

# Intelligence MEMOS



From: Bob Baldwin  
To: Pension Watchers  
Date: October 11, 2024  
Re: **PENSION BILL PARALYSIS PROVIDES USEFUL CHANCE FOR BROADER THINKING**

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With the members of the government, and notably all cabinet members, voting against Bill C-319, the Bloc bill to increase Old-age Security (OAS) benefits by 10 percent to those aged 65 to 74, it appears to be fully stalled in the House. It won't move further unless a minister changes their mind.

This makes it a good time for policymakers to reflect on the thrust of these changes as well as the role of the OAS and Guaranteed Income Supplement (GIS) programs within Canada's retirement income system.

The proposed OAS increase for younger seniors would equalize the benefit levels with those at 75. The annual cost has been estimated at \$3 billion. The bill also would amend GIS to permit low-income seniors to earn up to \$6,500 a year (up from \$5,000) without clawing back their benefits.

MPs and policymakers should assess the appropriate balance between the basic OAS and the GIS over the long term. Over the history of the two parts of OAS/GIS coexisting, GIS has received more increases in excess of price increases than has the basic OAS benefit. There were *ad hoc* increases in the GIS benefit in 1978, 1980, 1996 and 2006. In addition, the GIS was made more generous through the introduction of an enhanced GIS for immigrants and exempting relatively low levels of earnings from the GIS income test, along with other tweaks.

One advantage of preferring the GIS over OAS for enhancements is that a minimum income guarantee to Canada's older population can be made at a lower price tag than would be the case if the same guarantee was provided through the basic OAS benefit.

Despite its fiscal advantage, GIS has a major shortcoming. Specifically, it interacts with other components of the retirement income system and its clawbacks reduce advantages of other sources of income.

Studies have documented that people with low earnings [get little benefit](#) from their compulsory contributions to new additional CPP benefits thanks to the loss of GIS benefits and provincial top ups where they exist. The GIS also undermines the value of employment after age 65. Prior to 2008, any employment income meant a 50-cent-on-the-dollar GIS clawback. A \$5,000 exemption has since been introduced. The increase in the earnings exemption provides some welcome relief to the disincentive to take employment. It can also be viewed as a small recognition of a substantial problem with disincentive effects.

Shifting employment trends among older Canadians are an additional reason for looking at the relationship between OAS/GIS. Since the mid-1990s there has been a major increase in employment among those aged 65 to 70. Currently 30 percent of men and 20 percent of women in this age range are employed. Thus, a significant portion of the spending proposed under Bill C-319 will go to employed Canadians, who likely least need these funds.

With Bill C-319 stuck in the House, one hopes both the government and the opposition parties will take the opportunity to reflect on the OAS and GIS balance and on the interconnected nature of the many components of Canada's retirement income system. Unfortunately, many advocates on retirement income issues tend to promote compartmentalized program changes – like for OAS or GIS – without thinking through the impact on other components of the system. Generally, governments have been too willing to support these causes. Stalling on Bill C-319 may create an opportunity for useful reflection on the broader retirement income system.

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