

Research Project #3: Factors Affecting Trends in Occupational Pension Plans in Ontario

Research Paper: Trends in Occupational Pension Coverage in Ontario

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Executive Summary

The future of occupational pensions in Ontario, especially traditional final salary schemes, is being questioned in the face of an ageing population and increasingly global economic competition. This report, part of the Ontario Expert Commission on Pensions' consultation on the future of occupational pensions, looks at changing patterns of pension coverage in the public and private sectors and recent demographic and economic trends. It assesses the extent to which traditional pension arrangements have in fact declined, and for whom, and examines whether the 'pension context' in Ontario is driving changes and what the implications are for occupational coverage going forward.

1. Trends in pension coverage in Ontario

Coverage by registered pension plans (RPPs), in terms of the number of workers covered, has increased in recent years after a period of decline. The percentage of workers with access to an RPP has declined however, meaning that the growth in pension coverage is not keeping pace with the growth in employment.

- The number of pension plans has declined in both the public and private sectors, but public sector funds are fewer and larger.
- Ontario has a relatively low proportion of employees in the public sector: 18.8% in the year 2000 (Statistics Canada 2003: 54). Pension coverage, however, is high. In the same year 82.6% of public employees were covered by RPPs; by 2006, the proportion had fallen slightly to 79.5%.
- In 2006 just under 60% of all RPP members in Ontario were in the private sector. As a percentage of all employees, this group declined from just under 30% in 1992 to just under 25% in 2006.
- Defined benefit (DB) coverage has declined since 1992 from 93% to 83% of all RPP members, while defined contribution (DC) coverage has increased from 6% to 15%.
- Declining pension coverage overall seems to be a function of decreasing DB coverage. As DB coverage falls, the number of workers covered by DC plans is not increasing as quickly as the total number of paid workers.
- RPP coverage for men fell between 1991 and 1997 from 49% to 42%: from 1997 to 2000, the rate stabilized at 42%, despite an increase in membership.
- Among women coverage peaked in 1993. Between 1993 to 1998 coverage rates fell slightly, from 42% to 40%, and then stabilized at 39% between 1998 and 2000.

- The number of “other” types of plans (hybrid, composite or combination, etc.) grew between 1986-2006, albeit with significant fluctuations, and the number of contributors and size of contributions to group and individual RRSPs increased.

2. *Changing demographic trends and the structure of the economy*

The population of Ontario, like the rest of Canada, is ageing. Although the process is less pronounced than in other, especially European welfare states, it will still bring about significant changes in the demographic make-up of the province.

- In 1986 the median age for women was 32.8 (31 for men); by 2006 it had risen to 39.1 (37.3 for men).
- The number of people in the 25-44 and 45-64 age groups grew most rapidly during the same period while the slowest growth was among the under-24s.
- Ontario attracted interprovincial migrants in the late 1980s and late 1990s, and experienced outmigration in the early 1990s and between 2002-2006, in line with the prevailing economic conditions in Ontario and growth in other provinces such as Alberta.

The period from the early 1980s to the present was a volatile one for the Ontario economy. Two economic recessions interspersed with periods of rapid growth, the implementation of the North American Trade Agreement (NAFTA), and increasing financial globalisation and integration have presented both opportunities and challenges in the context of employment and economic growth in the province. Labour market trends also reflect economic and social change:

- Men’s labour market participation has fallen slightly (from 94% to 92% between 1990 and 2006), as has their share of full-time employment, but employment rates among men over 60 are increasing.
- Women’s employment increased. Seventy-eight percent of women aged 25-54 were in full-time employment in 2006 (compared with 75% in 1990).
- Youth employment has declined for females and males.
- The total number of salaried individuals fell (from 46% of all jobs to 38% of all jobs between 1991 and 2006) relative to the number of employees paid by the hour.
- Growth in the absolute number of jobs increased between 1991 and 2006 in all but three industries: manufacturing, logging, and utilities.
- Large firms (over 300 employees) employ the most people in Ontario, and they generated the most job growth between 2000 and 2006.
- Public sector employment is low in Ontario compared with other provinces.
- Unionisation has not declined substantially, but there is variability between industries and sectors (the largest declines have been in sectors such as manufacturing).

3. *Contextual factors as drivers of change*

When compared with shifts in the type of coverage in the US and the UK, Ontario has not experienced as dramatic a shift to DC-type plans as in the case of the former, nor as much

of a drop in occupational coverage as in the case of the latter. The Ontario context has unique features:

- Deindustrialisation has not occurred as rapidly or dramatically;
- Overall levels of unionisation have remained fairly stable; and
- There may be a 'pensions culture' that sustains support for traditional pension arrangements.

Nevertheless, the pressures on DB plans are significant. These include an ageing workforce, costs and funding challenges, the competitive disadvantage engendered by pension liabilities, and a lack of flexibility and portability. DB plan coverage in Ontario may continue to decline, but a large-scale retreat from DB plans is not inevitable. Factors that could encourage the continuation of DB RPP coverage include:

- Innovation in plan design to encourage risk-sharing, as in the case of multi-employer plans;
- Continued economic and job growth; and
- Policy and regulatory changes to increase the sustainability of DB plans.