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# THE ROLE OF HEALTH AND AGE IN FINANCIAL PREPARATIONS FOR LATER LIFE


## ABSTRACT

This paper concerns the self insurance preparations that people make for later life. Policy changes to the Canadian pension, old age security, and health care systems means that the financial preparations that people make are becoming increasingly important as vehicles to economic independence in later life. Data from the Statistics Canada's Survey on Ageing and Independence are used to investigate the role of health and age in the financial preparations that households make for later life including contributions to RRSPs, savings, other investments, major purchases and access to company pension plans. Data are analyzed using logistic regression. Findings indicate that compared to respondents in poor health, respondents in better health are more likely to have made financial preparations for retirement. Having an activity limitation is associated with increasing odds of making other investments, paying off debts and making other purchases. Middle aged respondents (age 50-64) are more likely to have made RRSP contributions than both their younger and older counterparts. However, the older respondents were more likely to have built up savings, made other investments and paid off or avoided debts The implications for policy are discussed.



Key Words: retirement, health, age, financial planning

## INTRODUCTION[1]

Issues of preparations for later life have come to the forefront of public attention. From the policy maker's perspective, some issues concern how to finance the income security programs, the Canada/Quebec Pension Plan (C/QPP) and the health care costs of an aging population in an era of growing budget deficits and huge public debts. From an individual's perspective, the issues concern how to prepare for later life in a period when one can no longer count on the Canadian government to provide a universal old age security benefit, to provide adequate pensions and take care of health care needs.

Using a classification of different insurance strategies suggested by Becker & Ehrlick (1972) preparations for later life can be conceptualized into three types: self-insurance, self-protection and public protection. Self insurance includes the financial preparations that individuals make such as saving, investing, contributing to a registered retirement savings plan (RRSP), belonging to a registered or employer pension plan (RPP), paying off debts, etc. Self-protection includes non-financial preparations such as changing residences; moving closer to family; and developing or maintaining: a support network, a healthy and active life style, leisure activities and hobbies. Public protection includes the income security, public pension, and health care systems provided by the state. Individuals may act to both self-insure and self-protect their later life, but they have no individual control over the public protection offered by the state.

Canada's population is aging and the future will see an increase from 12% of the Canadian population age 65 years and over in 1994 to 18% in 2021. This is an increase from

[1] This research was supported by Health Canada's Seniors' Independence Research Program.

3.6 million to over seven million Canadians in this age group (Denton & Spencer, 1996). As well, the average person is living into advanced age. Women and men can expect to live until age 80 and 73 respectively (Statistics Canada, 1997). This population aging process has major implications for the future costs of social security, public pension and health care in Canada (Denton and Spencer, 1995).

Increasing age is associated with poorer health, greater likelihood of chronic diseases, increased disability, and a decrease in functional abilities associated with activities of daily living (Garfein and Herzog 1995; Mor et al., 1994; Jagger et al., 1993; Strawbridge et al., 1992; Forbes et al., 1991; Roos and Havens, 1991; Hirdes et al., 1986). This decline is most dramatic for older seniors, and women are generally more likely to be disabled than men. With increasing age and the associated increase in disability and functional limitations, seniors place heavier demands on health care services (Mor et al., 1994; Roos and Havens, 1991; Roos, 1989; Wolinsky et al., 1983; Stoller, 1982 ). And, given the aging of the Canadian population, there will be a corresponding demand on our health care system (Denton and Spencer, 1995).

There is no 'right' way to prepare for later life and individuals differ on the preparations they make. They may either self insure or self protect, or do both. Some individuals may make no preparations at all but rely on the state to take care of their needs. Others may prepare for the 'worst case ' scenario. The preparations that they make depend on a host of factors including their age, gender, health, household income, marital and family status and many more. The purpose of this paper is to consider the role that health and age play in the financial preparations individual's make for later life using data from a national sample of Canadians age 45 and over. We therefore focus on the self-insurance preparations that people make, but consider them

within the public protection programs offered by the state. We begin with a discussion of the public protection systems offered Canadians by the state.

**BACKGROUND**

Policy changes to the C/QPP, old age security (OAS) and the health care system in Canada mean that the financial preparations that people make are becoming increasingly important in ensuring economic independence in later life. Originally, the OAS was designed to be a universal benefit to all seniors, but, in 1989, the Federal Government announced an amendment known as the "clawback" which required persons whose net income exceeded a specified threshold to repay OAS at the rate of 15% of the net income above the threshold. In 1995, a draft amendment to the Income Tax Act proposed that, beginning in July 1996, all or part of the OAS not be paid to persons whose previous year's net income exceeds a specified threshold (approximately $53,000 per year)(Statistics Canada, 1996). In 1996, the new Seniors Benefit was announced in the Federal Budget. It will consolidate the OAS and the Guaranteed Income Supplement (GIS) into one benefit beginning in 2001. This will not be a universal benefit, but is designed for those most in need. As well, eligibility for the Seniors Benefit will be based on family, rather than individual income, and will be lower for those whose incomes are over a specified threshold, reaching zero for the 9 percent of seniors with high incomes (singles with annual incomes over $52,000 and couples with combined incomes above $78,000). (1997 Government of Canada Federal Budget).

The C/QPP is a 'pay as you go' benefit with the contributions of those currently in paid employment financing the C/QPP of today seniors. Surpluses in the plan have been lent to the

Provinces over the years to help fund capital growth such as schools and hospitals at very low interest rates and without incentives to repay these loans. With the aging of the Canadian population, there is a growing concern that a smaller labour force will not be able to afford to provide the C/QPP at current levels to the baby boomers when they turn 65, and the future of the CPP has become a prominent issue in the minds of Canadians. The 1997 Federal Budget announced changes to the CPP to ensure that it remains sustainable in the future. Contributions will increase for those currently employed and future benefits may be reduced. Despite this recent announcement, public confidence in the CPP has been seriously eroded.

Public confidence in our universal health care system is also deteriorating. Federal transfer monies to the Provinces have been cut and the Provinces are scrambling to reduce or control their current health care expenditures by closing hospitals and hospital beds, moving health care back into the community, and reducing the number of nursing homes and extended and chronic care beds per capita (Havens, 1996). Drugs have been removed from the 'covered list' and certain medical procedures are no longer covered by the medical insurance system. Many see "health reform" as a code phrase for withdrawal of services and, consequently, there is concern about the viability of the system in the future (Canada National Forum on Health Care, 1997, vol 2: 8). Some Canadians fear that their health care system " is headed towards an American-style, two-tier system with a private-pay system on one side and a public system with diminished quantity and accessibility on the other" (Southam News, reporting on a confidential March 17th report prepared by the Summit Strategy Groups for the government. Hamilton Spectator, March 23, 1997).

Within this political climate, Canadians must plan more carefully than in the recent past

for how they will insure themselves and their dependent families in later life, if they want to maintain the same level of pre-retirement income after retirement. To date, little information exists on the self insurance preparations that individuals make for their retirement. The 1991 Survey of Aging and Independence (SAI) addressed this issue by including several questions on the preparations that people make or have made for their retirement (the unit of analysis was the household rather than a specific individual). Completed in 1991, the SAI is a representative sample of Canadians aged 45 and over. Schellenberg (1994) reports the results for retired Canadians and for those currently in the labour force. Findings show that of those who are retired: 47% contributed to an RRSP; 64% built up savings; 60% paid off or avoided debt; 28% made other investments and 18% made a major purchase. The data also show that 53% of all retired Canadians age 45 and over receive income from employer pensions. Financial preparations of employed Canadians include: 63% contributed to an RRSP; 59% built up savings; 64% paid off debts; 35% make other investments; 19% made a major purchase; and 49% were part of an employer-pension plan (Statistics Canada, 1992; Schellenberg, 1994). Comparing the preparations of the retired and employed Canadians, Schellenberg concludes that "this suggests that working Canadians may be better financially prepared for retirement than were Canadians who already made this transition" (1994:75).

Schellenberg also investigated factors associated with making preparations for retirement among retired and employed Canadians. He notes a positive and consistent relationship between household income and the likelihood of making household financial preparations for retirement. In addition, men are more likely than women to have employer pensions plans. Schellenberg is silent on the financial preparations made by older Canadians who have never

worked (mainly women) and those of working age who are currently not in the labour force (again, mainly women). Nor does Schellenberg consider the role of health or other possible determinants of financial planning for retirement in his analysis.

Registered retirement savings plans (RRSPs) are important vehicles for saving for later life. They provide tax free savings as money is taxed at the time of withdrawal from the plan, rather than prior to investment. This allows money to grow at a faster rate than before-tax savings. How much do people contribute to registered retirement savings plans (RRSPs) and or registered pension plans (RPPs), also known as employer pension plans? The RRSP room file developed by Revenue Canada contains personal income tax information from 1991 onwards. This makes it possible, for the first time, to analyze the extent to which individuals have been saving for their retirement through RRSPs and RPPs (Frenken, 1995a 199b; Statistics Canada, 1996). Analyzing this new data source, Maser (1995) estimates that in 1991, about one-third of taxfilers contributed to RRSPs and about one-third contributed to RPPs. Over forty per cent of taxfilers did not participate in either of these programs over the three years analyzed, 1991-93. Most workers belonging to an RPP participated each year, whereas almost half the participants from 1991 to 1993 contributed to an RRSP only one or two of the three years analyzed. The likelihood of making contributions to RPP or RRSP increases with income. RPP participation is highest for those with incomes between $30,000 and $79,000. Many of those in the low income groups are not employed in companies that offer an RPP, while a number of higher earners are self-employed and are more likely to contribute to an RRSP. Maser found that age was a factor only to the extent that income increases with age. " A thirty-year old with an income of $45,000, is almost as likely as a 50 year-old with the same income to be saving for retirement"

(1995:17).

Men are more likely to be saving for retirement than women; overall, 47% of men reported saving at least once in the three year period compared to 36% of women. Again this is explained by the fact that a greater proportion of women have lower incomes. In fact, among taxfilers with incomes of $10,000 or more, women were more likely than men to participate in one or both of the major retirement income programs (Maser, 1995).

How much are people saving? Maser (1995) notes that for those participating in either an RRSP or an RPP, or both, average savings for both plans was $4,049 in 1991 and $4580 in 1993, up about 6% each year, much more than the growth in total incomes. This represents about 10% of their incomes. Again savings rates were higher at the higher income levels and were highest for those who belonged to an RPP and also contributed to an RRSP.

While, the RRSP room file is a useful data set for providing information on the extent to which individuals are saving for their retirement and it allows us to analyze who is saving and who is not by such factors as age, income and gender, it has several limitations in terms of understanding retirement self-insurance. Because it is limited to the information contained in the tax files, it does not allow the consideration of other factors such as health or marital status in financial preparations for retirement. It allows only consideration of two sources of planning, RRSP and RPP contributions, and does not consider the other ways in which people plan for their retirement. Neither does it consider the financial preparation or lack of financial preparation of those with no income who are not required to submit a tax form such as those who are unemployed or not in the labour force.

We turn now to a discussion of the reasons for and the timing of retirement. People retire

for various reasons, some individual, others more easily explained at the macrosocial level. At the individual level, people are usually "pushed" into retirement by poor health or "pulled" into retirement by the size of their pensions (Schellenberg, 1994; Ippolito, R. A. 1990; Quinn, 1990; McDonald and Wanner, 1990, 1984; Fillenbaum et al., 1985) or by some combination of the two. Researchers have also identified the interrelationships among work and family careers and life histories and how these interactions are related to retirement patterns (Elder and Pavalko, 1993; Szinovacz et. al, 1992). At the macrosocial level, the focus is on the interrelationships between government policy, social classes and the economy and their influence to retirement decision. (McDonald, 1996; Atchley, 1993; Myles and Quadagno, 1991).

Among the individual factors that influence the timing of retirement, health has been shown to play an important role (Schellenberg, 1994; Quinn and Burkhauser, 1990). Using the 1989 General Social Survey, Lowe (1991) has shown that poor health is a major cause of early retirement in Canada. There is some evidence that health is a more important factor for men than women and a more important factor for men in the private than in the public sector (Baillargeon, 1982). For example, blue collar workers are more likely to retire for health related reasons than are white collar workers (Lowe, 1991).

In this paper we focus on the self-insurance preparations that individuals make for later life. We address the following questions:

1) What is the relationship between health and the financial preparations individuals make for later life?

2) What is the relationship between age and the financial preparations individuals make for later life?

Our focus is on the financial preparations that all Canadians aged 45 and over make for later life. Thus, we have broadened the focus to include all Canadians, rather than narrowing the focus to retired and employed Canadians as other studies have done. For this reason we focus on the financial preparations that people make for 'later life' rather than 'for retirement'.

The concept of retirement is not adequate to describe how people, in general, spend their later lives. The term retirement fits that segment of the population (mostly men) who have worked full-time for most of their lives and then retire from their employers at a specified age. But there are many others for whom the term does not fit. Of those in the labour force: some work full-time, then retire more gradually by first reducing the number of hours spent on the job; and others may retire from one job, and then work part-time at a different job; others may be laid off in mid careers (involuntary retirement) or have left work for a health related reason prior to reaching retirement age; others may have worked part-time throughout their lives and not be entitled to many benefits such as a RRP. Others still may never have been employed in the labour force (Schellenberg, 1994; Herzog et al., 1991; Guillemard & Van Gunsteren, 1991; Quinn and Burkhauser, 1990). The concept of preparing for later life encompasses all of these groups.

## METHODOLOGY

### Sample

This paper seeks to answer the questions through an analysis of data from the *Survey of Aging and Independence* (SAI). The SAI is a Statistic Canada survey of 20,036 respondents 45 years of age and over, who were selected from the September, 1990---June 1991 Labour Force files.

The survey addresses those factors contributing to the quality of life and independent living of today's and tomorrow's seniors ( see The Survey of Aging and Independence: Microdata User's Guide). The data were collected in September 1991, via a 30 minute phone (90%) or face-to-face interview (10%). The questionnaire collected basic sociodemographic information and data about the health, social, and economic conditions, and retirement behaviour of a national sample of Canadians. The questionnaire was developed by The Canadian Aging Research Network. A number of variables from the Labour Force Survey such as industry and occupation and job tenure, were added to the SAI microdata file. The SAI is based on a complex sample design with stratification, multiple stages of selection, and unequal probabilities of selection of respondents. For this analysis, the sample was weighted to reflect the Canadian population. Although collected in 1991, before the most recent downturn of the economy, the SAI is the only available national Canadian survey that contains information on both health and preparations for later life. We argue that the data remain relevant for today, although we note because of the economic downturn in the economy, it is possible that fewer people may have been able to make financial preparations for later life during this time period. However, the relationship between health and financial preparations is not likely to have been particularly affected.

**Measures: Financial Preparations For Later Life**

The questionnaire asked respondents aged 45 and over about their household financial preparations for retirement. "Have you: contributed to a RRSP; built up savings, made other investments, paid-off or avoided debts, or made major purchases." A question also asked if they had a pension plan through employment besides Canada/Quebec Pension Plan.

**Measures of Health and Other Factors Thought to be Related to Financial Preparations for Later Life**

The SAI contains two health questions. The first is a measure of subjective health, while the second asks about physical or mental activity limitations. The questions are: "How would you describe your state of health? Would you say, in general, your health is excellent, good, fair or poor?" and "Are you at all limited in the kind or amount of activity you can do because of a long-term illness, physical condition or health problem? By long term I mean a condition that lasted or is expected to last more than 6 months."

As noted in the literature review, other factors such as income, age, gender, and being a member of a RPP are associated with RRSP contributions (Maser, 1995; Schellenberg, 1994; Franken, 1991). We have added others as well which may be related including marital status, labour force participation, education level completed, personal and household income, and home mortgage status. In a preliminary analysis we also considered other determinants such as birthplace, ethnicity, rural/urban location etc and these were not found to be associated with financial preparations for retirement so they were omitted from the final analysis. Age is measured as a set of five year age cohorts beginning with 45-49 and ending with 80 and over. Gender is a dichotomous variable measured male as 0 and female as 1. Two measures of income are included. The first is personal income (8 categories) and the second is household income (8 categories). Also included are: marital status ( 5 categories), labour force participation (8 categories), highest education level obtained (6 categories), home mortgage status (3 categories)

and a dichotomous variable which measures whether or not the respondent is/was a member of an employment pension plan. Information on occupation or industry of employment was not included in the model since it was only available for a subset of the respondents (i.e. those who were currently employed and those who had retired within the previous 5 years). Independent variables were tested for collinearity and none was found.

**Analysis**

The analysis has several parts. First, we examine the distribution of demographic and social background characteristics used in the analysis and the percent of respondents making various financial preparations for later life. Second, we analyze the percent of respondents making financial preparations by health, and age. The third and final step is to examine the relationship (odds ratios) of health and age to financial preparations both without controls and with controls for the other related factors. Because the dependent variables--various financial preparations for retirement-- are dichotomous, logistic regression analysis is the preferred method of multivariate analysis. In a logistic regression, coefficients represent the effect of a unit change in the independent variable on the natural logarithm of odds (the "log odds") of making a particular type of financial preparation. Independent variables (eg. age, health, education) are entered as sets of categories to the regression equation. Interpretation is made by setting one category of each independent variable as a reference category and calculating odds ratios for the other categories. Comparisons are made between the reference category and the other categories. Statistical significance is evaluated using the WALD statistic. Where appropriate, missing data was including as a separate category for each variable. This category has no clear interpretation, but this method allows us to maintain those individuals in the

analysis. Point estimates for increments in odds (log ratios) and their confidence intervals are presented.

While not shown here, we tested for gender-health and gender-age interaction effects. Since none were found, this means that the health and age effects are the same for both males and females. Similarly, we tested for health-age interaction effects. Again, none were found meaning that the magnitude of the health effect on financial preparations for retirement is consistent across all age groups.

**RESULTS**

Table 1 shows the distribution of the independent variables used in the analysis. Data are weighted to accurately reflect the Canadian population. In terms of their health, 29% of Canadians aged 45 and over described their health as excellent, 45% as good, 20% as fair and 6% as poor. One-quarter (25%) were limited in their activity because of an illness or health problem. 53% were women and 47% were men. Over 70 per cent were married, 15% were widowed and very few were either separated (3%) or divorced (6%). With respect to their labour force status, 36% were working full-time; another 7% worked part-time and 4% were looking for work. 23% were out of the labour force and 7% had never worked. 24% were retired. 67% had high school graduation or less. 43% had personal incomes of less than 15,000 while the figure for household incomes was 20%. 39% had household incomes above $40,000 or more. 27% of the respondents were renting their home and 73% owned their homes. Of these, 20% held a mortgage on their home and the remaining 53% had paid their mortgage off.

Table 2 shows the financial preparations that respondent households make for their later

life: 49% have contributed to an RRSP; 58% have built up their savings; 29% have made other investments; 63% have paid off or are avoiding debts; 17% have made a major purchase; and 39% have an RPP.

Table 2 also shows the per cent of respondents making financial preparations for retirement by selected demographic and social background characteristics of the sample. Results show a positive relationship between subjective health and making financial preparations for later life for all six methods of financial preparation. The better the subjective health, the more likely respondents are to make financial preparations for their later life. And, respondents without activity limitations are more likely to contribute to an RRSP, build up savings, make other investments and participate in a employer pension plan than are those with activity limitations. Respondents with an activity limitation are more likely to build up savings than those without.

With respect to age, findings are more complex. The percentage making or having made contributions to RRSPs, making other investments, and participating in an employer pension plan decreases with age. There is very little variation by age in the percentage of people building up savings, paying off or avoiding debts, and making major purchases.

Table 3 shows the unadjusted odds ratios of preparations for retirement by subjective health, activity limitation and age. Comparisons are made between the reference category (which is omitted from the equation) and the other categories. Findings replicate those shown in Table 2, although here the WALD statistic indicates that respondents age 50 and over are more likely that those 45-49 to be building up savings and paying off debts.

Table 4 show the logistic regression analysis for subjective health, activity limitation and

age controlling for each other and for the control variables. The control variables are gender, marital status, labour force participation, education, personal and household income, home ownership and whether or not respondent (had) participated in an employer pension plan (with the exception of the last logistic regression where this is the dependent variable.

The adjusted odds ratios, their confidence intervals and statistical significance are shown. Table 4 shows, controlling for other-related factors, compared to respondents in poor health, respondents in better health are more likely to make financial preparations for retirement. The only exception is that those in excellent health are less likely to be participating in an employer pension plan when other factors are controlled such as their labour force participation and income. This differs from the bivariate results which show that those in excellent or good health are more likely than those in poor health to be participating in an employer pension plan..

Net of other factors, having an activity limitation is associated with increasing odds of making other investments, paying off debts and making other purchases. We can speculate that this group may be selling their family homes and moving to more suitable accommodations for their disabilities or for social support.

What association does age have on financial preparations for later life net of other factors?. First, looking at RRSP contributions (column one, Table 4), we see a curvilinear effect. Compared to those in the 45-49 age cohort, respondents aged 50-64 are more likely to be making RRSP contributions, with those 60-64 making the most contributions. Comparing those over the age of 65 to those 45-49, we see that the likelihood of making a RRSP contribution decreases with age so that the odds of having made an contribution for those aged 80 and over is .09:1.

The story changes when we examine findings for the other types of financial preparations that people make. The strategy to build up savings and pay off or avoid debts tends to increase with age net of other factors. Comparing the result in Table 4 to those in Table 3 (without controls) the trend by age is clearly stronger in the latter than the former. And compared to respondents aged 45-49, those 65-69 and 80 and over were more likely to make an other investment, and respondents aged 50-54 and 70-74 were more likely to make a major purchase (presumably a retirement home or condominium).

The results for participating in employer pension plan net of the control factors show that compared to respondents aged 45-49, those aged 50-54 and those over 65 are less likely to participate. The odds for those 80 and over having participated is .55:1.

**DISCUSSION AND CONCLUSION**

This paper concerns the self insurance preparations that individuals make for later life. It addresses two questions. First, what is the relationship between health and the financial preparations that individual's make for later life? Second, what is the relationship between age and financial preparations for later life? The data show a clear positive association between health and making financial preparations for later life, with the exception of being a member of an employer sponsored pension plan. The better the health, the more likely respondents are to prepare financially for their retirement. This is true after controlling for other related factors such as income, education, age, gender etc. It is not possible, however, to determine the causal nature of this relationship. The SAI is a cross sectional data set and health is measured on the date of the survey whereas the question on financial preparations for later life asks about past

and current preparations. Other studies show, for example, little effect of retirement on health and well-being ( Wolfson et a., 1993)

The data show a negative relationship between health and having an employment pension plan meaning that compared to people in poor health, those in excellent health are less likely to have such a plan. Having an RPP is determined by whether or not the employer has a plan rather than solely by individual choice. Benefits such as a company pension plan are important criteria people use for deciding whether to seek or remain in employment with a firm. People in poor health may be less willing than those in excellent health to take a job with a firm that does not offer an employer pension plan or to leave a job with an employer pension plan.

But what are people preparing for in later life given the positive relationship between good health and financial preparations found in the study? Are people conscientiously preparing or are the tax incentives simply too great not to? Are they preparing for a later life defined by a healthy and active life style or are they preparing to have the economic resources to deal with ill health, chronic illnesses and advancing age? It does not appear from the findings that people are preparing for ill health, since those in ill health are less likely to prepare. Results for the National Health Care Forum support this view. Most participants in the forum conceived of the health care system as an insurance policy for themselves and their family; they pay into it expecting one day to need it, and then have the right to draw on it and expect it to provide the required resources (Canada National Health Care Forum, vol 2. 1997).

We suspect that people are financially preparing for a continuity of their current life style over their life course. In Canada, with our universal health care system, individuals have not yet found it necessary to plan for health problems and the loss of independence. The

assumption is that the Medicare system will provide what is needed from medical interventions such as open heart surgery to long term care either in the community or institution, depending on ones needs. Most respondents in the SAI felt that they were or would be adequately prepared financially for their retirement. Summary findings from the SAI report that "over 70% of today's seniors believed that their income and investments will be able to satisfy their needs either adequately or very well in the future. Among tomorrow's seniors (that is, people now aged 45-64) 67% believed in the adequacy of their future incomes while 21% foresaw income difficulties (Statistics Canada, 1992:15).

In preparing for a continuity of life style over the life course, then, those with more income will need to replace this income upon retirement. The old age security and the C/QPP will provide the basis for a modest existence in later life. To maintain a more affluent life style, however, individuals will have to generate additional monies through the financial preparations they make. Although not shown here, the data show that those in the low income group are much less likely to have made financial preparations for retirement. If this group were to retire without income other than OAS/GIS and C/QPP benefits or the new Seniors Benefit, most would receive pension income replacing less than 60% of their pre-retirement earnings. For those in the labour force, it is assumed that pension benefits from all sources of 60% to 70% of pre-retirement earnings would be "sufficient to avoid serious disruption of living standards" (Canada Department of Finance, 1989). However, income from OAS/GIS and C/QPP would provide those in the labour force, at age 65, with only about 45% to 60% of their earnings. For those who have not been employed full-time in the labour force (mainly women and the disabled), income in later life would depend on the old age security benefits and on the income

of their spouse if they have one.

The data allow us to answer the question "who is making financial preparations for later life?" as well as what factors are associated with preparing financially for their later years. We cannot answer the question of whether tomorrow's seniors will be better prepared than today's seniors. This is not a question that can be answered with individual level data, but rather must be approached from a public protection perspective at the macro or societal level. And, we must consider the self-protection preparations that people make as well as their self-insurance. Nor can we answer the question "will Canadians be adequately prepared?". To adequately prepare or plan for the future, people need to know what their needs will be. We cannot accurately foretell the future. There are too many unknowns, both for individuals in terms of their personal health and in terms of what our society will provide in the way of health care and income security. It is a false notion to think that just because people are preparing financially they will, in fact, be prepared. And, it is a false notion to think that tomorrow's seniors will be better prepared for later life than today's seniors are because of their greater tendency to make preparations. The public protection programs available in Canada today may not be in place in the future.

Three individuals may make the same financial preparations for later age but their needs may be different. One may live in perfect health, winter in Florida until he/she dies suddenly of a stroke at the age of 85. A second may have a series of heart attacks, and undergo open heart surgery. A third may develop Alzheimer's disease and live in a chronic care hospital for ten years until death. Each scenario implies very different health care and everyday living costs. Being prepared does not depend solely, then, on individuals' financial preparations but also on how society meets their needs. It is an issue of what public protection programs are in place to

meet the needs of individuals as they age. If the Seniors Benefit and C/QPP provide the income for the necessities of life and Medicare provides the necessary health care, each of the individuals in the three scenarios will be financially prepared for later life. If the old age security system and the health care system no longer meet these needs, then two of them will not be prepared. Canadians can no longer assume that when they retire, the current social and health care programs will be in place to support them. As noted by Gee and McDaniel (1991), "Pension changes represent an attempt by federal governments to eliminate universal social benefits and to shift responsibility for pensions to individuals and employers and that this attempt represents a threat to the income security for Canadian elderly of the future" (p.469).

Approaching the question of whether or not tomorrow's seniors will be better off than today's seniors from a different angle, we note that tomorrow's seniors (those aged 45-65) were more likely to contribute to an RRSP, but today seniors were more likely to have built up their savings and paid off debts. In a time of high interest and mortgage rates, this strategy, in fact, may have made perfect sense. RRSPs were first introduced in 1957 and, with the exception of some of those over the age of 80, most of today's seniors would have had an opportunity to contribute to an RRSP. Contribution limits were less, however, in the early years of the plan. The incentives for purchasing RRSPs have increased over this 34 year period. Changes between 1957 and 1991 brought raises in the standard contribution ceilings over the years, changes in legislation which introduced new contribution possibilities, additional contributions over and above the standard limits, and opportunities for spouses to share in contributions (Statistics Canada, 1996:73). As well, many women had not entered in the labour force or worked part-time and were not entitled to contribute to an RRSP and receive a tax benefit. Building up their

savings and paying off debts was indeed the logical form of financial preparations for this group. Given the different financial strategies used by today's and tomorrow's seniors there is no straightforward answer to the question of who is better prepared.

**Policy Implications**

The data indicate that people in poor health are less likely to be preparing or to have prepared financially for their later life. This group may be more likely to find themselves in need of health care services including nursing homes and chronic care hospitals in the future. If some of these services such as nursing home care, certain medical procedures or medications are no longer provided through our Medicare system, and old age security and C/QPP benefits are reduced, the seniors of tomorrow will definitely not be prepared financially to maintain their independence or to provide for themselves in times of ill health.

It is not sufficient to say that because today's and tomorrow's seniors are making financial preparations they will, in fact, be prepared. Legislators and policy makers should seriously consider the difference between these two issues, before making changes to our safety and security net of health and welfare policies. Financial preparations for later life are not independent decisions. On the contrary, they are influenced by public policy decisions. The decisions that individuals have made regarding their futures are based on the social welfare and health systems in place today. Changes in these systems will leave today's and tomorrow's seniors ill-prepared for their futures.

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**Table 1 Characteristics of the middle- and old-aged population in Canada, 1991**

| Variable | Weighted number | Weighted valid percent |
|---|---|---|
| **Subjective health** | | |
| poor | 448,519 | 5.9 |
| fair | 1,535,447 | 20.2 |
| good | 3,421,762 | 44.9 |
| excellent | 2,210,500 | 29.0 |
| missing | 131,522 | - |
| **Activity limitation** | | |
| no limitation | 5,799,791 | 74.9 |
| with limitation | 1,947,960 | 25.1 |
| **Gender** | | |
| male | 3,660,114 | 47.2 |
| female | 4,087,636 | 52.8 |
| **Age** | | |
| 45-49 | 1,503,815 | 19.4 |
| 50-54 | 1,228,633 | 15.9 |
| 55-59 | 1,157,118 | 14.9 |
| 60-64 | 1,094,192 | 14.1 |
| 65-69 | 1,010,972 | 13.0 |
| 70-74 | 769,811 | 9.9 |
| 75-79 | 512,983 | 6.6 |
| 80+ | 470,228 | 6.1 |
| **Marital status** | | |
| married | 5,542,412 | 71.7 |
| separated | 204,031 | 2.6 |
| divorced | 446,204 | 5.8 |
| widowed | 1,136,810 | 14.7 |
| single | 402,182 | 5.2 |
| missing | 16,112 | - |
| **Labor force participation** | | |
| working full-time | 2,768,666 | 35.7 |
| working part-time | 502,453 | 6.5 |
| looking for full-time job | 234,816 | 3.0 |
| looking for part-time job | 66,910 | .9 |
| workers with 0 week worked | 15,097 | .2 |
| out of labor force (not retired) | 1,767,651 | 22.8 |
| never worked | 524,002 | 6.8 |
| retired | 1,868,155 | 24.1 |

Data source: Survey of Aging and Independence, 1991 (N=20,036, weighted total=7,747,750).

**Table 1 Characteristics of the middle- and old-aged population in Canada, 1991 (continued)**

| Variable | Weighted number | Weighted valid percent |
|---|---|---|
| **Highest education level obtained** | | |
| 0-8 years of education | 2,089,893 | 27.0 |
| some high school | 1,757,299 | 22.7 |
| high school graduation | 1,300,292 | 16.8 |
| some post-secondary education | 383,536 | 5.0 |
| post-secondary diploma below univ | 1,470,940 | 19.0 |
| university education | 745,790 | 9.6 |
| **Personal income** | | |
| no income | 409,141 | 7.0 |
| less than $5,000 | 362,440 | 6.2 |
| $5,000-9,999 | 952,347 | 16.3 |
| $10,000-14,999 | 843,020 | 14.4 |
| $15,000-19,999 | 717,499 | 12.3 |
| $20,000-29,999 | 785,298 | 13.4 |
| $30,000-39,999 | 720,955 | 12.3 |
| $40,000-59,999 | 625,135 | 10.7 |
| $60,000-80,000 | 260,235 | 4.5 |
| more than $80,000 | 162,723 | 2.8 |
| missing | 1,908,957 | - |
| **Household income** | | |
| no income | 23,542 | .5 |
| less than $5,000 | 37,154 | .7 |
| $5,000-9,999 | 386,056 | 7.7 |
| $10,000-14,999 | 560,431 | 11.2 |
| $15,000-19,999 | 509,796 | 10.2 |
| $20,000-29,999 | 742,311 | 14.9 |
| $30,000-39,999 | 770,117 | 15.4 |
| $40,000-59,999 | 893,281 | 17.9 |
| $60,000-80,000 | 596,246 | 11.9 |
| more than $80,000 | 478,544 | 9.6 |
| missing | 2,750,271 | - |
| **Home mortgage status** | | |
| rented home | 2,106,117 | 27.4 |
| own home, mortgaged | 1,529,129 | 19.9 |
| own home, mortgage paid off | 4,055,333 | 52.7 |
| missing | 57,171 | - |
| **Employment pension plan** | | |
| without pension plan | 4,674,146 | 60.8 |
| with pension plan | 3,018,336 | 39.2 |
| missing | 55,268 | - |

Data source: Survey of Aging and Independence, 1991 (N=20,036, weighted total=7,747,750).

**Table 2 Percentage[1,2] of respondents making preparations for retirement, Canada, 1991**

| Broken down by | Contributing to RRSP | Building up savings | Making other investments | Paying off or avoiding debts | Making major purchases | Participating in employer pension plan |
|---|---|---|---|---|---|---|
| **Total** | 48.6 | 57.7 | 28.5 | 63.2 | 16.6 | 39.2 |
| **Subjective health** | | | | | | |
| poor | 19.0 | 32.9 | 14.8 | 53.9 | 9.0 | 27.6 |
| fair | 33.2 | 47.7 | 17.7 | 59.1 | 12.9 | 30.1 |
| good | 51.6 | 61.0 | 28.7 | 64.7 | 16.5 | 41.0 |
| excellent | 61.4 | 65.1 | 38.7 | 66.5 | 20.9 | 45.3 |
| **Activity limitation** | | | | | | |
| no limitation | 53.1 | 60.2 | 30.5 | 63.5 | 17.4 | 41.6 |
| with limitation | 35.6 | 50.2 | 22.5 | 62.1 | 14.3 | 32.4 |
| **Age** | | | | | | |
| 45-49 | 58.5 | 52.9 | 33.7 | 57.2 | 17.6 | 48.0 |
| 50-54 | 56.9 | 56.0 | 34.8 | 66.7 | 19.9 | 43.3 |
| 55-59 | 55.8 | 56.5 | 27.2 | 64.2 | 15.6 | 39.6 |
| 60-64 | 55.9 | 60.6 | 27.9 | 65.5 | 16.4 | 38.5 |
| 65-69 | 47.4 | 60.6 | 26.0 | 65.6 | 17.2 | 35.3 |
| 70-74 | 37.5 | 61.3 | 23.6 | 65.3 | 16.4 | 33.3 |
| 75-79 | 21.3 | 59.6 | 20.8 | 63.0 | 12.5 | 32.9 |
| 80+ | 10.8 | 59.9 | 21.0 | 56.7 | 11.4 | 26.2 |

1. Percentages are based on valid cases, i.e., cases with missing data are not included in the calculation.
2. Using weighted data.

Data source: Survey of Aging and Independence, 1991 (N=20,036, weighted total=7,747,750).

**Table 3 Unadjusted odds ratios[1,2] of preparations for retirement by subjective health, activity limitation and age, Canada, 1991**

| Broken down by | Contributing to RRSP (95% CI)[3] | Building up savings (95% CI) | Making other investments (95% CI) | Paying off or avoiding debts (95% CI) | Making major purchases (95% CI) | Participating in employer pension plan (95% CI) |
|---|---|---|---|---|---|---|
| **Subjective health** | | | | | | |
| poor | referent | referent | referent | referent | referent | referent |
| fair | 2.11** (1.80-2.48) | 1.86** (1.62-2.14) | 1.23* (1.03-1.48) | 1.24** (1.08-1.41) | 1.48** (1.19-1.85) | 1.13 (0.97-1.31) |
| good | 4.53** (3.88-5.28) | 3.19** (2.80-3.63) | 2.31** (1.95-2.74) | 1.57** (1.39-1.78) | 1.99** (1.61-2.46) | 1.82** (1.59-2.09) |
| excellent | 6.77** (5.78-7.92) | 3.79** (3.31-4.34) | 3.63** (3.06-4.32) | 1.70** (1.49-1.93) | 2.65** (2.15-3.28) | 2.17** (1.88-2.49) |
| missing | 2.66** (2.02-3.48) | 1.86** (1.44-2.40) | 1.58** (1.15-2.17) | 0.68** (0.53-0.88) | 2.14** (1.49-3.06) | 1.61** (1.24-2.10) |
| Intercept | -1.45** | -0.71** | -1.75** | 0.15** | -2.31** | -0.96** |
| **Activity limitation** | | | | | | |
| no limitation | referent | referent | referent | referent | referent | referent |
| with limitation | 0.49** (0.46-0.52) | 0.66** (0.62-0.71) | 0.66** (0.62-0.72) | 0.94 (0.88-1.00) | 0.79** (0.73-0.87) | 0.67** (0.63-0.72) |
| Intercept | 0.12** | 0.42** | -0.83** | 0.56** | -1.56** | -0.34** |
| **Age** | | | | | | |
| 45-49 | referent | referent | referent | referent | referent | referent |
| 50-54 | 0.94 (0.85-1.03) | 1.13** (1.03-1.24) | 1.05 (0.95-1.16) | 1.50** (1.36-1.65) | 1.16* (1.03-1.31) | 0.83** (0.75-0.91) |
| 55-59 | 0.89* (0.81-0.98) | 1.16** (1.05-1.27) | 0.73** (0.66-0.81) | 1.34** (1.22-1.48) | 0.87* (0.76-0.99) | 0.71** (0.64-0.78) |
| 60-64 | 0.90* (0.81-0.99) | 1.37** (1.24-1.51) | 0.76** (0.68-0.85) | 1.42** (1.28-1.57) | 0.92 (0.81-1.05) | 0.68** (0.62-0.75) |
| 65-69 | 0.64** (0.58-0.71) | 1.37** (1.24-1.51) | 0.69** (0.62-0.77) | 1.43** (1.29-1.58) | 0.97 (0.85-1.11) | 0.59** (0.53-0.66) |
| 70-74 | 0.43** (0.38-0.48) | 1.41** (1.26-1.57) | 0.61** (0.54-0.69) | 1.41** (1.26-1.57) | 0.92 (0.79-1.06) | 0.54** (0.48-0.61) |
| 75-79 | 0.19** (0.17-0.22) | 1.31** (1.16-1.49) | 0.52** (0.44-0.60) | 1.27** (1.12-1.45) | 0.66** (0.55-0.80) | 0.53** (0.47-0.61) |
| 80+ | 0.09** (0.07-0.10) | 1.33** (1.17-1.52) | 0.52** (0.45-0.61) | 0.98 (0.86-1.12) | 0.60** (0.49-0.73) | 0.39** (0.33-0.45) |
| Intercept | 0.34** | 0.12** | -0.68** | 0.29** | -1.54** | -0.08* |

1. Obtained from logistic regressions without controlling for any other factors.
2. Data weighted using adjusted weight=(individual weight)/(average weight), where average weight=population/sample.
3. Confidence Interval = $e^{(b \pm 1.96\, o)}$, where e is the base of the natural logarithm, b is the partial correlation coefficient corresponding to the category concerned (a factor by which the log odds of the category change from that of the reference category), and o is the standard error of b.

* significant at 0.05. ** significant at 0.01.

Data source: Survey of Aging and Independence, 1991 (N=20,036, weighted total=7,747,750).

**Table 4 Adjusted odds ratios[1,2] of preparations for retirement by subjective health, activity limitation and age, Canada, 1991**

| | Contributing to RRSP (95% CI)[3] | Building up savings (95% CI) | Making other investments (95% CI) | Paying off or avoiding debts (95% CI) | Making major purchases (95% CI) | Participating in employer pension plan (95% CI) |
|---|---|---|---|---|---|---|
| **Subjective health** | | | | | | |
| poor | referent | referent | referent | referent | referent | referent |
| fair | 1.70** (1.41-2.05) | 1.57** (1.35-1.83) | 1.08 (0.89-1.31) | 1.22** (1.06-1.40) | 1.38** (1.10-1.74) | 0.90 (0.75-1.07) |
| good | 2.25** (1.87-2.71) | 2.40** (2.07-2.80) | 1.51** (1.25-1.83) | 1.55** (1.35-1.79) | 1.54** (1.23-1.94) | 0.88 (0.74-1.05) |
| excellent | 2.53** (2.09-3.08) | 2.75** (2.34-3.23) | 2.04** (1.67-2.49) | 1.69** (1.45-1.97) | 1.94** (1.53-2.46) | 0.80* (0.67-0.97) |
| missing | 2.16** (1.58-2.95) | 2.00** (1.51-2.65) | 1.81** (1.28-2.54) | 0.90 (0.68-1.18) | 2.62** (1.78-3.85) | 1.04 (0.76-1.42) |
| **Activity limitation** | | | | | | |
| no limitation | referent | referent | referent | referent | referent | referent |
| with limitation | 0.97 (0.89-1.06) | 1.01 (0.93-1.09) | 1.14** (1.03-1.25) | 1.15** (1.06-1.24) | 1.12* (1.01-1.25) | 1.02 (0.93-1.12) |
| **Age** | | | | | | |
| 45-49 | referent | referent | referent | referent | referent | referent |
| 50-54 | 0.97 (0.87-1.08) | 1.13* (1.02-1.25) | 1.10 (0.99-1.23) | 1.44** (1.30-1.59) | 1.14* (1.01-1.30) | 0.87* (0.78-0.97) |
| 55-59 | 1.28** (1.14-1.43) | 1.36** (1.23-1.52) | 0.92 (0.81-1.03) | 1.42** (1.27-1.57) | 0.96 (0.84-1.10) | 0.94 (0.84-1.06) |
| 60-64 | 1.49** (1.31-1.68) | 1.69** (1.51-1.91) | 1.10 (0.97-1.25) | 1.55** (1.38-1.74) | 1.06 (0.91-1.22) | 0.91 (0.80-1.03) |
| 65-69 | 1.21** (1.05-1.39) | 1.86** (1.62-2.12) | 1.18* (1.02-1.37) | 1.69** (1.49-1.93) | 1.18 (1.00-1.40) | 0.64** (0.55-0.75) |
| 70-74 | 0.86 (0.73-1.00) | 2.06** (1.78-2.39) | 1.14 (0.96-1.34) | 1.74** (1.51-2.00) | 1.23* (1.02-1.48) | 0.67** (0.57-0.79) |
| 75-79 | 0.40** (0.33-0.48) | 2.17** (1.84-2.55) | 1.11 (0.92-1.34) | 1.66** (1.42-1.95) | 0.95 (0.76-1.18) | 0.74** (0.61-0.89) |
| 80+ | 0.18** (0.14-0.23) | 2.53** (2.13-3.01) | 1.26* (1.03-1.53) | 1.34** (1.14-1.58) | 0.96 (0.76-1.22) | 0.55** (0.45-0.68) |
| Intercept | -3.44** | -3.04** | -4.49** | -1.27** | -3.47** | -2.95** |

1. Obtained from logistic regressions controlling for gender, marital status (married or common-law, separated, divorced, widowed, and never married), labor force participation (working full-time, working part-time, looking for full-time job, looking for part-time job, workers with zero week worked, out of labor force but not retired, never worked, and retired), education (0-8 years, some high school, high school graduation, some post-secondary education, post-secondary diploma below university education, and university education or above), personal income (no income, less than $5,000, $5,000-9,999, $10,000-14,999, $15,000-19,999, $20,000-29,999, $30,000-39,999, $40,000-59,999, $60,000-80,000, and more than $80,000), household income (same as personal income), home mortgage status (rented home, mortgaged home, and home with mortgaged paid off), and whether or not the respondent (had) participated in an employer pension plan (except for the last regression).

2. Data weighted using adjusted weight=(individual weight)/(average weight), where average weight=population/sample.

3. Confidence Interval = $e^{(b \pm 1.96\, o)}$, where $e$ is the base of the natural logarithm, $b$ is the partial correlation coefficient corresponding to the category concerned (a factor by which the log odds of the category change from that of the reference category), and $o$ is the standard error of $b$.

* significant at 0.05. ** significant at 0.01.

Data source: Survey of Aging and Independence, 1991 (N=20,036; data weighted using adjusted weight).

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