INSTITUT C.D. HOWE INSTITUTE
Trusted Policy Intelligence | Conseils de politiques dignes de confiance

Intelligence MEMOS

January 9, 2026

From: John Stapleton
To: Retirement Policy Watchers
Re: Reforming Old Age Security Without Generational Conflict

The frustration animating **calls to reform** Old Age Security (OAS) is understandable. Younger Canadians face a housing market that feels rigged, tuition costs that have outpaced wages, and child-rearing expenses that strain family budgets.

On the facts, the generational comparison is real: Many baby boomers had an easier path into homeownership and post-secondary education than today's young adults.

But the debate goes wrong in prescribing blunt remedies – particularly proposals to sharply curtail or eliminate OAS for senior couples with gross incomes around $180,000 and redirect those funds to low-income seniors and younger Canadians. This has a Robin Hood appeal, but rests on a narrow reading of income, taxation, and the financial risks people face late in life.

OAS and the Guaranteed Income Supplement (GIS) are Canada's largest social programs, costing more than $80 billion annually and rising steadily as the population ages. As Ottawa enters a period of fiscal restraint alongside productivity-boosting investments, reviewing these programs is both reasonable and necessary. But framing reform as "young versus old" risks distracting from the program's policy objectives and the many other issues younger generations need addressed.

The first problem is how income is measured. Most reform proposals focus on gross income and ignore marginal effective tax rates. For many seniors, nearly every dollar received – OAS, CPP, and mandatory RRIF withdrawals – is fully taxable. Once income taxes, and the OAS/GIS clawback are combined, marginal rates can **exceed 100 percent**. Further up the income scale, marginal tax rates for seniors are commonly around 40 percent, meaning wealthier seniors only keep 60 cents on every dollar of pension income, on average , and this rises when OAS clawbacks kick in.

Consider a typical "target" household: Mortgage-free, debt-free, and seemingly comfortable on paper. Income taxes can easily become the single largest annual expense, exceeding housing upkeep or food. This is not extravagance; it is the arithmetic of aging in Canada. When withdrawals are unavoidable, such as the case with Registered Retirement Income Funds (RRIFs), the tax system drains cash precisely when flexibility matters most.

This leads to a second blind spot: Care risk. Contrary to popular belief, the cost of living does not flatten in later life – it steepens. Young adults tend to become more financially independent over time. Seniors often move in the opposite direction, sometimes abruptly, following a health shock that requires paid assistance or institutional care. These costs are only partially socialized in Canada and can reach hundreds of thousands of dollars a year. They arrive late in life, when employment income is gone and savings must be drawn down, sometimes at rates faster than many would prefer.

From this perspective, eliminating or sharply reducing OAS for middle-to-upper-income seniors does not simply trim "excess" support. It accelerates asset depletion in precisely the scenarios – advanced age, disability, cognitive decline – where individuals have the least ability to adjust. What looks painless at 70 can become catastrophic at 85.

A third misconception concerns the direction of generational transfers. Public debate often assumes a one-way flow from young to old. In reality, private transfers overwhelmingly move the other way: Parents help pay for education, down payments, childcare, and, eventually, pass on inheritances. These private transfers do not solve today's affordability crisis, but they complicate the idea that seniors as a group are insulated from the struggles of their children.

None of this denies that boomers, as a cohort, benefited from more favourable economic conditions. The error is to confuse cohort advantage with individual security. A couple with six-figure income in its early retirement years may still be one diagnosis away from financial free fall.

A more constructive approach to reform is available. It begins by measuring what actually matters: After-tax, after-clawback income and the marginal rates that shape behaviour. It means explicitly recognizing care risk and pooling it more fairly – through public insurance, vouchers for home care, capped out-of-pocket costs, or better integration of health and income supports. It means fixing the worst interactions in the tax system that penalize necessary withdrawals.

There are also genuine opportunities for fiscal savings that do not undermine late-life security. Gradually raising the age of OAS eligibility, as many peer countries have done, deserves serious debate – particularly if paired with strong GIS-style support at 65 for low-income seniors and fewer work disincentives for older Canadians who choose to remain employed.

Most importantly, investments that benefit younger generations, such as housing supply, childcare, education, productivity-enhancing infrastructure, should be funded through broad-based, growth-friendly measures.

Canada's retirement income system **performs well** by international standards. It keeps most seniors out of deep poverty and provides a predictable foundation for retirement planning.

We can address intergenerational inequities without pretending that taking away a basic pension from seniors who may face steep marginal taxes will make the system fairer.

John Stapleton is the new Social Policy, Ageing and Well-being Policy Fellow at the National Institute on Ageing. He is principal at his consultancy: Open Policy.

*To send a comment or leave feedback, click **here**.*

The views expressed here are those of the author. The C.D. Howe Institute does not take corporate positions on policy matters.