The Impacts of Increasing the OAS/GIS Eligibility Age on the Public and Public Services in Canada

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OAS/GIS Eligibility Age Change

- Starting in 2023, phased in over 6 years. Full implementation (67) by 2030.
- Federal election result on October 19 will dictate whether this policy will remain, or be undone.
- Both opposition parties vying for government have committed to repealing this initiative.
Rationale

- Longevity.
- Largest federal government expenditure (approximately $43 B in 2013).
- Pay-as-you-go-go program.
- Most developed countries have increased social security eligibility ages.
- But, Canada spends less (4.5% of GDP) than the average (7.4% of GDP) of 30 OECD countries on pensioners (Whitehouse, 2009). Our system is predominantly pre-funded.
- Policy not particularly well-rationalized, with little consultation or pre-2011 election discussion. Only ex-post fed-prov discussion.
Change in the Number of Years of Working Life of CPP Participants, 1978 to 2010

In 1978:
- Labour force entry age = 23
- Length of working life = 42 years (52% of total life)
- Retirement age = 65
- Life expectancy at retirement = 16 years

In 2010:
- Labour force entry age = 24
- Length of working life = 39 years (45% of total life)
- Retirement age = 63
- Life expectancy at retirement = 23 years

Sources: Office of the Chief Actuary of the Canada Pension Plan (January 2014).
Impacts

- On individuals.
- On government revenues.
- On other public services (health, housing, income supports).
- On community services.
Our Analysis

Based on:

- Economic, fiscal and social impacts derived from StatsCan SPSD/M modelling of OAS eligibility age changes.
- Conference Board Fed/Prov Fiscal Balances modelling.
- Parliamentary Budget Officer.
- Office of the Chief Actuary.
- BC Finance cross-government collaboration with other BC Ministries and other provincial Finance Ministries.
On Individuals

- Expected to reduce expenditures under the OAS program by between $11 and $12 billion, annually, once fully implemented in 2030. (OCA, PBO, BC Finance).

- Modelling indicates poverty among seniors will rise (StatsCan LIM), we estimate from 65,000 to 160,000 individuals, as a result of the change in the eligibility age of OAS. (Conference Board, Statistics Canada, BC Finance)

- We can only guess how people will respond, so we chose not to. No behavioural response assumption.
On Government Revenue

Direct

- A reduction in personal income of this magnitude would result in reduced federal income and consumption tax collections, but also allow for reduced debt servicing charges. The net impact is estimated to be an $11 billion addition to the annual federal surplus.

- Provincial and territorial revenue will be reduced by about $2 billion, primarily reflecting lower income and consumption tax collections.

- This loss in revenue is expected to be compounded by an increase in income-tested tax credits of about $70 million.

Indirect

- Nominal GDP is projected to be almost $7 billion lower as a consequence of this policy change. Corporate profits would also be $1.6 billion lower and there would be 18,000 fewer jobs. There will be some recurrent effects on federal and provincial taxation revenue sources determined from these economic measures (on top of the direct impacts).
The OAS change is expected to affect provincial and territorial program spending in areas such as income assistance; seniors’ benefits/assistance; residential care and housing subsidies; home health and community care; and prescription drug benefits.

Many of these programs are income/asset tested.

It will affect regions of the country differently depending on the structure of their programs and their demographic composition.

A preliminary search of provincial and territorial statutes suggests that direct and indirect references to the OAS/GIS program or Age 65 are deeply imbedded. Approximately 157 pieces of legislation and 298 regulations were identified in our search.
Most of these impacts we have not yet quantified in any substantive way. But we know that they will be affected.

- Food-banks.
- Seniors’ groups.
- Municipal services for seniors. Property Tax subsidies linked to age 65?
- Faith groups.
- Family support.
The Ripple Effect