

**Measuring the Canadian Wealth Distribution
Issues and Challenges vis-à-vis the LWS**

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Abstract

This paper aims to summarize recent developments in wealth measurement at Statistics Canada with particular emphasis on the wealth value of employer sponsored pension plans. It demonstrates how its inclusion in net worth aggregates is key to understanding the financial security of Canadian families. The paper begins with an overview of developments in wealth measurement since the release of the 1999 SFS, highlighting the policy environment surrounding the most recent survey in 2005. It reviews the elements of the Canadian pension system with respect to SFS aggregates. Recent trends in the wealth of Canadian families according to local definitions are described. The paper concludes by observing how the portrait of wealth distribution differs with the exclusion of employer pensions and that international comparisons based purely on restricted LWS definitions of net worth risk to provide a misleading picture of the relative financial security of Canadians.

Introduction

Statistics Canada has conducted periodic surveys of wealth distribution since the mid 1950s. Surveys were conducted with some regularity up to 1984, after which there was 15-year hiatus until the launch of the Canadian Survey of Financial Security (SFS) in 1999.

This paper aims to summarize recent developments in wealth measurement at Statistics Canada with particular emphasis on the wealth value of employer sponsored pension plans and demonstrating how its inclusion in net worth aggregates is key to understanding the financial security of Canadian families. The paper begins with an overview of developments in wealth measurement since the 1999 SFS, highlighting the policy environment surrounding the most recent survey in 2005. It provides an overview of the elements of the Canadian pension system and notes which components are covered in SFS aggregates.

The paper provides an overview of recent trends in the wealth of Canadian families according to local definitions, and observes how the portrait of wealth distribution would differ with the exclusion of employer pensions. It concludes by noting that international comparisons based purely on restricted LWS definitions which exclude pension wealth risk to provide a misleading picture of the relative financial security of Canadians.

The Survey of Financial Security, 1999 and 2005

The 1999 Survey of Financial Security was funded via a data gaps initiative which engaged federal government policy departments and other stakeholders to identify information gaps for policy development. The sample size for the 1999 survey was 23,000 dwellings, with a dual frame design. Roughly 21,000 was drawn from an area frame, while the remaining 2,000 was drawn from geographic areas in which a large proportion of households were high-income, defined as at least \$200,000 total income or investment income of at least \$50,000. Results were released in March 2001. Among the significant developments since 1984 was significant growth in the use of tax-sheltered individual pension savings vehicles in the form of Registered Retirement Savings Plans (RRSPs).

Subsequent to the initial release of the 1999 SFS, an innovation was introduced into Canadian wealth measurement in the form of a new methodology to estimate the wealth value of employer pension plans¹. This marked the first time a more comprehensive picture of the financial security of Canadians was available. A second release of the 1999 results focusing on private pension savings demonstrated that employer pensions were the most important component of financial wealth for many Canadians, increasing median net worth by 35%. It provided important new insights on the characteristics of those who held wealth in this form and those who did not.² The wealth value took the form of a net present value of expected future benefits to which the pension member is entitled. The methodology was developed by Hubert Frenken and Michael Cohen and was the object of an extensive consultation process prior to its publication with associated analysis in December 2001³. While pension wealth values were estimated on both a termination and a going concern basis, the termination valuation was the one featured in aggregate net worth.

2. *Survey of Financial Security, Methodology for estimating the value of employer pension plan benefits*, Statistics Canada Cat. No. 13F00026MIE-01003

³ *The Assets and debts of Canadians, Focus on private pension savings*, Statistics Canada Cat. No. 13-596-XIE

A repeat of the Survey of Financial Security was undertaken in 2005, with the results released on December 7, 2006⁴. For this most recent iteration of the survey, funding was secured via the same mechanism, the Policy Research Initiative, to undertake the survey on a reduced sample of 9,000 dwellings. The dual frame approach was again employed, with 7,500 dwellings drawn from a standard area frame and 1,500 from high income areas. Given the smaller sample size the objectives were to get a national picture of changes in wealth distribution over the six year period, particularly in light of a crash in the Canadian stock market in 2001 precipitated by over-inflated stock prices in the high tech sector. Regional analysis, possible with the larger sample in 1999, was seriously constrained with the sample restrictions and response rate declines for the 2005 survey, as were analyses of certain family types (lone parent families) and age groups (under 25).

For this most recent release, the wealth value of occupational pensions, according to the methodology developed for the 1999 survey, was included in the official net worth aggregates featured in analyses for public release. This more complete picture is deemed to represent a more accurate portrayal of the financial security of Canadians and provide additional insights into the preparedness for retirement of families and individuals as the population ages. To increase the analytical value of the SFS micro file, selected characteristics of employer pension plans were added to the database via a link to administrative data on registered pension plans from the Pension Plans in Canada (PPIC) program.

Future directions for wealth measurement

In the short term, Statistics Canada is planning targeted studies with the 2005 SFS results covering the following topics:

- Holdings of Registered Retirement Savings Plans (RRSPs)
- Changes in wealth by cohort
- The use of payday loans
- Retirement expectations
- Updated micro-macro comparisons with wealth aggregates from the Canadian SNA's National Balance Sheet Accounts

Looking towards the future, Statistics Canada is actively pursuing strategies to finance the collection of distributional wealth data on a regular recurring cycle. This data collection may not take the form of stand-alone wealth survey like the SFS, however. Internal financing has been secured for a redesign of Statistics Canada's annual consumption survey, the Survey of Household Spending, which has a sample size of approximately 21,000 households. A specialized wealth module is part of future plans for the survey, allowing for picture of income, consumption and wealth at the micro-level on a periodic recurring basis. This complete cross-sectional view of household finances is expected to have enormous analytical value. While precise time frames for the wealth module have yet to be determined, it will likely not be undertaken before the year 2011.

In addition, a rethinking of longitudinal surveys, in particular, the Survey of Labour and Income Dynamics is under consideration. Collecting wealth information on a new general panel survey has been proposed as a means to understand the dynamics of wealth accumulation in the Canadian context. The Survey of Financial Capability is also being developed at Statistics

⁴ *The Wealth of Canadians: An Overview of the Results of the Survey of Financial Security, 2005*, Statistics Canada Cat. No. 13F0026MIE—No. 001

Canada, to get an understanding of the financial literacy of Canadians in relation to their wealth position.

Canadian policy environment surrounding the 2005 Survey of Financial Security

The content of the 2005 SFS was determined through an extensive consultation process with federal departments and agencies, with Human Resources and Skills Development Canada and Social Development Canada as the lead departments. Input was also provided by Finance Canada, Industry Canada, the Canada Mortgage and Housing Corporation and the Bank of Canada (the Canadian central bank) via a steering committee. New content was added on health, inheritances and gifts and retirement planning, along with non-discretionary expense items required for certain measures of the incidence of low-income. Additional detail was collected on the asset distribution of tax-sheltered investments and mutual funds at the request of the Finance Department.

Among the stated objectives of the 2005 SFS were the following:

- to describe the nature and type of assets and debts held by Canadians, along with changes in their composition
- to determine the distribution of wealth and develop a profile of Canadians holding wealth in different forms
- to examine changes in assets and debts within a life cycle
- to evaluate future consumption capacities and potential financial vulnerability
- to study the relationship between income and wealth
- to provide information on the transfer of assets from one generation to another
- to evaluate whether assets could support income at retirement

As part of the public policy and community information process, income and wealth data from SFS are used by the government, media and community organizations to design and implement new social and retirement income policies, to keep the public informed about social and economic conditions, and to conduct analysis on a range of issues relating to equity and efficiency in the areas of taxation and income maintenance.

The SFS contains important information pertaining to programs related to seniors (such as OAS and CPP) and to students. These are key programs that represent an important part of the government's mandate. In addition, the SFS provides useful information on the level of wealth and income of Canadian families.

Information from the SFS informs the development of policies to help children and families out of poverty.

The information contained in SFS can also be used for policy purposes such as fiscal policy development (e.g. use of tax incentive vehicle for income at retirement), for analysis of financial, banking and credit attitudes and behaviours and for profiling of Canadian households.

To give specific examples, the information has been used:

1. To investigate the financial situation of seniors and of those people with student loans; to identify the groups at risk of not being able to sustain themselves on the longer term; to evaluate impact on the Income Security Programs by the future consumption capacities and

the potential financial vulnerability of Canadians and to evaluate the availability of assets held by Canadians to provide income at retirement.

2. To analyze the housing variables related to tenure, mortgages, housing costs and expenses, in relation to family income and net worth. Prior to SFS, policy makers and program designers have had to work with measures of housing need solely based on current income and shelter cost data, with no knowledge of household wealth.
3. To profile the socio-economic situation of those with student loans and with the allocation of registered saving plans in order to measure how asset allocation responds to taxes; The family structure combined with the information on assets and debts are being used to monitor social programs such as the Canada Pension Plan survivor's pensions, Guaranteed Income Supplement and Spousal Allowance, the National Child Benefit and many components of the tax system such as credit and transferable deductions.
4. To answer a recurring question relevant to monetary policy (Central Bank) which is the impact of interest rate on the household debt and debt service burden. The Bank of Canada has, in fact, expressed interest in having access to distributional wealth data with more reliable regularity and has raised the possibility of helping to finance future iterations of the survey.

Indebtedness among youth is a growing phenomenon that has been observed in the last few years, and it seems to continue to grow. SFS measures an array of debts, as indebtedness related to education and the level of consumer credit among young families or persons living alone.

Also, in the next decade, an unprecedented number of Canadians will retire. The SFS evaluates their level of preparedness for their retirement and measures the level of accumulated wealth, health, and activities regarding planning and preparation for retirement.

The availability of a wealth value of occupational pension plans as a component of net worth provides the user community with the most complete picture yet available of the extent to which families have saved for retirement. This information is also used by provincial and federal pension supervisory authorities for modelling and forecasting of pension plans participation, contributions and benefits.

The state of health of the defined-benefit occupational pension plan system in Canada is a topic of considerable interest of late among policy makers, pension regulators and the Canadian central bank. While defined-benefit plans still account for the majority (80%) of pension plan members in Canada, this ratio is declining, and some existing plans have been closed to new members and in some cases replaced by defined-contribution plans or group RRSPs. Warnings and calls for reform have come from a number of quarters, including the Governor of the Bank of Canada and the Superintendent of Financial Institutions.

Sponsors are worried about growing difficulty in maintaining the plans, and pension regulators have been concerned about large deficits many plans have run and the exposure of participants to the insolvency of the sponsor. The Canadian central bank characterized defined-benefit pension plans as helping risk-averse savers efficiently achieve their optimal saving rate.⁵ The associated pension funds represent large pools of capital with a very long-run investment perspective that

⁵ Armstrong, J. and Selody, J. 2005. "Strengthening Defined-Benefit Pension Plans" *Bank of Canada Financial System Review* (June): 29-36.

contribute importantly to the efficiency of the financial system. The potential for continued erosion of the viability of defined-benefit plans raises concerns in this area.

As a result of heightened interest, fuller information on the Canadian pension system has been accorded increased emphasis. In addition to ongoing historical statistics on registered pension plan characteristics (conditions of plans, membership, coverage of the labour force, etc), Statistics Canada recently began collecting regulatory data from provincial pension supervisory authorities on actuarial valuations of pension plan liabilities and the assumptions used in their valuation.

In the Canadian System of National Accounts, a Pension Satellite Account is under development to construct macro-economic time series data on pension asset stocks, inflows and outflows by type, including funded and unfunded employer-sponsored pension plans, individual savings plans, publicly managed plans and social security funds. The production of this satellite account is viewed as key to understanding developments in national accounts saving rates as the population ages, and is considered the top priority for data development in macro-economic statistics by the federal Department of Finance.

All of these developments provide context to reinforce the importance of occupational pension plans as integral to understanding the financial security of families and individuals in Canada.

Dimensions of the pension system in Canada

There are essentially three pillars that make up Canada's pension system. The first is government income support in the form of the Old Age Security (OAS) and the Guaranteed Income Supplement (GIS) program. The second pillar is the publicly managed system: the Canada and Quebec Pension Plans (CPP/QPP). The third is private pensions, consisting of tax-deferred saving plans (Registered Retirement Savings Plans or RRSPs) run by individuals and employer-sponsored pension plans.

The diagram shown in Figure 1 depicts a framework for understanding the dimensions of the Canadian pension system. The first and second levels are Canada's public pension system which is intended to provide a modest base income for retirement.

Government administered/sponsored plans

Old Age Security (OAS) / Guaranteed Income Supplement (GIS) / Allowances

The OAS program guarantees a minimum income to all persons 65 or older. It provides a basic flat-rate benefit to all persons with net income below a specified amount. For income above the specified amount there is a gradual reduction in benefits until no benefit is paid. The GIS program provided additional benefits to low income seniors living in Canada who are receiving OAS. Allowances provided additional money to the spouse/partner of OAS pensioners and widows between the ages of 60 to 64 years old with limited income. All these benefit programs are paid from the federal government's consolidated revenue fund.

Other

In addition to the above, a number of social programs sponsored by the 10 provincial governments and 3 territories in Canada provide income supplements to low-income seniors.

Most of the provincial programs are based on federal program eligibility other provincial programs are based on their own set of criteria.

Canada and Quebec Pension Plans (C/QPP)

These plans are directed at the employed. They cover almost all workers in Canada and are compulsory for those 18 or over. Contributions are made on earnings up to a specified maximum level by both employees and employers.

Privately administered plans

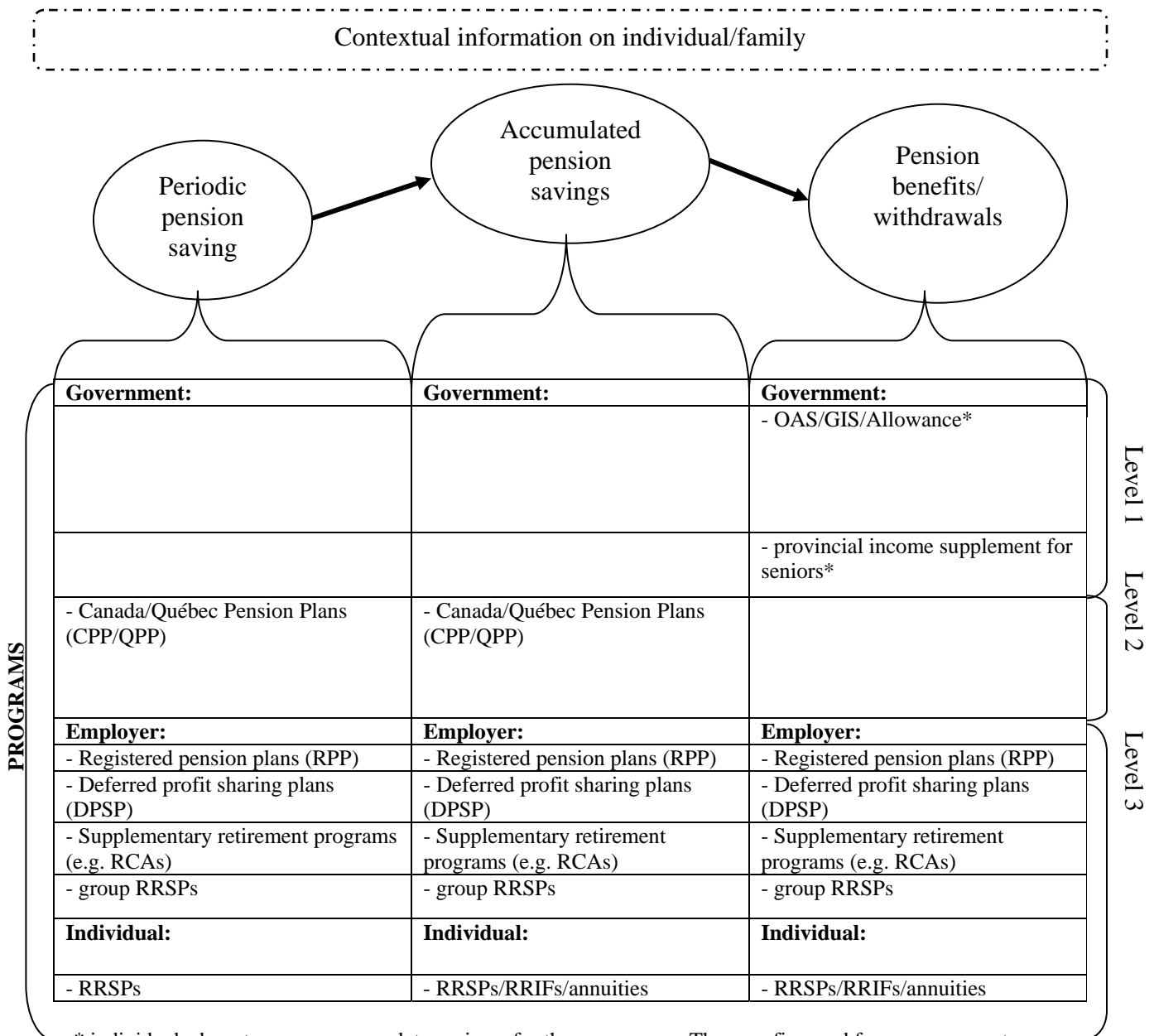
Employer-sponsored plans

The types of employer-sponsored plans that currently exist are registered pension plans (RPP), group registered retirement savings plans (GRRSP), deferred profit sharing plans (DPSP) and retirement compensation arrangements (RCA). Amounts accumulated in RPP must be used to provide an income at retirement; however; it must be noted that exceptions do exist. Amounts accumulated in GRRSPs, DPSPs, or RCAs can be withdrawn and used for purposes other than retirement.

Individually sponsored plans

Registered retirement savings plans (RRSP) offer individuals with earned income a tax incentive to save for retirement. Income tax is not paid on contributions within certain limits. Contributions to RRSPs are voluntary. Investment earnings on the money in RRSPs are not taxed. Although the intention of the program is to accumulate money to provide a source of income for retirement lump sum amounts can be withdrawn at any time. Amounts held in registered retirement savings plans must be converted to a payout vehicle, most commonly a registered retirement income fund (RRIF) but possibly an annuity, by the end of the year in which the individual turns 69.

Figure 1: Canada's pension programs: their lifecycle



* individuals do not save, or accumulate savings, for these programs. They are financed from government consolidated revenues; the benefit paid is based on the other sources of income available to the individual.

Featured net worth aggregates in the Canadian Survey of Financial Security

Figure 2 illustrates the net worth components featured in Canadian aggregates for the Survey of Financial Security. It is important to note that pension assets included in SFS net worth represent private employer-sponsored pension plans and individual savings plans only. They do not include a wealth value of entitlements for government sponsored plans (The Canada and Quebec Pension Plans). Including such a value was considered for the 2005 SFS, particularly to improve understanding the financial security of the lower end of the wealth distribution. It was ultimately

not feasible given time and resource constraints, but remains a possibility for future research. In Canada, government-managed pension plans are quite small in overall magnitude compared to privately managed employer sponsored plans. To give an idea of their relative size, assets accumulated in government-managed employer pension plans (CPP/QPP) were approximately \$120 billion, while accumulated assets in employer-sponsored Registered Pension Plans amounted to just over one trillion dollars, about 9 times the amount.

Figure 2: Net worth components in the SFS

Total assets	less:	Total debts	equals	Net worth
Private pension assets -RRSPs, RRIFs, LIRAs, other ¹ -Employer pension plans		Mortgages -Principal residence -Other real estate		
Financial assets -Deposits in financial institutions -Mutual funds, investment funds, income trusts -Stocks -Bonds -Other financial assets		Line of credit Credit card and instalment debt Student loans Vehicle loans		
Non-financial assets -Principal residence -Other real estate -Vehicles -Other non-financial assets		Other debt		
Equity in business				

Recent wealth trends in Canada, 1999 – 2005⁶

This section highlights recent developments in the wealth of Canadian families released with the results of the 2005 Survey of Financial Security.

Total net worth of Canadians reached \$4.9 trillion in 2005, a 41.7% increase from 1999. Favourable economic conditions, a strong real estate market, and a rebound in the Canadian stock market contributed to this increase. Median net worth of all family types increased 23.2% over the period.

Wealth inequality

A focused study on longer-term trends in wealth inequality, undertaken by René Morissette and Xuelin Zhang followed the most recent SFS release.⁷ This research revealed that the gap between

⁶ These highlights are primarily drawn from *The Wealth of Canadians : An Overview of the Results of the Survey of Financial Security 2005* Statistics Canada Cat. No. 13F0026MIE – No. 001, authored by the Pensions and Wealth Surveys Section of Statistics Canada’s Income Statistics Division.

Canada's families with the highest net worth and those with the lowest widened between 1999 and 2005, in part because of gains in the value of housing. Between 1999 and 2005, the median net worth of families in the top fifth of the wealth distribution increased by 19%, while the net worth of their counterparts in the bottom fifth remained virtually unchanged. In fact, net worth of families in the bottom quintile stagnated over the 1984 to 2005 period, and the value of their assets never exceeded the value of their debts.

In both 1999 and 2005, the vast majority of families in the top quintile owned a home. The median value of their principal residence rose a solid \$75,000, reflecting sharp increases in housing prices. In contrast, the value of holdings on a principal residence changed little among families in the bottom quintile, where only 6% of families own a home.

The growing inequality in net worth during the six year period followed an increase in inequality in family after-tax income that occurred during the 1990s. This suggests that growing income dispersion over the last decade also contributed to the increase in the concentration of wealth.

The study also showed that population aging was not a factor behind the growth in wealth inequality between 1984 and 2005. In fact, it found that wealth concentration would have risen even more had the age structure of the population remained constant over time.

Distribution of assets

The total value of assets increased 42.4% between 1999 and 2005. The increase in the market value of real estate was the major contributor to the growth, accounting for just over half (50.5%) of the increase. Principal residences accounted for 37.7% while other real estate accounted for the remaining 12.8%.

The second largest contributor to the increase was private pension assets, accounting for 28.7% of the increase. Gains in this area were concentrated in employer pension plans, which increased 52.8% in value over the period.

In terms of overall portfolio composition, non-financial assets accounted for half of total assets, while financial assets (including private pension assets) represented 39.4% and business equity the remaining 10.5%.

The most important non-financial asset was the principal residence, accounting for 33.4% of total assets, while the single most important financial asset for Canadians in 2005 was the amount held in employer-sponsored pension plans (EPPs), accounting for 18.5% of total assets. Investments in mutual funds, stocks and bonds (other than those in an RRSP) represented 4.8% of total assets, while deposits in financial institutions represented 4.2%.

⁷ Morissette, René and Xuelin Zhang, 2006. "Revisiting wealth inequality" Statistics Canada Cat. No.

Table 1 Asset distribution

	All Family Units			
	Assets			
	2005		1999	
	\$ billion	%	\$ billion	%
ASSETS	5,623	100.0	3,948	100.0
Private pension assets	1,632	29.0	1,152	29.2
- RRSPs / LIRAs / RRIFs/ other	593	10.5	472	11.9
- EPPs	1,039	18.5	680	17.2
Financial assets, non pension:	585	10.4	487	12.3
- Deposits in financial institutions	237	4.2	182	4.6
- Mutual funds / investment funds / income trusts	134	2.4	91	2.3
- Stocks	103	1.8	104	2.6
- Bonds (saving and other)	35	0.6	29	0.7
- Other financial assets	76	1.3	81	2.1
Non-financial assets	2,816	50.1	1,914	48.5
- Principal residence	1,880	33.4	1,248	31.6
- Other real estate	481	8.6	266	6.7
- Vehicles	171	3.0	142	3.6
- Other non-financial assets	285	5.1	258	6.5
Equity in business	590	10.5	395	10.0

Nearly 71% of family units had pension assets in 2005, up slightly from 1999. The percentage of family units holding an employer pension plan has grown, while there has been a slight decrease in the percentage of family units holding RRSPs, RRIFs, LIRAs and other pension assets.

The value of pension assets increased, more from the value of the EPP plans than from the RRSPs. Both pension assets in general grew at a slower pace than what was observed among the other asset types.

In 2005, 61.9% of families owned their home, up from 59.6% in 1999. Following a trend observed in the housing market for the last few years, the value of homes increased substantially. The median value grew 25% since 1999.

Other non-financial assets include other real estate, owned vehicles, contents of the principal residence, collectibles and valuables. Other real estate (most commonly vacation or second homes or rental property) was owned by 16.1% of family units, a similar proportion to 1999. The median value grew 17.1% from 1999.

Nearly 17% of family units reported having equity in business, a slight decrease from 1999. The median and the average value of business equity grew substantially from 1999. Moreover, the average was more than 15 times larger than the median value in business equity, which shows the highly skewed distribution in this asset category.

Distribution of debts

In 2005, 69.4% of family units reported having debts, compared to 67.3% in 1999. Total debts increased 47.5% between 1999 and 2005. Mortgages on principal residence accounted for 59.1% of this increase, and mortgages on other real estate accounted for an additional 11.7%. The second largest contributor was lines of credit, accounting for 15.9% of the rise. The majority of lines of credit debt was secured by home equity.

Mortgages continue to be the single most important debt, accounting for three-quarters of the overall value. The largest proportion of mortgage debt was for principal residence at 63.9%, while 11.3% of the mortgage debt load was for other real estate. Nearly 37% of all family units reported having mortgage debt, an increase of 2.2 percentage points from 1999.

Table 2 Debt distribution

	All family units			
	2005		1999	
	\$ billion	%	\$ billion	%
DEBTS	760	100.0	515	100.0
Mortgages	572	75.3	399	77.4
- Principal residence	486	63.9	341	66.2
- Other real estate	86	11.3	58	11.2
Lines of credit	68	9.0	29	5.7
Credit card and instalment debt	26	3.4	16	3.2
Student loans	20	2.6	17	3.3
Vehicle loans	46	6.1	33	6.3
Other debt	28	3.7	21	4.1

Total credit card and instalment debt in 2005 amounted to about \$25.8 billion, a 58.4% gain from 1999. Despite this huge jump, this form of debt still accounted for only 3.4% of overall debt, up only marginally from 1999.

It is interesting to note that the median value of the lines of credit debt (mainly home equity lines of credit) increased significantly by 55.2%, and represents an increasing share of the total debt burden. This substantial increase in lines of credit may be explained by favourable interest rates and increased availability of this form of consumer borrowing.

Debt ratio

Overall, for every \$100 of assets, Canadian family units had \$13.52 in debts in 2005 (Table 3), up from \$13.06 in 1999. The ratio was much higher for certain types of families. For example, lone-parent families owed \$28.33 for every \$100 owned and two-parent families with children under 18 owed \$20.03.

Table 3 Debt per \$100 of assets by age of major income recipient

	Debt per \$100 of asset	\$0 or negative net worth
	\$	% with
All family units	13.52	6.58
Under 35	39.40	18.49
35 to 44	23.67	4.44
45 to 54	13.23	2.92
55 to 64	6.91	2.09
65 and older	2.26	0.46

The largest debt burden was carried by younger people. Families in which the major income recipient was less than 35 owed \$39.40 for every \$100 of assets. Families with a major income recipient under 65 owed \$16.55.

Private pension assets

Approximately the same proportion of family units had pension assets between 1999 and 2005. However, the proportion of family units holding pension plans grew mostly for family units where the major income recipient was aged 55 and over (Table 4), while the proportion decreased slightly among all the other age groups. For family units where the major income recipient is under the age of 35 in particular, there was a large decrease in the number reporting RRSPs in 2005.

Family units with both employer pension plan (EPP) assets and self-managed retirement savings plans (RRSP/RRIF/LIRA) assets had significantly higher pension assets than those holding only one or the other. About 36% of families had both types of pension assets and for those, the median pension value was \$158,800.

About 13% of family units had an EPP only and for those, the median asset value was \$43,600. A larger proportion had RRSP assets only (21.8%) and for those, the median value was \$20,000.

Private pension assets were concentrated in nearly one-third of family units. About 31% of family units with \$100,000 or more in private pension savings held 90.3% of the value of these assets.

Table 4 Proportion of family units holding private pension assets by age of major income recipient

	Total RRSPs, RRIFs, LIRAs, other		EPPs	Total RRSPs, RRIFs, LIRAs, EPPs		
	2005	1999		2005	1999	
	%					
All family units	70.6	58.0	48.6	69.7	58.9	45.9
Under 35	55.3	43.5	33.9	57.6	49.6	31.7
35 to 44	72.9	63.3	48.0	74.4	65.3	47.2
45 to 54	76.7	68.1	51.6	79.0	69.9	53.9
55 to 64	81.9	69.4	60.1	76.8	67.5	54.7
65 and older	72.5	51.2	57.2	65.5	46.2	49.9

As can be expected, the value of pension assets increases with age, as more years in the workplace allow the accumulation of a larger asset. The median value of pension assets held by all family units grew 18.1% when compared to 1999.

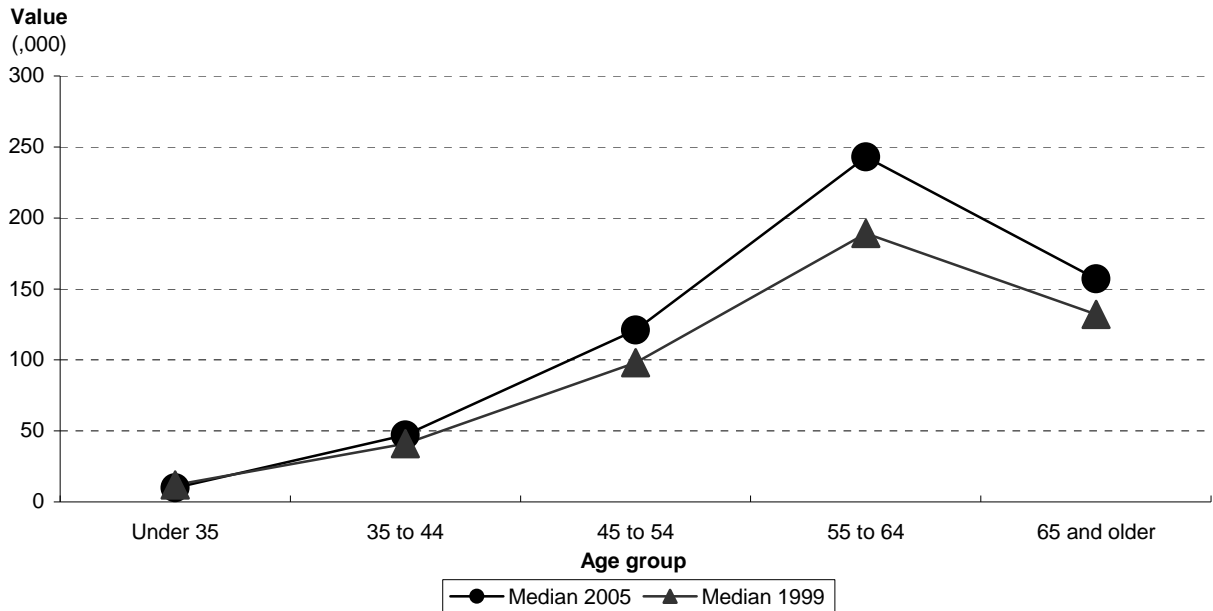
However, this growth was concentrated among family units with a major income recipient between 55 and 64 years of age, where the median value grew 28.6%. This growth is mainly due to an increase in the value of employer pension plans, as opposed to an increase in the incidence of the asset.

About 60% of family units where the major income recipient was between the ages of 55 and 64 had at least \$100,000 in private pension assets. This age group also had the lowest percentage of family units with no pension assets (18.1%).

For family units, where the major income recipient was 65 years or older (and likely to be retired), a smaller percentage (46%) had pension assets of \$100,000 or more. Many of these family units would have begun drawing down their pension assets, thereby reducing the amount held.

Notably, 27.5% of family units with the major income recipient 65 years of age and older had no pension assets. These families may not necessarily be less well off than in their pre-retirement years, as the income from government programs (OAS/GIS and CPP/QPP) may be sufficient to maintain their former standard of living. However, the pre-retirement earnings of this group are not known.

Figure 3 Value of pension assets by age group



Employer pension plans

According to Statistics Canada’s Pension Plans in Canada survey, there were 15,336 Employer Pension Plans (EPPs) covering 5.7 million members as of January 1, 2005. Public sector members of pension plans (+2.1%) contributed more to of the growth than private sector members (+0.8%).

Membership has risen steadily since 1999, increasing 11.4% by 2005 (Table 5). Increases in membership occurred in both the public and private sectors. The number of members in public sector pension plans increased 12.3% over the period, while private sector membership was up 10.6%.

The increase in female membership was the main contributor to growth during the six-year period in both sectors. The number of women covered by an EPP was up 18.5%, three times the rate of growth of 5.6% for men. Women’s share of overall pension plan membership increased by almost 3 percentage points since 1999 to 47.5% (as of January 1, 2005).

Although the public sector has less than 10% of all employer pension plans, they tend to be large and account for close to 50% of all membership and almost 60% of women belonging to an EPP.

Table 5 Employer pension plans (EPPs) and members, by sector and type of plan, as of January 1

	1999	2005	% change
Both sectors		,000	%
Total of employer pension plans	14.94	15.34	2.7
Members, both sexes	5,091	5,670	11.4
Members, males	2,819	2,977	5.6
Members, females	2,272	2,693	18.5
Public sector		,000	%
Public sector employer pension plans	1.24	1.26	1.6
Members, both sexes	2,364	2,654	12.3
Members, males	1,033	1,086	5.1
Members, females	1,331	1,568	17.8
Private sector		,000	%
Private sector employer pension plans	13.7	14.07	2.7
Members, both sexes	2,728	3,016	10.6
Members, males	1,787	1,891	5.8
Members, females	941	1,125	19.6

Source: Statistics Canada, Pension Plans in Canada Survey

Registered Pension Plan coverage

The Pension Plans in Canada survey collects regulatory data from Canadian pension supervisory authorities on characteristics of Registered Pension Plans. It shows that 39.0% of paid workers were covered by a registered pension plan in 2004. This is slightly below the 2003 level and down 1.9% from 1999. This downward trend has been observed since 1991 when more than 45.3% of paid workers were covered by a registered pension plan.

Even though declines were observed for both sexes, the coverage rate for men dropped more significantly over the period than the coverage rate for women. In 1999, 42.1% of male paid workers were covered by a pension plan compared to just 38.9% in 2004. Coverage rates for women declined more slowly. In 2004, 39.0% of female paid workers were covered, compared to 39.6% in 1999.

The public sector has the largest proportion of paid employees covered by a registered pension plan. In 2004, more than 85.2% of public sector workers had a registered pension plan, compared to 26.4% in the private sector. However, this is slightly below the coverage rate registered in 1999 when more than 91.3% of paid workers in the public sector were covered by a registered pension plan.

Who doesn't have pension savings?

About 3.9 million Canadian family units, 29.4% of the total, had no private pension assets in 2005⁸. This proportion was somewhat lower for economic families (21.5%) and substantially higher for unattached individuals. Almost half (45.2%) of unattached individuals had no pension assets.

8. An EPP, an RRSP or RRIF or from other sources. The latter includes things such as deferred profit sharing plans (DPSPs) and annuities and constitutes less than .5% of total private pension assets.

The majority of family units with no private pension assets had lower income from employment. Considering only family units with a major income recipient between 25 and 64 years of age⁹, 63.8% of families of two or more with no pension savings had employment income (i.e., earnings) less than \$30,000.

About two-thirds of unattached individuals had earnings under \$20,000. Even though these families and individuals have little private savings, public plans such as the Old Age Security (OAS/GIS) and the Canada and Quebec Pension Plans (CPP/QPP) will provide them with a minimum income in retirement. This income may replace a substantial portion of their pre-retirement earnings.

As well, most of those with no private pension assets were relatively young. This puts them further from retirement and leaves them a number of years to accumulate assets. More than half (57.9%) of family units with no private pension assets had a major income recipient younger than 45 years of age.

For all family units aged 45 and older, the government-sponsored programs (OAS/GIS and CPP/QPP) will constitute an essential source of income in retirement, or do now. Of all family units 65 years and older, 27.5% had no private pension savings, of which 58.6% were women and 41.4% men.

To get a better picture of the potential implications for a family unit having no private pension assets, it is necessary to consider both age and employment income. Those with higher incomes who have no private pension assets are not likely to be at risk of being unable to replace the income from their earnings after they retire, if they are younger and still have many years over which to save.

Similarly, older people/families with no private pension savings and lower incomes may be able to replace most or all of their earnings with the income from the government-sponsored programs (OAS/GIS and CPP/QPP). In total, there were nearly 260,000 family units between the ages of 45 and 64 with employment incomes of \$30,000 and over with no private pension assets. Unless they are able to save for their retirement, or have used other methods, they face a substantial drop in their income when they retire.

Implications of excluding pension assets in Canadian wealth measurement

First results from the LWS Beta-version database indicate that LWS aggregates of net worth represent only 42.1% of Canadian aggregate net worth from the Survey of Financial Security for 1999. While the exclusion of business equity and other non-financial assets account for a non-negligible portion of the difference, the bulk of the gap is explained by the exclusion of pension assets.

Rankings and portfolio composition

Preliminary country rankings of comparable LWS net worth put Canada in third place out of the 8 data sources in scope for comparison¹⁰. Clearly these rankings need to be considered carefully and may not represent an accurate depiction of relative financial security when important elements of the Canadian picture have been excluded. This also has clear implications for the

9. Those less than 25 and over 64 years of age have not been considered here as the focus is on employment income; many in those age groups have not yet entered the labour market or have retired.

¹⁰ See Sierminka, Eva, Andrea Brandolini and Timothy Smeeding “Comparing wealth distribution across rich countries: First results from the Luxembourg Wealth Study” LWS Working Paper No. 1

interpretation of portfolio composition as Canadians are less likely to have savings in financial assets outside of pension assets.

Wealth concentration

The picture of wealth concentration in Canada is impacted in an important way by the decision to exclude pension wealth. The following table shows the distribution of net worth by decile, including and excluding the wealth value of employer pension plans for the years 1999 and 2005.¹¹ The table clearly indicates that the Canadian wealth distribution is more skewed when the value of employer pension plans is excluded. In 2005, for example, 58.2% of net worth in Canada was held by the highest families in the highest decile, while the share was 50.2% when the full SFS net worth concept is considered.

Table 6: Shares of net worth held by each decile, 1999 and 2005

All Family Units	1999	1999	2005	2005
	Net worth excluding EPP value	SFS Net worth	Net worth excluding EPP Value	SFS Net worth
Decile				
1st	-0.6	-0.3	-0.6	-0.3
2nd	0	0.2	0	0.1
3rd	0.4	0.7	0.2	0.6
4th	1.3	1.9	1.1	1.7
5th	2.8	3.4	2.5	3.2
6th	4.7	5.5	4.4	5.2
7th	7.4	8.1	6.9	8.1
8th	11	12	10.5	12.2
9th	17.4	18.9	16.8	18.3
10th	55.7	49.6	58.2	50.9

Table 7 shows Gini coefficients calculated on the same basis. They indicate, as might be expected, that the inclusion of the wealth value of employer pension plans has an equalizing effect on the wealth distribution in Canada, and could also influence the interpretation of trends in wealth inequality over time, as the Gini increased more slowly over the period under consideration when pension plans were excluded.

Table 7: Gini coefficients	1999	2005
SFS net worth	0.727	0.746
Net worth excluding EPPs	0.678	0.688

Wealth distribution

Table 8 shows the growth in median wealth values by family type over the 1999 to 2005 period. This table is illustrative, and further analysis could be undertaken for the distribution of wealth

¹¹ This analysis is drawn from Morissette, René and Xuelin Zhang, 2006. "Revisiting wealth inequality", Statistics Canada Cat. No.

across a variety of characteristics. This tables how trends in median net worth over a six-year period in Canada can be significantly different for specific family types when EPPs are excluded. Couples with children, for example, had growth of median SFS net worth of 30.4% over the period as opposed to 42.3% when EPPs are excluded. The third column shows the impact of excluding all pension assets in Canada.

Table 8: Percentage change in median net worth from 1999 to by family type

All Family Units	SFS net worth	Excluding EPPs	Excluding all pension assets
All Family Units	23.2%	22.4%	23.5%
Economic Families	29.9%	29.4%	30.5%
Elderly families	29.3%	17.3%	14.5%
Non-elderly families	31.4%	31.4%	33.5%
Couples only	27.8%	14.0%	13.8%
Couples with children	30.4%	42.3%	45.2%
Other non-elderly families	46.0%	25.9%	35.5%
Unattached individuals	3.9%	-3.3%	12.5%
Elderly families	18.6%	26.5%	22.7%
Non-elderly families	29.3%	3.5%	9.9%

Conclusion

This paper has aimed to demonstrate that the wealth value of employer-sponsored registered pension plans is key to understanding the financial security of Canadian families and individuals from both an absolute and a relative perspective. Because of differential coverage and holdings of this type of wealth among Canadians, the true nature of Canada's net worth distribution can only be clear when they are included in aggregate net worth values.