Intelligence MEMOS

From: William B.P. Robson, Colin Busby, and Aaron Jacobs

To: Bill Morneau, Minister of Finance

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Re: **Tax Hikes Loom as Aging Boomers Break the Bank**

Canada's greying workforce spells big fiscal trouble for future taxpayers. Demographic change is squeezing government budgets – increasing the costs of public programs and eroding the tax base as the growth in the number of traditional working-age people flatlines.

In our C.D. Howe Institute report this week we estimate the future costs of demographically sensitive programs – including healthcare, seniors benefits, education, and child benefits – as well as the future growth of the tax base. With slow workforce growth holding the economy back, the total tab for these programs will rise from 15.5 percent of GDP today to 24.2 percent by 2066. In dollar terms, the present value of the unfunded liability for age-related social spending – amounts to $4.5 trillion.

If Canadians stayed in the workforce longer – and improvements in health and longevity suggest many will be willing and able to do so – their contributions to output and taxes would mitigate the fiscal squeeze. Here are three ways to encourage longer working life.

- First, the federal government should restore the previously scheduled increase in the normal age of Old-Age Security eligibility to age 67. The commitment to cancel that increase never made sense: other countries are raising their standard ages for social security payments, and the federal government's own Advisory Council on Economic Growth has recently reinforced that message. It is true that a single age of receipt does not fit all potentially recipients, but people can already choose to take an augmented OAS payment later than the standard age, and adding an option for earlier receipt of a reduced amount – as with the Canada and Quebec Pension Plans – would improve the initiative.

- Second, actuarial adjustments to benefits payable under OAS and CPP need to stay up to date, to ensure that the rewards for delaying payment and continuing to work after the age when people could first commence receipt is appropriate to changing demography.

- Third, and more generally, other age-related rules also need updating. For example, restrictions on retirement saving after a given age and requirements to start drawing retirement income can affect decisions about when to retire. The federal government's own pension plans need constant attention. A key example affecting Canadians more generally is the requirement for RRSP savers to stop saving and start drawing down at 71. Abolishing that limit would make sense; failing that, it should rise immediately and continue to rise with longevity.

The effect of longer work-life on the tax base will not eliminate the fiscal pressures of that demographic change. But an increase of two years in the average age of retirement over the next decade would reduce the unfunded liability of demographically sensitive programs by $600 billion, and a further increase of two years over another decade would reduce it by another $600 billion. The sustainability of publicly funded healthcare, and the budgets of all Canadian governments, depends on your leadership in this area.

William B. P. Robson is president and CEO of the C.D. Howe Institute, Colin Busby is Associate Director of Research, and Aaron Jacobs is a researcher.

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