

# Intelligence MEMOS



From: Alex Laurin and Nick Dahir

To: Canadian Policy Watchers

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Re: **EXPLORING ALTERNATIVES TO BILL C-319: HOW BEST TO SUPPORT CANADA'S SENIORS**

As the NDP ends its supply and confidence deal with the Liberal minority government, the Bloc Québécois has stepped in with an offer: they will support the government in exchange for implementing the proposals in Private Member's Bill C-319.

This bill aims to lower the age for the 10-percent Old Age Security (OAS) benefit top-up – from age 75 to 65 – and increase the employment or self-employment income exemption in determining Guaranteed Income Supplement (GIS) benefits from \$5,000 to \$6,500. Given the realities of a minority government, the Liberals may need to negotiate a compromise with the Bloc while being mindful of fiscal costs and concerns about intergenerational fairness.

And those costs are significant. According to the Parliamentary Budget Officer, this plan carries a hefty price tag – around \$3 billion annually, totalling over \$16 billion in the next five years. Our analysis, using the Social Policy Simulation Database and Model (SPSD/M) v30.2 – a sophisticated tax micro-simulation tool developed by Statistics Canada – also estimates an annual cost of approximately \$3 billion for these proposals.

However, there are [issues](#) with the OAS policy advocated by the Bloc. The poverty rate among seniors is already half that of non-elderly adults and five times lower than that of single non-elderly adults. Borrowing \$3-billion a year to fund a universal OAS top-up is not the only – or necessarily the best – way to help seniors.

The GIS is a more meaningful tool to meet the objectives underlying Bill C-319 – to better address the financial struggles of older Canadians. The GIS is a cash transfer targeted at lower-income seniors. A base amount – about \$1,086 per month for a single senior and \$1,308 per couple – is reduced by 50 cents for every additional dollar of taxable income (other than OAS).

For lower-income workers, this high clawback rate discourages saving for retirement while working. Their combined taxes and clawed-back GIS from their Canada Pension Plan (CPP) and private pension income typically [exceed](#) 60 percent of their pension incomes under \$20,000.

By lowering the GIS benefit reduction rate, we could provide more meaningful support and better-saving incentives to lower-income workers by allowing them to keep more of their tax-deferred retirement savings. For example, reducing the GIS reduction rate to 40 percent could be achieved at roughly the price tag as the proposals in Bill C-319.

Given the high cost of Bill C-319, which would add to the deficit, the government should also consider options to make any increase in senior supports revenue-neutral. One way to achieve that is by revisiting existing tax preferences available to seniors.

For instance, tax breaks like the pension income tax credit and pension income splitting apply to certain retirement incomes, including pension benefits, lifetime annuity income from registered savings plans, variable benefits from defined contribution plans, and RRIF withdrawals. These benefits are available to taxpayers aged 65 and over. However, there's an age exception for pensioners from defined benefit plans – they can claim these tax breaks from age 55 or younger. Generally, pensions from Registered Pension Plans (RPPs) can't be accessed before age 55 unless the RPP allows earlier access. This age exception is [unfair](#) and widens the divide between public-sector workers – most of whom receive defined benefit pensions – and those who do not.

The pension income splitting and the pension income credit mostly benefit mid- to high-income retirees. Pension income splitting, in particular, enables many pensioners to avoid the OAS clawback, which accounts for about one-third of its cost. Eliminating these two tax breaks would, coincidentally, save about \$3-billion annually, so their removal could fund the proposed GIS (or OAS) benefit enhancement.

The Liberal government, now without its deal with the NDP, faces the challenge of navigating a minority Parliament. How best to support Canada's seniors deserves serious debate. Compromise is inevitable, but governing responsibly should remain the priority. Bill C-319 offers one path, but it may not be the wisest.

*Alex Laurin is Vice President and Director of Research at the C.D. Howe Institute where Nick Dahir is a Research Officer.*

*To send a comment or leave feedback, email us at [blog@cdhowe.org](mailto:blog@cdhowe.org).*

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