**Think Like a Canadian Economist**

**Episode 10. Old Age Security and the GIS**

**Video Script**

Canada’s model for public pensions is relatively simple, at least at its core. Essentially, there are two parts: a pension that depends on your career earnings - that’s the Canada Pension Plan or Quebec Pension Plan, and a pension that depends on your income while retired – that’s the Old Age Security pension and related supplements. The government also supports private savings, largely with tax incentives.

At age 65, most Canadians qualify for Old Age Security Benefits. The amount you receive has nothing directly to do with your work history, only what your income is now. Most seniors receive the full benefit – $565 [$564.87] per month in September 2015. High-income seniors will see a smaller payment – for every taxable dollar an individual has over $72,809 the benefit is reduced by 15 cents. That means seniors will receive at least some OAS unless their income is nearly 118 thousand dollars. [$117,954].

Recently, some changes were introduced to the OAS pension. First, if you want to delay receiving your OAS you can, for up to 5 years, and in return you will get a higher monthly payment. Second, if you were born in 1958 or later, you can expect to start receiving OAS later – for those born 1963 or later the OAS is set to start at age 67.

For low-income seniors, we offer some extra benefits. Everyone who gets OAS can apply for the Guaranteed Income Supplement. As with the OAS, the amount you can receive does not depend on what you earned over your career. Your GIS amount depends on what you and your spouse’s income is in retirement.

In September 2015, a single senior over age 65 could receive up to $766 [$765.93] per month in GIS payments, and a married couple could receive up to $1016 [$1015.74].

This sets a floor – a single individual at age 65, at a minimum, has what OAS and GIS can offer – just over $1300 [$1330.80] per month.

For every dollar of taxable income, the benefit is reduced by 50 cents. We don’t count all taxable income here, however. Some earnings don’t count, nor does OAS. TFSA withdrawals aren’t taxable, so they don’t count either. Things like Canada Pension Plan payments or RRSP withdrawals will count as income and reduce GIS payments.

With the clawback of 50 cent on every dollar, a single person can have taxable income up to $17,136 (plus the income that doesn’t really count) and still receive some GIS benefits.

This 50% clawback is one part of the policy that economists tend to emphasize.

For instance, we worry about altering a person’s decision to work. The clawbacks are concerning as they affect a person’s marginal effective tax rate. Suppose you were over 65 and worked a little more, earning just one more dollar. On that dollar you might have to pay income tax, will lose some of your GIS benefits, and possibly other provincial benefits as well. What is your incentive to work? For a person who might have been happy to work a bit in retirement, it’s often just not worth it.

For that reason, we’ve exempted the first $3500 of earnings from GIS clawbacks, but beyond that the disincentives are clear.

We also consider how these clawbacks interact with other retirement income and our savings decisions. For example, if a person’s CPP benefits were increased, their GIS would be reduced. While some income from investments – such as TFSAs – will not affect GIS payments, other income – such as RRSP withdrawals – will. This distorts decisions about where to put savings and how to manage one’s portfolio.

The clawback rates, however, have a purpose – by targeting only the lowest income seniors, we can offer higher benefit rates. Balancing incentives with Canadian’s desire to help low-income seniors isn’t a simple task.

There are other benefits to consider at the federal level. If you’re between 60 and 64, but your spouse is over 65, or if you’re widowed, you may qualify for the Allowance, another low income supplement. These early benefits are not available to seniors who have never married or have divorced. OAS is prorated for your time as a Canadian resident, so we have some supplements available for recent immigrants to Canada. Many provinces also offer benefits to seniors to supplement federal programs.

Together these programs offer Canadians a minimum level of income security in their retirement. They’ve often been credited with reducing senior poverty rates in Canada [5.9%], which are among the lowest of OECD countries [13.5%, US 22.4%]. Our success doesn’t come cheap – about 15% of federal expenditures go toward OAS, GIS and other supplements for the elderly, or about 46 billion dollars in 2015.

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**SUGGESTED READING AND REFERENCES**

Current CPP payment amounts are published by Service Canada: <http://www.servicecanada.gc.ca/eng/services/pensions/cpp/payments/>

Current OAS and GIS amounts are published by Service Canada: <http://www.servicecanada.gc.ca/eng/services/pensions/oas/payments/index.shtml>

Program expenses are in many Department of Finance documents including the 2015 budget: <http://www.budget.gc.ca/2015/docs/plan/ch5-2-eng.html#Outlook_for_Program_Expenses>

Milligan, K. and T. Schirle. 2014. "Simulated Replacement Rates for CPP Reform Options." The School of Public Policy SPP Research Papers, Volume 7, Issue 7, March 2014.

Laurin, A., K. Milligan and T. Schirle. 2012. "Comparing nest eggs: how CPP reform affects retirement choices." C.D. Howe Institute Commentary No. 352, May 2012.

Milligan, K. and T. Schirle. 2008. "Improving the Labour Market Incentives in Canada's Public Pensions "  *Canadian Public Policy* Vol. 34, no.3 (September 2008) pp. 281-304.

Milligan, K. and T. Schirle. 2013. "The retirement income system and the risks faced by Canadian seniors." CLSRN Working Paper No. 120. April 2013.

*There are many measures that can be used to indicate senior poverty, the numbers cited in this video are from:*

OECD (2011), *Pensions at a Glance 2011: Retirement-income Systems in OECD and G20 Countries*, OECD Publishing, Paris.

DOI: <http://dx.doi.org/10.1787/pension_glance-2011-en>

See also: Schirle, T. 2013. "Senior poverty in Canada: A decomposition analysis." *Canadian Public Policy*, Vol. 39(4) 517-540.