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Backgrounder

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Fixing the Seniors Benefit

by

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In his budget speech of February 24, 1998, Finance Minister Paul Martin said:

> In the months ahead, we will move on to the next stage in preserving our pension system. Legislation will be introduced to put in place the Seniors Benefit. … [s]eniors and other interested groups … have raised some very important points concerning the package that was first put forward in 1996. We have listened carefully. These are being given every consideration.

I hope so. While I believe that the Canadian retirement system is one of the world's best combinations of public and private responsibility for dealing with incomes for the elderly population, and while the Seniors Benefit (SB) program, proposed in 1996, has many desirable features, I also think the proposal needs some fixing.

Under the 1996 proposal, the Canadian Old Age Security (OAS), the Guaranteed Income Supplement (GIS), certain age and pension allowances and other related provisions would be replaced by the SB.

On the whole, the fundamental design features of the SB are commendable. They would protect — indeed, slightly improve — benefits to Canadian seniors who have little other income and reduce benefits to those who have middle and higher incomes. The most important problem to be fixed arises from the taxbacks that would by triggered by any other income a senior received, even benefits from the Canada or Quebec Pension Plan (CPP / QPP), and compounded by the incremental personal income tax (PIT) that would apply to that income. For many, the marginal taxbacks would be in the 40, 50, or even 60 percent range — rates so high as to lead to widespread perverse effects on saving, work, preparation for old age, personal financial management, and tax avoidance.

Thus, I propose scaling down the taxbacks while maintaining the basic (maximum) benefits.

As a result the projected savings from the conversion from the OAS / GIS programs to the SB would be smaller than projected in the 1996 package.

My proposal would not reduce the tax burden of Canadian seniors in the future. Rather, it would ease what would otherwise have been an increased fiscal burden on Canadian seniors of average or upper-middle incomes (the source of the federal government's projected savings from the changeover). Many other recent changes in Canada's tax-transfer arrangements have worked in the opposite direction — that is, they have increased the relative burden on middle and upper-middle income Canadians.

What follows is a development of my argument.

Background

Beginning with the federal budget of 1996, Ottawa has made or proposed changes to every part of Canada's retirement income system. Tax allowances for contributions to registered pension plans (RPPs) and registered retirement savings plans (RRSPs) have been reduced, and, with some exceptions, their use has been restricted. CPP / QPP benefits are being slightly reduced, while the contributions base and rates are being increased significantly, transforming the government pension plans from essentially pay-as-you-go schemes to a partially funded basis. And the proposed SB would maintain — or slightly increase — benefits for low-income seniors, but reduce them sharply for individuals and couples with retirement incomes only a little larger than average employment incomes.

These complex changes to Canada's retirement income system were intended to improve its sustainability in the face of adverse trends in Canada's demographic, economic, social, and fiscal prospects. The coming sharp increase in the ratio of seniors to workers, the unfavorable relationship of real interest rates and output growth, and the overcommitment of the country's public finances threatened the longer-run capacity and acceptability of the retirement income system.

In addition to these general forces, the finances of some parts of the system, such as the CPP, were in more immediate distress. Public confidence in the viability of the system had eroded. So too had the sense of fairness about the governmental parts of Canada's mixed public-private retirement income system. This is not the place to revisit these overarching forces and issues, but they have to be kept in mind as context for the SB issues that are my immediate concern here. (My thinking on the overall subject was set out in an article in the fall 1995 issue of *Canadian Business Economics*.)

Two motives have driven the proposed conversion from the OAS / GIS and related programs to the SB. One is to reduce (or, at least, slow the growth rate of) the net fiscal burden on government of transfers and assistance to seniors. The other motive is to change the structure of the system so that it is more based on needs, as indicated by family rather than individual incomes (and, along the way, to correct some specific inequities and anomalies in the programs), continuing the transformation of the Canadian retirement income system to a needs-tested basis that was begun by the previous Conservative government, and continued under successive Liberal governments.

The central feature of the 1996 SB proposals would slightly improve income benefits for future seniors who have no or little other retirement taxable income or wealth, and reduce benefits for those who do have other income. The severity of the reductions would depend on families' (couples') amounts of other income. In aggregate, the gains of the winners would be less than the losses of the losers, so that the changeover from the OAS / GIS and related programs would reduce the net fiscal burden on the federal government.

The Fiscal Argument

Though enormous public support has long existed for Canada's OAS / GIS and related programs, both fiscal and structural pressures for change emerged by the mid-1990s. The federal government's deficit and debt prospects led to widespread reductions in program expenditures (or, at least, reductions in their growth rate). Although reductions were selective, rather than across-the board, virtually no programs were exempt.

Thus, government expenditure on the elderly remained a candidate for scaling back. In assessing priorities, ministers considered that spending to be among the country's most generous social programs. While government support of seniors was widely regarded as one of the great successes of postwar Canadian social policy, many people argued that it would still be a success even with modest reductions of benefits to some individuals.

An important factor affecting the fiscal constraints on the OAS/GIS program and its possible successors was the prospect of an exceptionally rapid expansion of the seniors' population beginning about 2010 and continuing for at least two decades, due to the echo of the baby boom of the 1950s to 1970s. Without the introduction of some restraint on the elderly benefits that are financed out of general revenue, an explosive increase in total spending on such programs was in prospect. Planners considered it important to control the growth of this spending well before the deluge, so that people would know what they could count on in their old age and what taxpayers would have to finance.[1]

The Structural Arguments

Even without the fiscal pressure for changes to the OAS/GIS programs, a number of specific structural faults needed attention. The challenge was to deal with them, and with expenditure constraint in a comprehensive package. Instead of marginal adjustments to the programs, the policy problems pointed toward a redesign. The SB, to begin in 2001, is the proposed response.

Following is a catalogue of the problems the proposed program is designed to allievate.

First, middle-upper- and upper-income Canadians have been drawing benefits from the system to an extent that is considered inequitable, even after the OAS clawback and the income qualification for the age credit in the PIT.

This inequity is compounded by the fact that although GIS benefits are based on family income, OAS benefits depend on individual income. As a result many spouses within fairly high-income couples are drawing OAS benefits that seem unfairly large. For instance, even if one spouse receives income of $100,000 or more, the other half of the couple is permitted to receive full OAS benefits unless his or her own retirement income exceeds about $53,000.

Second, many elderly Canadians who have no assets and no income other than their OAS/GIS benefits are in dire straits. Many well-respected social policy workers consider the OAS and related programs for seniors, together with the welfare system, inadequate, particularly for frail widows living in large urban centers.

Third, the PIT system contains complex and anomalous provisions regarding age and pension income, which are hand-me-downs from different historical circumstances. The provisions are regarded as neither efficient nor fair — and moreover, as a complicated nuisance in the PIT system.

Fourth, the Canadian PIT system requires tax payments from seniors and others who have astonishingly low incomes. Under the OAS, many low-income persons draw benefits that are taxable and thus pay PIT on them as well as on other elements of their low incomes. This churning — payment of OAS benefits and collections of tax on them — seems to many people to be stupid and inefficient. On the other side of the argument, however, if the tax system is to be used as a vehicle for social policy, there is merit in having broad participation in it, even if some churning is involved.

Difficult issues arise, however, concerning the equity and incentive effects of incometested social programs and their interaction with the tax system. For instance, to provide a specific level of net benefits from the gross OAS payments, which are taxable, the initial benefit rates have to be large enough to take account of the tax they induce.

Finally, the inflation indexing of the OAS/GIS system and of the PIT system are complex and difficult to understand and apply. But the indexing provisions of the public pensions and the PIT tend to raise the public pension benefits by less than the increase in the tax base. Benefits that are indexed by the CPI grow less quickly than the tax base, which reflects increases in nominal wage rates. And the PIT itself is only partially indexed, which introduces "bracket creep," increasing effective tax rates for all classes of taxpayers, other things being unchanged.

Some of these indexing effects, which affect the governments' fiscal burdens of social programs, appear to be both subtle and deliberate.[2] At least, the indexing provisions of the OAS and its successors deserve careful examination and evaluation.

The Seniors Benefit Package

Under the proposed SB, Canadians age 65 and over would receive tax-free benefits instead of taxable OAS benefits (and the tax-free GIS benefits they might have been eligible for). The SB benefits would be based on a couple's income, rather than an individual's. The age and pension allowances and the nonrefundable tax credit would be eliminated for everybody. Grandparenting provisions would enable individuals who are now drawing benefits from the old program or who become eligible to draw them in the near future to opt to continue under that program if it is to their advantage to do so.

The maximum tax-free benefits for the SB would be $11,420 for single persons and $18,440 in 2001 for senior couples with no other income.

After individuals begin to receive SBs, their benefits would be indexed for future increases in the CPI. The benefit amounts would be scaled down for recipients who have other income. For a single senior, the maximum benefit would be reduced by 50 cents for each dollar of taxable income up to $12,520. The benefit would be fixed at $5,160 (no clawback) for taxable income between $12,520 and $25,921. It would be reduced by 20 cents for each dollar of income in excess of $25,921 until it was totally eliminated at $51,720. Comparable scales of losses of SB benefits would apply for couples, contingent on the other income both spouses received.

The net benefits for individuals and couples who have no other taxable income or wealth would be slightly larger than those under the OAS/GIS programs. However, the income-contingent loss of benefits under the SB would be much more severe. Under the OAS, the clawback of benefits starts for other taxable income in excess of about $53,000, whereas, for individuals under the SB, income-contingent reductions of benefits would begin with the first dollar of income over $25,921. No benefits would be received if income exceeded about $51,720. The current clawback rate for the OAS is 15 perent (effectively less when the PIT effects were taken into account); for at least half of Canada's future seniors, the proposed scaling down of SBs would be 20 percent.

As clearly acknowledged in the Department of Finance's *The Seniors Benefit: Securing the Future*, over time, the losers from the introduction of the new program would lose more than the winners gain in total, so that the federal government should achieve a net saving. Thus, given the proposed benefits and their clawbacks, the PIT as it existed in 1996, and projected income and demographic trends in Canada, planners expect a reduction in the fiscal burden of the first-tier program of the Canadian retirement income system (see Table 1).

Table 1: *Changes in Net Federal Costs Due to Replacement of OAS/GIS System by SB*

	1996	2001	2011	2030	Compound Growth Rates 2001-11	2011-30
		(billions of dollars)			*(percent)*	
Net cost Current system	20.8	24.7	34.4	77.3	3.37	2.83
New system	—	24.5	32.3	69.7	2.80	2.69
Net saving	—	0.2	2.1	8.2	—	—
		(percentage of program costs)				
		0.7	5.7	10.7	—	—

Source: Canada, Department of Finance, *The Seniors Benefit, Securing the Future* (Ottawa, March 6, 1996), p. 34

Evaluation of the Proposed Changeover to the SB

As already noted, many features of the SB proposals are desirable. They including the adequacy and fairness of the basic benefits, the existence of a clawback, the family basis, the age and pension allowances, and the principle of grandparenting of the OAS / GIS. The major problems come from the high taxback.

The Acceptable Proposals

The basic (maximum) benefits and the principle of scaling down benefits to better-off seniors are acceptable. The basic benefits, which would go to individuals or members of couples who have no other taxable income, essentially mimic those that have existed in the OAS / GIS program for many years.

In a national program that does not take account of ownership of houses, consumer durables, nontaxable wealth and differing needs and geographical location, the benefits are inevitably more than adequate for some seniors and less so for others. If the benefits were set higher, to cover more situations of need, the program would be expensive — and too generous for persons with minimal needs. If the benefits were set too low, more seniors would have to have help from other programs, such as the social welfare system and / or social housing.

Recognizing that most health care costs for seniors are covered by the health insurance system and that the experience of OAS / GIS benefits and the existing social welfare system has been rough-and-ready but generally successful, I believe the basic benefits proposed for the SB are defensible.

Some people argue for reducing the basic tax-free SB, saying that the outcomes would be unfairly better than those of average workers *after taxes*. Persons who earn low or average wages do indeed pay large amounts of income and payroll taxes and have to meet considerable employment expenses; seniors with little income than the SB would will pay no income or payroll taxes and probably have no employment expenses. In my opinion, this is not an argument for reducing the basic seniors benefit but rather a compelling case for reducing the taxation of low-income Canadians in every walk of life.

Basing SB benefits on family (couples') income, rather than or individual income, would improve the overall fairness of the system. It is difficult to defend using taxpayers money to make transfers to spouses who receive considerable income within well-off families, as now occurs under the OAS.

Cleaning out the age and pension allowances from the PIT's nonrefundable tax credit is also highly desirable. If the arguments for those allowances have any merit, they could be responded to within the main structure of the pension and tax systems.

While I agree with the principle of grandparenting, the proposed provisions for and soon-to-be OAS recipients are, however, too generous. They would create huge inequities between persons whose sixty-fifth birthday falls just before and just after the option date. Canadians who have retired recently or will retire soon would receive payments from the public pension system that would be overgenerous compared to those received by their slightly younger compatriots. It is hard to defend the continuation of such treatment for many more years.

The Taxback Problem

While some scaling down of benefits to better-off seniors is defensible, the specific SB clawback proposals are seriously flawed. I have consistently defended the clawback in the OAS program, but that was a pale shadow of what is proposed for the SB. To increase the maximum tax-free benefits and make the clawback more severe, as some advocates argue, would lead to even more flawed outcomes.

Under the 1996 proposals, over a broad range of income classes, any increment of taxable income may result in reductions of SB benefits *and* add an increment of PIT obligations to the federal and provincial governments. The most obvious source of such income would be from supplemental retirement savings programs. Since the public programs (SB and CPP / QPP) do not — and are not intended to — replace a high proportion of preretirement income for the majority of Canadian seniors, the maintenance of living standards requires other income. RPPs and RRSPs are major elements in the preparation for retirement. But income from such programs would trigger the taxbacks under the SB proposals. So would any other pension income, including CPP / QPP benefits.

Retirement savings are not the whole story, however. A person age 65 or older who earns taxable income from part-time work would also trigger the taxback. Although few Canadians age 70 or more report earned income, a substantial number between the ages of 65 and 69 now do so. Other considerations suggest that encouraging more over-65s to work and earn some income would be a highly desirable development in Canada. (The C.D. Howe Institute recently published an extensive discussion of flexible retirement by Morley Gunderson.[4])

A simple example points to the seriousness of the taxbacks. Given both the loss of SB benefits and the increased income tax that would arise as individuals or couples receive income other than the SB, the proposed treatment of Canadian seniors with other income is severe. The first $1,000 of other taxable income would lead to a reduction of SB by $500, as well as an increment of PIT (which for very low incomes might be offset by non-refundable credits). Higher up the income scale, a single woman who turned 65 in 2002 and had other income of $28,000 that year (well below the average wage at that time) would receive a SB of $4,750. If she had engaged in a retirement saving program during her working life and had $1,000 more of other income on retirement, she would lose $200 of her SB and pay $240 more income tax, a combined taxback of $440 — which would represent a marginal rate of 44 percent. If the $1,000 extra income arose from part-time work instead of retirement savings, the results

Table 2: *Income and Benefits, Individuals in 2002*

		Gross Income after Retirement						Replacement Rate		
Income before Retirement	RRSP Contribution Rate	CPP	Annuity	SB	Total	PIT[a]	Net Income after Tax	Before Tax Basis	After Tax Basis[b]	Gross Tax-back[c]
($)	(%)	($)	($)	($)	($)	($)	($)	(%)	(%)	(%)
20,250	1	5,081	1,429	6,510	14,675	130	14,545	73.2	89.9	59.3
40,100	1	10,173	3,573	5,160	18,906	1,975	16,931	47.1	51.3	58.7
	3	10,173	10,719	5,160	26,052	3,798	22,254	65.0	73.7	25.5
	6	10,173	21,440	4,027	35,640	6,804	28,836	88.9	96.8	53.1
60,150	1	10,173	5,360	5,160	20,693	2,431	18,262	32.1	44.5	42.7
	3	10,173	16,085	5,098	31,356	5,166	26,190	52.1	64.9	26.7
	6	10,173	32,155	1,885	44,213	10,729	33,484	73.5	85.5	60.1

Assumptions:
- Average earned income and year's maximum pensionable earnings for the CPP = $40,100 in 2001.
- The 1996 federal and Ontario Tax schedules continue to be applicable. (The 1996 Ontario rates are more representative of cross-country experience than their more recent counterparts would be.)
- CPP contribution at the rates now projected for 2001.
- Individuals made RRSP contributions during their working lives at the indicated rates of the gross income. At age 66 they converted their RRSP programs to lifetime-certain annuities (I estimated the resulting income conservatively).
- Replace ratios calculated as income at age 66 as a percentage of income at age 65.

a Federal + provincial (as indicated above) but not including surtaxes.

b After taxes and CPP and RRSP contributions.

c Percentage of increment of annuity deducted due to lose of SB and increase in PIT.

Source: Author's calculations. The detailed explanations of the calculations are available in my Technical Paper which will be made available on request.

would be essentially the same: a taxback of 44 percent, made up of a loss of SB of 20 percent and a marginal income tax of 24 percent (17 percent federal plus 7 percent provincial).

Similar high combined high taxbacks would apply to senior couples who had some other income.

Some Illustrative Numbers

The outcome of the new arrangements for the retirement income system depends on the size and forms of income, on single or family status, and on whether the individual saves for retirement income beyond what government programs provide. Table 2 captures the different factors that would affect the outcomes for various typical cases for Ontarians who participate in the SB, the CPP, and an RRSP saving program. (Many combinations are possible, but the cases selected illustrate the application of the important principles linking income, savings taxation, and pensions.)

In constructing the table, I assumed the individuals in the examples had various income levels and lifetime savings efforts, but all worked at their average lifetime earning levels through 2001 and retired at age 65 in 2002, one year after the proposed SB starts. Replacement ratios were calculated as the income at age 66 as a percentage of the income at age 65. Further explanations appear below Table 2.

Table 2 demonstrates several important features of the integrated retirement income system, including the proposed SB. First, comparison between individuals who earned half versus one times the year's maximum pensionable earning (YMPE) shows that the resulting increment in CPP benefits would reduce the SB as well as increase the PIT. A larger wage during working life leads to a larger CPP benefit as a senior; for a given RRSP contribution rate (say 1 percent of gross income) a larger wage also results in a larger RRSP annuity as a senior. Both of these increments of other income would result in a reduction of the SB and an increase in PIT. For the lowest-income individual in the table, the combined taxback effects are 59.3 percent. In other words, nearly 60 percent of the increment of CPP and RRSP annuity would be lost by the combined effects of reductions of the SB and increase in PIT.

Second, the replacement ratios for retirement income are universally higher on an after-tax basis than on a before-tax basis. For example, a person whose preretirement income was $40,100 in 2001 and who had contributed 1 percent of gross income to an RRSP program would have a 47.1 percent before-tax replacement ratio but a 51.3 percent after-tax ratio under the assumptions used for the illustrations.

A third conclusion is that, over a wide range of other income, an increment of such income would result in both a reduction of the SB benefits and an increase in PIT, the two together being the overall taxback. For example, a person who earned at the YMPE rate for 2001 (an estimated $40,100), and contributed 6 percent, rather than 5 percent, to an RRSP program would receive no additional CPP (already at the maximum) but would receive a gross increment to the RRSP annuity of $3,573 (the increment due to a 1 percent larger RRSP contribution). After the loss of SB and an increase in PIT, however, the net income increment would be only $1,674.

Fourth, the larger the participation in RRSP or comparable programs while working, the larger could be the retirement income, gross and net. But — a caution worth repeating — whether the participation was worthwhile would depend on the rate tof return of the savings and on the effect of he incremental income on SB benefits and on PIT due. For example, in the table, an individual who earned the average wage and contributed to an RRSP program at 6 percent of gross income would experience a taxback at the margin of 53.1 percent, so he will retain only 46.9 percent of the incremental earnings the program. If that RRSP returned 6 percent before tax, it would yield only 2.8 percent after taking account of the taxback.

The outcome would be quantitatively different for an RPP, for different portfolio mixes in an RRSP or for savings outside a tax shelter. But the general principle is that, over a wide range of income, any increment of outside income during retirement would reduce the SB and increase the PIT. That robust conclusion holds for virtually all available savings programs.

Fifth, given the broad steps in the SB and PIT schedules, some sections of the gross taxback rate are flat: that is, it is constant (in the example, at 25.5 percent) over a range of income increments. For very low incomes, however, the gross taxback rates on outside income are high (nearly 60 percent). They are somewhat lower for individuals who have outside income of about $26,000 to $50,000 but higher again (60-70 percent) for larger incomes.

Two final notes. Although the table is based on the incremental taxable income arising from a preretirement saving program, the same scale of taxbacks would arise for income earned after age 65, though the replacement ratios would be slightly different due to the inclusion (or exclusion) of preretirement savings programs on the tax bill. Similarly, although I worked out the illustrations for individuals, the same general conclusions would apply to couples.

Probable Effects of the High Taxbacks

What are the probable effects of the high taxbacks for Canadians with low, average, and upper-middle incomes?

The most serious effect would be to discourage savings for retirement income over and beyond that provided by the governmental programs. After-taxback returns from such savings would be reduced by at least 25 percent and in many instances by more than 40 or even 60 percent. A savings program for retirement that would have yielded an after-tax return of 8.0 percent would have an after-taxback return of no more than 6.0 percent; for many people, it would be about 4.8 percent, and for some, 3.2 percent. Comparable degrees of reduction would apply to any other before-taxback rate of investment return. And recall that the reduced limits on tax-sheltered retirement savings programs introduced in 1996 will probably reduce rates of personal and national saving, quite apart from the effects of the taxbacks under the SB.[5]

Long before the SB was proposed, tax-sheltered savings vehicles were well known as advantageous forms of saving for retirement if contributed to early and held for a long time. It was also known, though not so well, that they are of doubtful value unless they are contributed to and held for long periods of time. The literature demonstrates, for example, that a contribution to a tax-sheltered savings program at age 63 or 64 will almost certainly result in a loss of capital, even taking account of the tax saving and the sheltering of income. But, as Robertson and Archibald show,[6] the high taxbacks under the proposed SB would worsen significantly the returns from tax-sheltered retirement savings vehicles, unless they had been held for a longer time and were earning high rates of sheltered income. Thus, a probable outcome from the taxbacks would be major changes in the forms in which retirement income saving takes place.

The taxbacks would also make earnings from work less attractive for over-65s because they would reduce the individual's SB benefit. This effect would be highly perverse. It is in the interest of many Canadians and of the country as a whole to encourage seniors to make some contribution to their own and the economy's production and income, especially in view of the prospect of huge increases in the population's proportion of vigorous over-65s in years ahead.

Another effect is a bit more speculative — but only a bit. Senior Canadians' use of both legal and illegal means of avoiding income becoming taxable is likely to increase. Many possibilities exist. For a few years after reaching age 65, individuals can postpone drawing on their CPP and RRSP and thus avoid having the income appear immediately as taxable income, which would reduce their SBs. Individuals can also use reverse mortgages, which are a return of capital, not taxable income, as a way of maintaining expenditure in retirement. They can live on borrowed money. Before or after retirement, they can work out transfers with their children that will keep some resources out of their own taxable income. And they can transform their assets into forms that provide no immediate income but capital gains instead, taxable on realization.

In brief, the SB as proposed would greatly increase the incentives to keep postretirement earnings out of the visiblity of the tax system. Taxbacks of 40, 50, or 60 percent simply provide too much of an incentive for tax avoidance. And every year, Canadians would be reminded of those high taxbacks as they completed their self-declaratory PIT returns.

It would be harmful enough if these perverse outcomes were confined to upper-middle-income Canadians, but in fact they would apply to people of rather modest circumstances, those who had relatively low or average incomes during their working lives.

Conclusions

The case for reducing the taxbacks in the proposed SB program is overwhelmingly strong.

Given that one of the federal government's reasons for proposing the SB was budgetary, planners might be tempted to finance more reasonable taxbacks by reducing benefit levels overall. But that solution seems grossly inequitable because it would lower the benefits for the least well-off seniors.

Instead, I propose that the federal government simply accept some reduction in its hoped-for saving. The expected savings from the 1996 proposals (a projected $8 billion for 2030) would have arisen from reductions of benefits and increases of taxes on seniors with incomes only a little less or more than the projected average wage by 2001. My proposal would not increase the net transfer to these seniors. Rather, it would reduce their loss of benefits and the increases in taxes that the SB would have imposed.

The federal government's need for future reduction of net benefits to seniors is less pressing now than it was in 1996. Thus, there is some room for reducing the proposed taxbacks of the SB.

The case for reductions of personal income taxation, particularly for low-income Canadians remains strong, but such changes should take into account all taxpayers, not just seniors. Of course, broadly applicable reductions in the PIT would incidentally help to reduce the combined taxbacks of a SB program. However such incidental effects would not go to the heart of the taxback problems of the 1996 proposals. Those problems have to be dealt with by scaling down the losses of SB benefits that are contingent on the other taxable income of seniors.

Notes

1 Because of the way the OAS program and the tax system deal with indexing, a measure of restraint is already built in. Once individuals start drawing OAS benefits, they are indexed by the consumer price index (CPI). The government's revenue base is, however, driven largely by the growth of wages and salaries, which usually exceeds the increase in the CPI by about 1 percent a year. Moreover, indexing in the PIT system kicks in only for CPI increases of more than 3 percent in a year. Even allowing for an upward bias in the CPI measurement, the combined effects of these indexing provisions tend to ease the burden of the OAS on the government.

2 See note 1.

3 See Canadian Association of Pension Management, *Retirement Income Strategy for Canada: Creating the Best Retirement Income System in the World* (Toronto: Canadian Association of Pension Management, 1997).

4 Morley Gunderson, *Flexible Retirement as an Alternative to 65 and Out*, C.D. Howe Institute Commentary 106 (Toronto: C.D. Howe Institute, May 1998).

5 See David W. Slater, *The Pension Squeeze: The Impact of the March 1996 Federal Budget*, C.D. Howe Institute *Commentary* 87 (Toronto: C.D. Howe Institute, February 1997).

6 Darroch Robertson and T. Ross Archibald, "Are RRSPs Beneficial to All?," *Canadian Investment Review*, Spring 1998, p. 27.

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