REFORMING OLD AGE SECURITY: EFFECTS AND ALTERNATIVES

CIRANO note based on a report written by Nicholas-James Clavet,
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The federal government announced in its 2012 budget its intention to increase the age of eligibility for Old Age Security (OAS) and the Guaranteed Income Supplement (GIS) from 65 to 67 years. Starting in 2023, the age to qualify for OAS and GIS payments would be pushed back by 4 months annually to reach 67 years of age by 2030. This note analyses the effects that this increase is likely to have on federal and provincial public finances as well as on poverty among seniors.

The Office of the Chief Actuary (OCA) uses demographic forecasts and extrapolates past tendencies to predict the resulting decreases in OAS ans GIS payments in upcoming decades. This paper's goal is to supplement this using a microeconomic approach that can estimate the direct and indirect effects of the reform on public finances as well as on household incomes.

The calculations are made using the dynamic microsimulation model of the Chaire de recherche Industrielle Alliance sur les enjeux économiques des changements démographiques (see www.cedia.ca). Dynamic microsimulation models are used in many countries to predict long run distributions of incomes as functions of changing household characteristics.

The model simulates demographic, economic and fiscal evolution with regard to the population of Quebec up to 2030. The model can also predict the long-term effects of fiscal reforms, accounting for anticipated demographic changes and the evolution of income distribution, personal income taxes and social transfers.

The dynamic microsimulation model allows us to predict the effect of the OAS reform announced by the Government of Canada on federal and provincial public finances.

It accounts simultaneously for predicted demographic changes, the income distribution, income taxes and social transfers. Thus, it allows us to estimates not only the direct effects of the reform (decreases in OAS and GIS payments), but also the effects of the reform on personal incomes and taxes as well as on provincial and federal social transfers.

By the time the policy is fully implemented (i.e., in 2030), this increase in the age of eligibility will have increased net revenues of the federal government by 7.1 billion dollars per year (in constant 2014 dollars), but will have reduced net provincial revenues by 638 million dollars. With constant labour and savings behaviour, this delay would also increase the percentage of individuals aged 65 and 66 years who are in the low income group from 6% to 17% (for an additional 100,000 low-income seniors in this age group) and would be most harmful to low-income seniors and to women. Alternative reforms to the Old Age Security could make it possible to achieve similar effects on public finances without having such large impacts on the low income rate among seniors.

The full study is available on CIRANO's Website at: :

http://www.cirano.qc.ca/pdf/publication/2015s-11.pdf