

## PROPOSED CHANGES TO THE OLD AGE SECURITY (OAS) PROGRAM

### IN THE FEDERAL 2012-13 budget

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#### MROO's Position

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The Government of Canada 2012-13 Budget, delivered by Finance Minister Jim Flaherty on March 29, proposed two changes to the OAS Program.

1. The first change is a phased-in change in the age of eligibility from age 65 to 67. The change would begin on April 2023. The change would be gradually phased in over 5 years, so that by January 2029 people would have to be 67 years old to qualify for OAS.

So, the proposed change to the age of OAS/GIS eligibility will not affect anyone who is 54 years of age or older as of March 31, 2012. Thus, individuals who were born on March 31, 1958 or earlier will not be affected. Those who were born on or after February 1, 1962 will have an age of eligibility of 67. Those who were born between April 1, 1958 and January 31, 1962 will have an age of eligibility between 65 and 67.

The delay to age 67 is supposed to save money by reducing the number of years between the average person starting to receive the pension and the average person dying

The intent of the phase-in is to give people at least an 11 year warning so that they can plan their savings and their retirement in light of the later OAS income.

2. The second change is an incentive for people voluntarily to delay taking their OAS pension. This change would take effect immediately. If a person delayed until age 66, the OAS payment would increase by XXX %, and would increase by XXX % for every further year of delay up to age 70.

The intent of this change is to encourage people who choose to stay longer in the workforce, recognizing that retirement at age 65 is no longer mandatory. This OAS change mirrors changes to the CPP which came into effect in 2012.

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#### MROO's Position

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1. The Municipal Retirees Organization Ontario opposes the proposed change to extend the age of OAS eligibility until age 67.
  - Obviously if the change were to take place, the 11 year delay and the subsequent 5-year phase-in make sense. People start to think seriously

about retirement once they get to age 50 or so, and those now 50 will already be counting on OAS income at age 65

- However, this makes a mockery of the Government's alleged reason for needing to postpone OAS eligibility to age 67 - namely the impending retirement of the baby boom generation.
- The baby boom generation in Canada was born between 1947 and 1964. 1959 was the peak year for births. But the change would not affect anyone born before April 1958 and would not fully apply to anyone born before January 1962. **In other words, the baby boom is going to be almost entirely exempted. Most of the baby boom will start getting OAS payments at age 65 and will get it for the rest of their lives (as they expected).**
- The Government worries that the OAS, which is now a \$31 billion program in 2012, will be a \$108 billion program in 2030 (when the baby boom will all be over age 65). But the Government's proposed change will do very little to reduce payments to the baby boom generation. In fact it will shave as little as \$10 billion off that \$108 billion by 2030
- **Who will be hurt? People now younger than 54, our children and grandchildren.** But THEY are not the problem that the Government purports to be tackling. There aren't as many of them. As soon as the baby-boomers start to die off, the problem solves itself!
- The change does most harm to those who need the OAS most
- As the Government rightly says, people are living longer. When the OAS was first instituted in 1966, the average life expectancy was only 72. It is now 79 for men and 83 for women. And if you have already made it to age 65, chances are you will last longer than that 79 or 83. So, says the government, people should start working longer too.
- That may be fine for many people as they reach age 65. We all slow down but many office workers, administrators, teachers or salespeople can still put in a productive day's work.
- But tell that to the 64 year old construction operator, custodian, lineman, waitress, nurse, paramedic or personal support worker in our nursing homes. **We all know people whose aching backs, sore knees, and dwindling energy just barely get them to age 65. They can't wait to retire. Two more years? No thanks.**

- These are not wealthy people. The \$6800 per year from the OAS makes the difference whether they can afford to retire or not. The average CPP pension paid is less than \$7000, although the maximum is about \$12,000. 60% of Canadians have no workplace pension, and most lower-middle income Canadians have few private savings.
- **In other words, without the OAS, millions of people will not be able to stop working at age 65, and millions of those people will be Canadians who have worked hard all their lives and dearly need to be able to stop.**
- Unlike the CPP or a workplace pension such as OMERS, which require the returns on their own funds to sustain pension payments, the OAS is funded by our taxes. **The Government's insistence on saying that the OAS will not be "sustainable" is nonsense.** It will be a matter of federal government priorities...spend our tax money in 2023 on seniors or spend it on something else.
- As noted above, since people over the current age of 53 will not be affected by the Government's proposal, the people who will have to make this choice are those 53 and younger. Do we think that these younger Canadians would choose to deny themselves the opportunity to retire at age 65 if they need to?

**2. The Municipal Retirees Organization Ontario applauds the Government's proposal to allow people VOLUNTARILY to postpone receipt of their OAS pension up to age 70, in return for higher pension payments**

- The financial impact is "actuarially neutral". In other words, if a person lives the average age of death, he/she will have received as much in total OAS payments whether he/she had taken the OAS at age 65 or age 70
- Many Canadians have the kind of work where they can keep working later. The Government's proposal gives them that option, while not (on average) penalizing them for waiting to retire
- Seniors have skills that remain in demand. Economists are worried that the Canadian workforce will dwindle as baby-boomers retire, so that there is either no-one to do the work we need done.
- Like the 2012 changes to the CPP program, this optional OAS change provides incentives for those who want to keep working at age 65, and ensures that those who can't afford to stop working are not penalized

3. **The Municipal Retirees Organization Ontario is not opposed to sensible proposals whereby retirees do their share to help contain future public retirement program costs, provided that it does not penalize those who most need the government's help**
  - For example, the OAS program now provides for a so-called "claw-back": pensioners with an income over \$68,000 start to pay back some of the OAS payments they have received. At an annual income of \$108,000, pensioners pay back all the OAS they have received: they don't need the help.
  - One suggestion often heard is that the "clawback" should start at a lower annual income, such as the Yearly Maximum Pensionable Earnings figure (now about \$52,000) used to calculate CPP contributions. MROO would support further consideration of such alternatives. Simply put, the better-off we are, the less help we need from other taxpayers
  
4. **The Municipal Retirees Organization Ontario is very disappointed that the federal budget missed other opportunities to make retirement more sustainable.**
  - **The budget did not improve the protection of pensioners and pension plans when big companies go bankrupt.** Pensioners at the mercy of a bankruptcy by their former company receive little protection when the assets are being divided up.
  - **The budget did not expand Canada's universal and rock-solid pension plan, the CPP.** For most Canadians, the OAS and CPP are the only pensions they will ever have. This is particularly true for younger Canadians and those in the private sector for whom good employer-sponsored pension plans have disappeared. MROO is on record supporting a 60% expansion of CPP payments, with the 40% expansion of employee and employer contributions that would be required. For most of our children and grandchildren, there will be no better deal.
  - **The budget did not cap the management costs of their questionable Pooled Registered Pension Plans at the low levels that non-profit pension plans like OMERS can offer.** MROO is on record doubting that the Government's PRPP concept - being non-compulsory for either employees or employers and having no defined benefits - is the answer for our children's retirement income. At a minimum, however, the Government needs to ensure that the investment returns in these funds are not eaten up by bank and insurance company profit-taking.