

Brief to the House of Commons Committee on Human Resources, Skills and Social
Development and the Status of Persons with Disabilities

Regarding: **Advancing Inclusion and Quality of Life for Seniors**

As an individual:

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Mr. Warawa asked the panel I was on (Tuesday October 17) to submit written briefs to the committee. In the time available before today's deadline, I can only offer a modest extension to my testimony in line with the questions I was asked. I would be prepared to answer further questions or help in any other way I can. I thank the committee for the opportunity to be a witness.

Executive Summary:

1. I focus on my area of expertise which is income support. Canada has greatly reduced senior poverty over the last 45 years, but the recent trend has been an increase.
2. It is wonderful that lifespans in Canada have increased and will likely to continue to increase. But this makes senior income support programs expensive and hence difficult to improve. There are value judgments involved but I support the suggestion to increase gradually the age of eligibility Old Age Security payments while modifying the Guaranteed Income Supplement (GIS) system so that low-income seniors, who may need to retire at 65 for reasons of health or lack of employment opportunity, would be no worse off than today. The Canada Pension Plan/Quebec Pension Plan system involves the provinces and need not change.
3. It is not necessarily a matter for formal policy, but we should all do what we can to publicize that for most low-income individuals, Tax Free Savings Account (TFSA)

contributions dominate Registered Retirement Savings Plan (RRSP) contributions.

TFSA contributions do not generate an immediate tax refund but TFSA payments are not subject to personal income tax nor are they subject to GIS clawbacks of at least 50 per cent (with higher clawbacks possible). It is tragic to see so many of our fellow citizens fall into what is very much like a trap. In the text below, I conclude by providing a short passage that might be useful in communicating this.

Income Support

I believe the committee well understands my testimony and that of others that Old Age Security/Guaranteed Income Supplement (OAS/GIS) payments are indexed to prices through the Consumer Price Index (CPI) and have not fallen in real value. However, the Low Income Measure is commonly used as a poverty cutoff and is based on median wages. Median wages have recently been rising relative to the CPI, putting more seniors, particularly single, widowed or divorced seniors, below the Low Income Measure. In simple terms, seniors with only OAS/GIS are on average becoming relatively poorer. They are on average able to maintain their standard living but they are not keeping up with the increases in standard of living of median wage earners.¹

Changing OAS/GIS Given the Increase in Life Expectancy

¹ The recent increase in senior poverty should not obscure the great reduction over the last 45 years, from almost 70% using the Low Income Measure to 13% in 2015. Part of the issue however is that it dipped to about 6% in the early 2000s and has been increasing since.

Canada is a wealthy country and could sustain the current OAS/GIS system. But the system will become increasingly more expensive if the age of eligibility remains 65 as lifespans continue to increase. In this environment it may be particularly hard to improve the system.

While I discuss this more in my testimony there seemed to be some interest in my discussion supporting a point made by an earlier witness, Richard Shillington. On October 3rd, he testified to the committee:

“I actually favour delaying OAS to 67, or even later over time, as long as you leave GIS where it is; or we could in fact debate moving GIS to age 60. You would, then, delay OAS for most seniors but keep in place income protections for seniors who are vulnerable from an income point of view.”

That is we could make the modifications to GIS so that an individual or couple with zero other income at age 65 would get exactly the same as they would receive from OAS/GIS now, with exactly the same clawbacks with increasing income. The “losers” would be those who at age 65 currently receive only OAS but receive too much income to qualify for GIS.

Any unfairness to the losers I believe is mitigated by these factors:

- The change would be introduced gradually, with say 5 years warning and then increasing the OAS age say one month per year.
- The affected individuals are the same ones who will be experiencing the benefits of longer and healthier lifespans.
- More individuals would choose to continue to work past age 65. For some who enjoy their jobs, they might actually be better off as they might experience less societal

pressure with a more common expectation of a longer working life and a reduction in the stigma of taking a job that a younger person could have.²

- There would be some direct savings and while there are many competing priorities (including Richard's suggestion of lowering the GIS age as well as goals to do with other parts of society), one possibility would be to use them to enhance the lives of the older population.

My overall point is that it is surprising if our collective decision is to take all the increase in lifespans and devote it all to retirement that is in part publicly-funded, in consequence settling for a lower annual average standard of living and/or fewer resources to solve other social problems (including those experienced by the elderly). As a productivity researcher, I emphasize that one way to increase productivity as a nation (and material standard of living and tax revenues) is for more individuals to be working, and perhaps the most straightforward way to do this is to lengthen average work lives.

The RRSP/GIS “Trap”

In my testimony I reinforced another point Richard Shillington made. Potential GIS recipients should not be contributing to RRSPs at least unless they have maxed out on TFSAs. I wrote an article about this in the *Canadian Tax Journal* as well as a couple of op-eds. Suppose someone I will call Chris is 64 and puts \$1,000 in an RRSP. Chris is in the 20% tax bracket and gets a tax refund that year of \$200. Chris becomes eligible for GIS at age 65. Now when Chris takes that \$1000 out of the RRSP, it is going to cost Chris much more than \$200. The GIS

² While Canada Pension Plan/Quebec Pension Plan (CPP/QPP) and would not change, I believe it would be possible *without changing the current payment structure* to “re-package” CPP as a plan where “full” or “normal” CPP pensions occur at age 67 and that CPP pensions taken at age 66 or younger are “early”. This might help make 67 rather than 65 more commonly considered as the “normal” age of retirement.

clawback will be at least \$500 and with other clawbacks and tax, it is possible to lose the whole \$1,000.

Furthermore, if someone knows they are going to be GIS eligible, it is often better to take money out of an RRSP at age 64 and pay the tax on it, especially if that enables a larger TFSA contribution.

It is hard to know what to do about this in terms of public policy. But maybe we can collectively do our best to inform our fellow citizens, your constituents, who are not yet GIS recipients but will likely be when they are 65 to (a) use TFSAs rather than RRSPs as their primary saving vehicle (b) if they already have significant RRSP holdings that they may benefit from consulting a financial planner. I conclude by providing some draft tax that might be useful to communicate the first point.

Are you considering making a Registered Retirement Savings Plan (RRSP) contribution? If you expect to be eligible for the Guaranteed Income Supplement (GIS) when you retire*, consider making a Tax-free Savings Account (TFSA) contribution instead. A TFSA contribution doesn't give you an immediate tax refund but withdrawals are not subject to personal income tax and do not affect your GIS eligibility. In contrast, while an RRSP contribution gives you an immediate tax refund, RRSP withdrawals may be subject to personal income tax and reduce the money you receive from GIS when you retire, at least by 50 cents and sometimes by 75 cents for every \$1 withdrawn.

*GIS payments are made to those who are eligible for Old Age Security (OAS) and are in

addition to OAS. They are for seniors below certain income thresholds, where the relevant income does not include OAS or GIS payments. Currently that threshold is \$23,472 combined income for most married seniors and \$17,760 for single, widowed or divorced seniors. Payments are larger for those well below the threshold and are small for those just below the threshold. There are special rules if only one member of a couple is eligible for OAS as well as restrictions for sponsored immigrants and some immigrants who have been in Canada less than 10 years.