My name is Walter Kelm, and I am a retired government economist. Two of the positions I held during my 36 year federal public service career were those of Director of Planning & Development for the Canada Pension Plan, and Director of Pensions & Benefits for the Treasury Board of Canada. Also, in 1998 my wife and I were awarded lifetime CARP memberships.

In the last couple of weeks I have mailed copies of the following items to the Heads of CARP Chapters for whom I have postal addresses:

1. An October 23, 1998 letter from Lillian Morgenthau awarding my wife and me with lifetime CARP memberships.

2. An April 16, 2012 letter to Diane Finley challenging the key statements and claims she has been making about the Harper Government proposals for changing the OAS/GIS program.

3. An analysis I made in 2004 on the future effects the boomer generation will have on Canada's retirement income system.

My daughter tells me that by using her scanner and computer I could get copies of this material to the Heads of CARP Chapters for whom I don't have postal addresses. I am not computer savvy, but my daughter is, and so I'm prepared to follow her advice in this matter.

If any of this stuff gets through to you, feel free to circulate or e-mail any parts of it as widely as you see fit.

Walter Kelm

CANADIAN ASSOCIATION OF RETIRED PERSONS

October 23, 1998

Walter Kelm
209 Eardley Road
RR1
Aylmer, Quebec
J9H 5C9

Dear Walter,

On behalf of the Canadian Association of Retired Persons' Board, staff and membership, I would like to express our deep gratitude for the comprehensive research, analysis and projections you provided for what are now nationally know as CARP's Kelm Papers I and II. Your contribution enabled the CARP team to wage a battle against the Seniors Benefit, and analyse the entire pension system in a practical and constructive way. CARP spearheaded a national debate on the issue and obviously Ottawa took our stance very seriously which resulted in their decision to scrap their flawed proposal.

Please accept a lifetime CARP membership for you and Mrs. Kelm as a token of our appreciation. We look forward to collaborating with you on many more projects that affect the welfare and rights of Canadian seniors.

With best wishes,

Sincerely,

Lillian Morgenthau
President

Walter Kelm
6 Meadowmist Crt
Stittsville ON K2S 1B9
April 16, 2012

Hon Diane Finley, MP
Minister of Human Resources and
Skills Development
House of Commons
Ottawa ON K1A 0A6

Dear Ms Fiinley

The purpose of this letter is to get some data and other information on several statements contained in your Letter to the Editor that appeared in the April 9, 2012 edition of the Ottawa Citizen on the proposals being advanced by your Government for changing the OAS/GIS program.

Your letter contains a number of statements, claims, and innuendos that "On its current path, OAS is unsustainable.", but provides no data to support this contention. Your letter also implies that your Government's proposals will make the OAS/GIS program "sustainable for all Canadians--- now and into the future" but, again, provides no data to substantiate this claim.

Before listing the questions I have on the contents of your letter, I would like to get some information on two factors that have a major impact on the financial viability of the OAS/GIS program, but are not mentioned in your letter.

As you will be aware, the legislation establishing the OAS plan in the early 1950s provided that OAS benefits were to be paid out of a special OAS Account that was to be funded by a set of new ear-marked sales, corporation, and personal income taxes. The legislation also required that OAS benefit payments and collection of the ear-marked taxes had to be kept in balance. .

Because of the requirement that payments into and out of the OAS Account had to be kept in balance, sharp increases in the ear-marked taxes were instituted over the years as OAS benefit rates were increased; as the eligibility age for OAS benefits was lowered from age 70 to age 65; and when the GIS component was added to the OAS plan.

In the early 1970s, the OAS Account was abolished with the law providing that henceforth OAS/GIS benefits would be paid out of general government funds; and that the ear-marked taxes that were levied to finance OAS/GIS benefits would be folded into the general sales, corporation, and personal income tax structures.

The point that needs to be stressed is that the abolition of the OAS Account did not end the specific taxes that were levied and subsequently increased to cover the cost of the OAS/GIS program. This means that, to this day, Canadians are still paying the specific purpose OAS/GIS taxes; however, since they have lost their transparency, the amount of revenue they are producing for the Government is no longer readily apparent. Similarly, the degree to which these special purpose taxes are covering the costs of the OAS/GIS program is no longer visible. This leads me to ask:

1. What is your Department's estimate of the amount of tax revenues that were raised in 2011 by the specific taxes that were instituted to cover OAS/GIS program costs and were subsequently folded into the sales (now GST), corporation, and personal income tax structures?

2. What is your Department's estimate of the amount of tax revenues that will be raised in 2030 by the taxes referred to in Question #1?

3. What is your Department's estimate of the percentage of OAS/GIS costs that were covered in 2011 by the taxes referred to in Question #1?

4. What is your Department's estimate of the percentage of OAS/GIS costs that will be covered in 2030 by the taxes referred in Question #1 if (a) your Government's proposals for changing the OAS/GIS program are implemented, and (b) if the proposals mentioned in (a) are not implemented?

The other big gap in your letter to the Editor ~~to~~ of the Ottawa Citizen is its failure to talk about the impact that the changing character of the GIS Plan will have on future OAS/GIS costs.

You will recall that the income tested GIS Plan was introduced in the latter part of the 1960s to assist seniors who were on the bottom rungs of the income ladder. In the early years of the Plan 55-60% of OAS recipients were eligible to receive GIS benefits with 25-30% eligible to receive maximum GIS benefits

Since the GIS Plan was first introduced there has been a steady decline in the percentage of OAS recipients receiving GIS benefits with the decline in the percentage of seniors receiving maximum GIS benefits being particularly dramatic. This decline in the percentage of seniors being assisted by the GIS is largely due to the gradual maturation of the CPP and QPP programs.

By 2001, the decline in the percentage of OAS recipients receiving GIS had fallen to about 35%, and the percentage of OAS recipients receiving maximum GIS benefits had fallen into the 3-4% range. This trend prompts me to ask:

5. What is the percent of OAS recipients who received GIS benefits in 2011?

6. What percent of OAS recipients does your Department estimate will be receiving GIS benefits in 2030?

7. What percent of OAS recipients received maximum GIS benefits in 2011?

8. What percent of OAS recipients does your Department estimate will be receiving maximum GIS benefits in 2030?

9. What was the cost of GIS benefits paid out in 2011?

10. What do you estimate will be the cost (expressed in both 2011 and 2030 dollars) of GIS benefits that will be paid out in 2030 if (a) your Government's proposal to change the eligibility age for GIS benefits from age 65 to age 67 is implemented, and (b) if the eligibility age for receiving GIS is not changed?

I would now like to turn to the major statements, claims, and innuendos contained in your letter to the Editor of the Ottawa Citizen.

Your letter states that the annual cost of OAS will increase from $38. billion in 2011 to $110. billion in 2030, and implies that the increase will be caused by "a significant demographic shift" that will be occurring in Canada over the next 20 years. This is a grossly misleading claim! The reality is that future OAS/GIS costs will be influenced by a variety of factors with an important other factor being the levels of inflation that Canada will experience during the 2011-2030 period. These statements and claims give rise to the following questions:

11. What is the value of your $110. billion estimate of OAS costs for 2030 when expressed in 2011 dollars?

12. What is the level of inflation that you assume will be experienced in Canada during the 2011-2030 period?

13. Does your statement about OAS costs for 2011 and 2030 include the cost of GIS payments?

14. If the answer to Question #13 is "yes" what did OAS benefits in 2011 cost?

15. If the answer to Question #13 is "yes" what do you estimate will be the cost (expressed both in 2011 and 2030 dollars) of the OAS benefits that will be paid out in 2030 if (a) your Government' proposals for changing the eligibility age for OAS payments to age 67 is implemented, and (b) if the eligibility age for the payment of OAS benefits is not changed?

16. What do you estimate will be the impact on OAS/GIS program costs after 2030 as the relative role of the GIS Plan in the OAS/GIS program continues to decline when the Government's collection of deferred taxes on RRSP and other retirement savings enters a particularly explosive period; as the presence of the boomer generation in our population of seniors begins to decline after 2030; and as Canada's post 2030 seniors' population is increasingly shaped by retirees born during the baby bust years of the Pill that followed the boomer generation?

Your letter also states that "Currently, we have four working Canadians for every senior; by 2030 that will be reduced to two workers." Your letter also implies that the cost of the OAS/GIS program is borne entirely by working Canadians under the age of 65. Such a conclusion would, of course, be way off the mark! The fact of the matter is that OAS/GIS costs are paid by the taxes of working Canadians of all ages (not just those who are under the age o~~f~~f 65) as well as by the taxes paid by Canadians who are no longer in the work force. Th~~es~~is statement, therefore, raises the following questions:

17 . What is your Department's definition of "working Canadians"?

18. Is the definition of "working Canadians" you are using for 2011 the same as the one you are using for 2030?

19. Do you assume the composition of the Canadian labour force will change over the next 20 years? If so,how? If not, why not?

20. What was the number of Canadians age 65 or older that your Department estimates were in the part-time or full-time Canadian labour force in 2011?

21. What is the number of Canadians that you estimate will be in the part-time or full-time labour force in 2030 and (a) who will be 65 years of age and older in 2030, and (b) who will be 67 years of age and older in 2030?

22. What is your estimate of the amount of the GST and personal income taxes that were paid in 2011 by Canadians who were under the age of 65?

23. What is your estimate of the amount of the GST and personal income taxes (expressed in both 2011 and 2030 dollars) that will be paid in 2030 by Canadians who will then be under the age of 65?

24. What is your estimate of the amount of the GST and personal income taxes that were paid in 2011 by Canadians who were 65 years of age and older?

25. What is your estimate of the amount of the GST and personal income taxes (expressed in both 2011 and 2030 dollars) that will be paid in 2030 by Canadians who will then be 65 years of age and older?

BOOMER FALSE ALARM

Periodically, some columnists and editors try to bamboozle and scare us with tales of a ticking time bomb in our pension system. According to these scribblers, this bomb will go off when the baby boomers retire, creating such a population explosion of seniors that the resulting costs will strain public spending to the breaking point. How seriously should we take these warnings?

Canada's population of seniors has increased from 1.7 to 3.9 million over the 1970-2000 period--- an increase of 130%. The last federal Budget to discuss Seniors' incomes (the March 6/96 Budget) stated that "By 2030, there will be 8.8 million seniors" --- an increase of 125% from 2000. In short, government figures clearly demonstrate there is no population explosion of seniors headed our way. Consequently, to talk of an approaching tidal wave of seniors is akin to reciting a voodoo incantation.

Overlooked is the fact that our future seniors' population also includes retirees who were born during the "dirty thirties" and World War II--- the years when we had historically low birth and immigration rates. This means that when the baby boomers retire they will simply be offsetting the dip in the growth rate of our population of seniors that would otherwise arise from the abnormally low 1930-45 birth and immigration rates.

Also overlooked is the fact that from 2025 on, Canada's seniors will increasingly consist of retirees born during the baby bust years of the Pill that followed the boomer generation.

What about the claim that a rising population of seniors with extended life spans will strain future public spending? This claim is based on Ottawa's forecast that if nothing is done, net OAS/GIS costs will triple by 2030. (OAS/GIS costs account for well over 95% of Ottawa's spending on seniors' pensions.)

What the doom-sayers and Ottawa do not tell us is that OAS/GIS costs have increased twelve fold over the last 30 years--- from $1.9 billion in 1971 to $24.3 billion in 2001. In other words, net OAS/GIS costs over the next 30 years will be increasing at **ONE QUARTER** the rate at which they increased over the last 30 years. Hardly the makings of a horror story!

Why is the growth rate of net OAS/GIS costs expected to drop so dramatically? For starters, increases in life expectancy are tapering off. Ottawa's 1996 Budget Papers report that life expectancy increased by 3 years over the 1966-96 period, but will only increase by 1.5 years over the 1996-2030 period.

Major savings will also come as we continue to see lower levels of inflation than those of 1971-2001. The 2001-31 years are not expected to see a repeat of the prolonged double digit inflation that jacked up OAS/GIS costs so sharply during the '70s & '80s.

Another big pay-off will be realized with the bottoming-out of the GIS program in the 2001-31 period. The GIS was created in 1967 for seniors with poverty incomes. In the early years, 55-60% of seniors qualified for GIS benefits. Today only 36.6% receive them (and only 4.2% get the maximum amounts) with further reductions on the way.

Government cut-backs, like those described in the following list, are probably the main reason why net OAS/GIS costs will increase at a much slower pace in the future:

- the 1974 action that froze the purchasing value of OAS pensions. This effectively cut OAS rate increases in half as OAS rates had been rising at roughly twice the rate of inflation during the 1952-74 period.

- in 1977, OAS pensions were reduced for many immigrants.
- in 1983 and again in 1984, OAS pensions were cut for all current and future seniors.

- in 1985, the purchasing value of GIS benefits was frozen.
- in 1989, the OAS "clawback" was introduced.
- in 1994, the "clawback" was extended to the age tax credit.
- in 1996, more immigrants had their OAS pensions cut.

A study I carried out in 2002 concluded that not only is the growth rate of OAS/GIS costs on a downward trend, but the income generated by the system for Ottawa is on a steeply rising trend. Simply put, the cost side of our retirement income system is losing steam, while the revenue side is picking up steam.

The results of this study are contained in my 2002 paper: "FACTS & MYTHS ABOUT OUR RETIREMENT INCOME SYSTEM". My paper demonstrates that when all factors are taken into account, Ottawa ends up over $5.0 billion a year ahead of the game, with ever widening profit margins for Ottawa on the horizon.

To provide a more precise measure of Ottawa's winnings, the paper calls for an independent outside investigation to assess the net impact our tax laws are having on the financial bottom line of our retirement income system now and in the future.

The paper also calls for major changes to the scandalous rules that exploit low income Canadians who must/want to work beyond age 65 or save for their retirement. These rules effectively require low income seniors to hand over to GIS administrators and tax collectors 50 to 75% of their income from work, and from their CPP/QPP and other savings when they reach age 65.

Walter Kelm
January 2004.