefits rises with age (National Council of Welfare 1997, p. 62). This dependence on the government for subsistence will become important in later discussions of social security reform proposals.

The National Council of Welfare (1996a, p. 5) states that, in 1995, 39% of the elderly in Canada had so little retirement income that they qualified for at least a partial GIS. Nearly 80% of all single GIS recipients are women (*ibid.*, p. 7). As seen in Table 2.15, the wealthiest senior citizens (Q5) get about 18% of their income from the government, while the poorest elderly (Q1) are dependent on public sources for about 84% of their income.

For a single pensioner, the maximum GIS was \$5,574 a year in 1995. Together with the OAS pension, a single person was guaranteed an income of \$10,264 a year. That amount is just below the 1995 poverty line of \$10,769 for a single person living in a rural area, but it is far below the poverty line of \$15,819 for a single person residing in a city with a population of 500,000 or more (National Council of Welfare 1996a, p. 10).

For couples, the maximum GIS was \$3,631 for each spouse in 1995. Two maximum GIS benefits plus two OAS pensions provide a total family income of \$16,642. That amount is substantially above the poverty line of \$14,600 for couples in rural areas, but well below the poverty line of \$21,442 for couples living in large cities (National Council of Welfare 1996a).

The National Council of Welfare uses these statistics to measure the poverty gap or the depth of poverty. It shows (1997, p. 51) that the elderly who live in poverty have incomes that bring unattached men to within 82.3% of the defined poverty line, unattached women to within 83.8%, and elderly couples to 87%. In total, the statistics indicate a wide diversity of income among the elderly.

TABLE 2.16
TRANSFER PAYMENTS TO THE POOR BY FAMILY TYPE, 1995

Family Type	Average Transfer Payment	Average Income from All Sources	Transfers as Percentage of Total Income
Unattached Men under 65	\$3,674	\$8,022	46%
Unattached Women under 65	3,682	8,271	45
Childless Couples under 65	6,275	12,828	49
Couples under 65 with Children under 18	8,448	19,691	43
Single-Parent Mothers under 65 with Children under 18	10,233	14,696	70
Unattached Women 65 and Older	11,248	12,422	91
Unattached Men 65 and Older	11,265	12,184	92
Couples 65 and Older	16,503	17,905	92

Source: National Council of Welfare 1997, p. 62.

2.4.6 Income Replacement Ratios

Chapter 1 noted two criteria for economic security: assurance of income above an accepted measure of poverty, and maintenance of a certain standard of living. The latter requires a certain replacement ratio of preretirement income, although just what that replacement ratio should be is the subject of debate. However, one does not need to replace one's entire preretirement gross income to maintain one's standard of living.

There are many reasons for this:

- Some tax concessions and price discounts become available at age 65
- Workplace expenses cease
- Contributions to Employment Insurance, Workers' Compensation, and other similar programs cease
- One normally moves to a lower marginal tax rate
- Personal insurance needs are reduced
- One no longer needs to save for retirement
- One's children should now be beyond education costs
- Expenditure patterns change (for example, one will hopefully be mortgage free).

Because of the progressive nature of the income tax system, replacement ratios tend to decline as income rises. In a recent report prepared by the Canadian Institute of Actuaries (1996b, p. 9), the replacement ratios shown in Table 2.17 were deemed required to allow for a consistent standard of living. It is interesting to see how Canadians have done historically in this regard. In analyzing existing replacement ratios, it is better to use a cohort analysis that looks at the replacement ratios of members of one generation rather than cross-sectional data that compare different age groups

TABLE 2.17
INCOME REPLACEMENT RATIOS NEEDED TO PRESERVE PRERETIREMENT STANDARD OF LIVING

Earnings Level (as a Percentage of Average Wage)	Needed Replacement Ratio
50%	74%
100	70
200	60

Source: Canadian Institute of Actuaries 1996b, p. 9.

at one point in time. Such cohort data are shown in Table 2.18.

Note that the effects of inflation have been taken into account by expressing values in constant 1993 dollars. One can conclude from these data that, to date, Canadians have achieved healthy (although decreasing) replacement ratios of preretirement income. In Chapter 3 (Table 3.2) we will see that poorer Canadians have even higher replacement ratios than the tax filers listed in Table 2.18. The ability to make that promise to future generations is explored in later chapters.

2.5 Summary and Conclusions

This chapter has shown that there are elderly Canadians who experience economic insecurity because they live in poverty. At the same time, the 1990 Survey of Ageing and Independence found that 87% of elderly Canadians

TABLE 2.18
AVERAGE TOTAL INCOME, BEFORE AND AFTER AGE 65, FOR ALL MALE TAX FILERS, 1981-93 (1993 DOLLARS)

Ages 60-64		Ages 65-69		Replacement Ratio
Year	Income	Year	Income	
1981	\$35,949	1986	\$28,033	78.0%
1982	35,707	1987	27,765	77.8
1983	33,804	1988	29,027	85.9
1984	33,845	1989	30,072	88.9
1985	34,379	1990	28,871	84.0
1986	36,825	1991	30,086	81.7
1987	38,076	1992	30,638	80.5
1988	39,982	1993	30,769	77.0

Source: Revenue Canada 1995.

thought their household income met their needs adequately or very well (Dickinson 1994, p. A-I-12). This indicates a diversity of need amongst the elderly. As James Schulz states;

If one views the aged as one homogeneous group, there is a tendency to try to develop for them one appropriate economic policy—just as in other areas we have tried at times to develop one appropriate housing policy and one appropriate health policy. We have learned over the years that such attempts almost always fail when dealing with diverse groups. The most useful type of data for analysis and evaluation are those that break down the aged population into smaller subgroups. (1995, p. 10)

Figure 2.2 illustrates the demographic shifts resulting from increased life expectancies and declining birth rates. Improved life expectancy means that increasing numbers of people will survive to retirement and will spend an extended period of time in retirement. The decline in births means that there will be a smaller population to provide these retired elderly with goods and services.

Many of the public policy issues relevant to population aging are presented as problems. The elderly should not be “blamed,” however, since they are simply the messengers of future needs of the aging population. Population aging does not create a crisis in social policy. Population aging is, in fact, the result of successful social policies that have made it possible for people to live long lives and to control their fertility (see Gee and McDaniel 1994, p. 228).

Despite this, the “crisis” scenario that rising costs for health care and social security will bankrupt the nation has taken on a life of its own. Population aging has come to be viewed as the cause of both present and future fiscal difficulties (McDaniel 1987, p. 331; Northcott 1994, p. 69). As is discussed in Chapters 3, 4, and 5, acceptance of this has allowed the politicians to raise taxes and cut back benefits to the elderly. McDaniel calls this the new “guiding paradigm” of the Canadian welfare state.

As was discussed in this chapter, women are more dependent on publicly sponsored benefits than men are, so present and proposed cuts are more important for them. This would have been worsened by the proposed Seniors Benefit (see Section 5.2), which intended to base payments on family income rather than individual income (as is the case with OAS benefits) since women would not have received this income independent of their husband’s resources.

Of course, what is not done by public plans is left to the private sector. However, as is discussed in Chapter 3, employer-sponsored private pension plans have actually experienced falling participation in the period of government cutbacks, and governments have further restricted the ability for individuals to save for retirement in RRSPs. Again, women are more exposed to risk than men in employer-sponsored pension plans because of lower wages and interrupted labor force attachment, and in RRSPs because of less ability to save from their own income for retirement.

Thus, it can be seen that the demographics, economics, and politics of population aging are not independent but are inescapably intertwined. The rest of this book reviews the reforms that governments are making to social security and the impact it will have on economic security.

Again, changes to government-sponsored systems have an immediate impact on private plans, either employer-sponsored or individual savings plans. Also, viewing one part of the system as public and the other schemes as private is misleading, since all parts of the retirement income system are heavily subsidized by tax incentives. One sees yet again the dependence and interconnectedness of one part of the system to all others.

To have a better foundation on which to analyze the impact of social security reforms, the next chapter briefly reviews the schemes that presently exist to provide retirement income security in Canada: government-sponsored, employer-sponsored, and individual savings.