

THE STANDING SENATE COMMITTEE ON NATIONAL FINANCE

EVIDENCE

OTTAWA, Thursday, June 7, 2012

The Standing Committee on National Finance met this day at 2 o'clock in the afternoon to study the subject matter of all of Bill C-38, an Act to implement certain provisions of the budget tabled in Parliament on March 29, 2012 and other measures, introduced in the House of Commons on April 26, 2012.

Senator Joseph A. Day (*Chair*) in the chair.

[*Translation*]

The Chair: Honourable Senators, today we are going to continue our study of the content of Bill C-38, an Act to implement certain provisions of the budget tabled in Parliament on March 29, 2012 and other measures.

[*English*]

Honourable senators, this is the thirteenth meeting on the subject matter of Bill C-38 before this Senate committee. This afternoon, we will be hearing from witnesses with respect to the proposed amendments to the Old Age Security Act contained in Part 4, Division 24 of the Act. We also point out that in Division 6 of Part 4 is the new tribunal and appeals with respect to income security. They would go through that new tribunal. You may wish to ask questions in relation to that or any related matters, but our witnesses are here primarily with respect to the Old Age Security Act this afternoon.

We welcome Mr. Jason Clemens, Director of Research at the Macdonald-Laurier Institute, and Susan Eng, Vice President of Advocacy for the Canadian Association of Retired Persons. We were hoping to have on our teleprompters Mr. Jim Stanford, an economist

with the Canadian Auto Workers. As soon as the electronics are connected to Mr. Stanford, who is appearing via video conference from Toronto, we will allow him to join in. I think we should start on the time that we had designated, and I would propose starting with Mr. Clemens and then proceed to Ms. Eng, if that works well with you.

Jason Clemens, Director of Research, Macdonald-Laurier Institute: My grandfather usually said to let women go first, but if the chair would like me to go first, I will.

The Chair: I feel that I have the guy going before the girl every time.

Mr. Clemens: At your discretion, Mr. Chair.

The Chair: Please go ahead.

Mr. Clemens: Thank you for the opportunity, senators. In terms of the proposed increase in the age for OAS, it is important to understand it within the context of the larger burden that the demographics will impose on the country over the next 30 to 40 years.

Professor Christopher Ragan did a calculation for us, showing that by 2040 there will be a 4.2 per cent deficit owing exclusively to demographic change, which is basically elderly benefits and health care. That is about \$67 billion in 2011 dollars. There is a fairly substantial issue that is going to have to be dealt with either through additional borrowing, cuts in current spending or increase in taxes. That is borne out by other data. For example, the government's own estimates show that OAS and GIS will go from one in five dollars of federal spending to one in four by 2030. There clearly is an increased demand for spending, increased burden of spending with the elderly benefits program.

I would suggest that the increase in the age from 65 to 67 is a fairly modest change. I think it is a good step in the right direction, but I would like to put several other things on the table for consideration.

First, if we understand that if the life expectancy were a mechanism to index the age of eligibility and we had started that in 1966, the age

of eligibility today would be 74, just through the natural increase in life expectancy. To increase it to 67 does not bring us anywhere near what an indexed age of eligibility would have been in 2012.

Second, and certainly a point of disappointment for me, there was no discussion of the targeting of OAS. It seems to me that if we are having a discussion about how we can better use resources to assist seniors, the fact that OAS is fully payable to individuals up to income of almost \$70,000, meaning that a household with two seniors gets full OAS benefits up to \$140,000 in income, it seems to me there is an opportunity there to claw that back and, at the very least, allow those savings to be used for GIS, which I think is the more critical program when we are talking about poverty and seniors. Certainly I would put that on the table as a point of discussion.

Last, a concern that is just a concern out of the fact that there are no details is how this will interact with provincial pension regulation or federal regulation on tax deferred accounts. There is a whole set of moving parts here that interacts with OAS and GIS, and it is just not clear yet how the change in the age for OAS/GIS will interact with all those other programs, both provincial and federal. The success of the increase in age will, in part, depend on how it interacts with all those other programs and regulations.

Thank you.

The Chair: Before I go to Ms. Eng, I would like to welcome Mr. Stanford, an economist with the Canadian Auto Workers. He has just come on our teleprompter. Can you hear us okay? We cannot hear you. Keep talking. All right. That is very good. We have just heard from Mr. Clemens, the Director of Research at Macdonald-Laurier Institute, and we are now hearing from Susan Eng, the Vice President of Advocacy for the Canadian Association of Retired Persons.

Susan Eng, Vice President, Advocacy, Canadian Association of Retired Persons (CARP): Thank you for the opportunity to present CARP's views on the proposed changes to the Old Age Security Act contained in Division 24 of Bill C-38.

CARP's position is that the age of eligibility for OAS should not be

increased from 65 to 67 because it is unnecessary and will hurt the most vulnerable the most. If there is a need to relieve budgetary pressures, other options should be considered first, such as the potential savings from health care reform or the reduced military spending once the Afghan mission is complete.

A fundamental change, such as raising the OAS eligibility age, should be fully debated, especially given that the issue was not put before the voters and the implementation date is far enough away to allow for measured deliberations.

We believe the changes are unnecessary. The argument that spending on OAS is unsustainable has been refuted by the Parliamentary Budget Officer and economists. Indeed, the PBO suggested that the base rate of OAS could even be increased and still remain sustainable.

One justification given by the government was that we had to address the strain on the finances due to the baby boom generation reaching retirement age and becoming eligible to receive OAS, yet the impact of the changes as currently constructed will essentially miss the bulk of this baby boom generation, those people born between the years of 1946 and 1964, since those born before 1958 are not affected. People born after 1962 will be the first group who will fully be affected by the changes.

Another justification has been the need to reduce budgetary pressures overall, and comparisons have been made to the fiscal situation overseas. However, Canada spends a substantially smaller proportion of our GDP, 2.5 per cent approximately, on what they call elderly benefits than the current OECD average of 7 per cent. We certainly spend a lot less than France or Italy, which spend 12.5 per cent and 14 per cent of their GDP respectively on public pensions.

We believe that the additional \$2 billion to \$3 billion of OAS spending that is being addressed by these changes can be found in the expected reduction in military spending once we withdraw from Afghanistan or through reinitiating the federal leadership in dealing with health care reforms.

We believe that the changes will also hurt those who need the

income supplement most. Those on low income or unable to keep working cannot wait the extra two years to receive their OAS, especially as the Guaranteed Income Supplement is tied to eligibility for OAS.

The government acknowledged as much in the recent budget with regard to these changes by providing for people already on federal government assistance. They were going to seek provincial cooperation to deal with those on CPP disability pensions, and they even said they would reimburse provinces for any additional expenditures they incur, such as on social assistance, if people were obliged to go on welfare. However, there is no indication that the provinces have allocated any additional budget to deal with needy seniors who have to overcome the stigma of applying for welfare and then do so.

CARP polls its members on a regular basis on our advocacy positions and major public policy changes like this. They objected immediately to the proposals once they were mentioned in January, and their opposition grew as the various justifications were put forward, which they found to be invalid. Despite being reassured that they themselves were not going to be affected, they nonetheless wanted to protect the social safety net for their children and their grandchildren. They did not agree that this change to the OAS would in fact help future generations. Rather, they believe that stimulating the economy and creating better jobs for them would be much better assistance.

Finally, I would like to say a word on the democratic process. Our members reacted strongly against the bundling of the OAS changes within the omnibus bill, and they certainly want proper parliamentary debate for such an important issue, especially one that was never put before the electorate. CARP called on all MPs to support motions to separate the bill, splitting it into more manageable portions in order to allow for adequate deliberation. The Prime Minister himself once warned against the bundling of disparate issues into an omnibus bill because it was beyond the capacity of a single parliamentary committee to adequately consider all the dimensions of major public policy changes. Breaking up the bill, in the then opposition leader Mr. Harper's own words, would allow members to represent the views

of constituents on each of the different components of the bill. We agree, and that logic should be applied to Bill C-38.

At the very least, and despite the fact that second reading means that the overall thrust of the provisions of the bill cannot really be changed in committee, a fuller debate in committee might raise enough issues to amend the provisions and to reduce the impact of the proposed changes on the most vulnerable.

In conclusion, we respectfully submit that the changes to the age of eligibility for OAS should not be made.

The Chair: Thank you very much, Ms. Eng. I now call on Mr. Stanford.

Jim Stanford, Economist, Canadian Auto Workers: Thank you, senators, for inviting me to appear before your deliberations today.

In my view, Canada's OAS and GIS system is in fact a major triumph of our social policy in the post-war era. It has been immensely effective in reducing the incidence of poverty among senior citizens. In fact, seniors' poverty in Canada is below 5 per cent, one of the lowest senior poverty rates in the world. This is a tribute to the effectiveness and importance of this policy.

In my judgment, deferring the age of eligibility for the OAS program by two years would start to undermine and dismantle what is one of our most important social policy achievements.

I would like to make five major points in my opening comments to the committee.

First, I agree with the previous witness in that it is inappropriate to be discussing fundamental changes to a program this important within the context of a composite omnibus bill. The pension system is an enormously central pillar in an individual's life cycle, planning and decision-making, decisions that take decades to be implemented. Changes to that system have to be made cautiously, carefully and incrementally.

For example, we have the Canada Pension Plan system in Canada

that is also very effective, but in order to change it, you have to go through a whole process of public discussion and consensus-building. You have to win the approval of provinces representing two thirds of the population before you change anything in the plan. You cannot just throw a couple of paragraphs into an omnibus piece of legislation and make a change on such short notice.

The Old Age Security system is just as important to retirement security in Canada as is the CPP. In fact, I could argue it is more important, and we should treat it with the same respect and care through a full public policy dialogue and discussion before we make changes.

Second, as an economist, I reject the idea that there is any fiscal necessity for postponing the eligibility age to 67. Yes, Canada does face costs associated with the demographic transition of our population, but this is, as documented by demographers, a temporary phenomenon, and it will reverse itself as the bubble of our population works itself through the retirement age. Beginning in about 20 years from now, the burden of old age pensions will actually start to decline as a share of our GDP.

Between now and then, the impact of the aging of society on OAS expenditures is modest. The projections in the Chief Actuary's report suggest an increase in expenditures equal to 0.6 per cent of our GDP versus the levels of that program today, and then the expense of the program relative to GDP begins to decline after that point, sometime in the early 2030s.

The federal government's fiscal capacity to manage that temporary and modest bulge in expenses associated with this program is more than adequate. Canada's federal debt as a share of GDP today is low, both historically and internationally. It is equal to about 35 per cent of GDP, half of the level of the early 1990s, and it has already begun to decline despite the short-term increase in debt associated with the recession. The debt burden as a share of GDP is now already declining, and the government's fiscal capacity in the sense of the ability to raise taxes is also strong because taxes have fallen significantly as a share of GDP in Canada as well.

Other experts have attested to the fiscal sustainability of this system, including the Chief Actuary's report, the Parliamentary Budget Officer, OECD research and others, so this is not a decision that is driven by fiscal necessity.

My third point is simply to remind people that removing OAS benefits for two years of a person's senior years will cause significant pain and dislocation among many future senior citizens. For those who are under 45 years of age today, this policy will cost them over \$20,000 per person in the sense of losing OAS benefits for two years. That is a significant cut in their income, and one that for many Canadians, they will be unable to make up for, either from employment or from personal savings.

For those who cannot work, either because they are not capable of working or because there are no jobs for them to fill, the two-year deferral of this important benefit will cause them poverty.

My fourth point is that announcing the policy 10 years in advance does not solve that problem. If a policy is bad, announcing it well in advance does not make it good. For most Canadians, again, their ability to prepare themselves to deal with \$20,000 in lost income is very limited.

My final point, senators, is that there are many indirect and unintended consequences of this decision to push the retirement age back to 67 for OAS purposes. Let me list just a couple of them.

First is the impact on youth unemployment. Unemployment rates among younger Canadians are twice the national average, and we face a situation where Canadians who have invested more in their skills than any other previous generation cannot use those skills in finding adequate or suitable employment. Requiring older Canadians to stay in the labour force for two extra years will only make the problem of youth unemployment all the worse. Some have argued this is a policy that is fair to future generations. Quite the contrary; this is a policy that will allow baby boomers to collect their pensions as promised, but not only will it reduce the pensions of younger Canadians, it will also make it harder for them to find jobs to support themselves.

Second, there will be unintended consequences on other income security programs, particularly provincial welfare expenses which will experience significantly higher costs as a result of this. Shifting fiscal burden from one level of government to a lower level of government, which faces even tighter financial constraints and higher borrowing costs, is hardly an efficiency enhancing measure.

Finally, there will be an important impact on existing occupational pension plans. Many pension plans in Canadian workplaces are already integrated with Canada's public pension system, the CPP and OAS system. By deferring the pension eligibility for OAS, it can actually create a new burden on those private occupational pension plans. There will be pressure in other workplaces to amend the terms of them, so that plans which are integrated with the CPP and OAS will have to pick up the slack of the lost income resulting from the deferral of OAS benefits.

Private pension plans are already facing terrible pressures, and there is an important unanswered question as to what effect the OAS deferral will have on the financial sustainability of private occupational pension plans.

Most pension experts today are recognizing that it makes a lot of sense to provide more of the share of pension income from universal public plans rather than from workplace-based occupational programs. However, this measure, by reducing the universal public system and imposing extra costs on private plans that are already financially stressed, is actually doing the opposite.

Those are some of the reasons, senators, why I think the deferral of pension eligibility to 67 is very wrong-headed, and the eligibility age should be kept at 65.

Thank you very much.

The Chair: Thank you very much, Mr. Stanford. I appreciate your comments.

Mr. Clemens, before we go to senators' questions and comments, I wonder if you could clarify something for me. I heard you say that in the year 2040, we would be into a deficit situation. How do we

calculate a deficit situation for something like OAS that comes out of general revenue?

Mr. Clemens: Professor Ragan looked at the status quo tax system and projected out in time how much revenue that tax system would collect and, then on the other side of the ledger, projected out spending based on demographic change. The deficit is simply based on his assumptions, what resources we would have in 2040 or 2030, depending on which year you look at versus the amount of spending that would be demanded, largely via health care and elderly benefits. The difference between the two was the 4.2 per cent deficit.

The Chair: Thank you for that explanation. Is that all taxes, corporate taxes?

Mr. Clemens: Mr. Chair, I should clarify. That is an all-government estimate, so it is not just federal government.

The Chair: Did it include in terms of expenditures transfers to provinces for social purposes and other transfers as well?

Mr. Clemens: That would net out because the transfers are all government spending.

The Chair: The other point that I did not get was when you were extrapolating forward the life expectancy and you said it could be up to 74 now. Where did you start in terms of the increased life expectancy?

Mr. Clemens: The 74 estimate is if you would have indexed the age of eligibility in 1966, when the Canada Pension Plan came into effect. You could pick any year.

The Chair: I did not know what year you picked. Now I know. Thank you very much.

We will now go to honourable senators. I will begin with Senator Buth from Manitoba.

Senator Buth: Thank you to our witnesses for being here. I would like to follow up with Mr. Clemens and others, if they would like to

comment, on the targeting of OAS in terms of the limit. I am curious to know what you think the limit should be, or if you have run any numbers in terms of the limit.

Mr. Clemens: The first starting point for me would be the limit that we use for the Canada Pension Plan in terms of the average industrial wage. It would be a very fruitful discussion to explore whether that is the appropriate number, or, in fact, 75 per cent of that number is the appropriate number, given that by and large the data tells us you can maintain your standard of living with 75 per cent of your working income when you are in retirement due to lower costs.

However, the key here is if we were to more aggressively claw back the OAS, many of the problems that Ms. Eng and Mr. Stanford are concerned with, and in many ways I share their concern, we are freeing up resources to better target GIS. I agree with Mr. Stanford. The combination of OAS and GIS for low-income seniors is an incredible success for the country in terms of essentially almost eliminating poverty for seniors. However, my view would be that we can get the resources to fix problems in GIS within the existing envelope, simply by better targeting. Again, when I think of two seniors living together who have a household income of \$140,000, getting the full OAS benefit, I just do not see that as a well targeted program.

Senator Buth: Ms. Eng, would you like to comment on the limits?

Ms. Eng: I would not necessarily combine the two. Our premise is that changing the age at this point has left behind those groups of people who, despite however long you give them as to lead time, would never make up the lost amount of income support represented by those two lost years. We also hear from people who would not normally be eligible for GIS income support, generally, single women or people who have been widowed or divorced, and they would first not want to apply for welfare, probably would not qualify for welfare and would not qualify for GIS. That is a group of people that is often missed in the statistics as to who would be hurt if we deferred this for two more years. We focus on that group as an important group.

The other options for dealing with the OAS budget can be examined.

They are not being examined. There is an opportunity, if this issue were studied separately, for different ways in which to cut back on OAS spending or for it to be improved. It could be in bringing down the clawback threshold. That is one option that has not been fully examined. It has been mooted, but it is not on the table.

You could look at the increase in age as one option. You could look at reducing the actual benefits, which we, of course, would not be recommending. You might even change the category of people to whom you provide some of these supports.

One example is the spousal allowance, which is available to people who are wedded but not to people who are not. That applies to a category of people in the age group of 60 to 64, and they get no support under the current system at the moment. We would be recommending expanding the program to include those people.

These are all kinds of options that could be on the table if the whole category had a better opportunity to be discussed.

Certainly, there is a way of cutting the budget by increasing the clawback. It would be, frankly, more acceptable overall than the change that is on the table at the moment.

Senator Buth: I want to clarify one point in terms of the provinces, and I understand that we are dealing with changes in legislation here. The government has made a commitment to compensate the provinces for changes that will occur. I want to make that point because I think people are saying it is not included in the legislation. You would not expect it to be included in the legislation.

Mr. Stanford, you made the comment that we need time to incorporate these changes. What the legislation is doing is giving the time. That is why there is a phase-in period.

Ms. Eng: If I may comment on that for a moment, I am pleased to see the acknowledgement that in all of these provisions there is a need to address a category of people who would find it very difficult to wait those extra two years and do without for those two years. Those categories were mentioned in the budget, and they included those on federal financial assistance already, and that is terrific. They have

also mentioned people who will be on CPP disability, and they need the cooperation of the provinces, which we hope would be forthcoming, of course.

The third category, where they had committed to actually reimburse the provinces, sounds great, but it depends on the provinces actually setting up the programs to cover that category of people who would have to apply for provincial welfare. Those assistance levels vary across the country, but none of them are the same as OAS and GIS combined.

The Chair: Did you have a question for Mr. Stanford?

Senator Buth: Did Mr. Stanford want to comment on the fact that there is a 10-year period here in terms of phase-in? He did mention that he would like to see that phased-in period.

Mr. Stanford: Actually, the gist of my remarks was that we need to discuss, consider and design the policy, not so much on the phase-in front. In fact, my point was that allowing for a 10-year phase-in does not solve the problem that many Canadians who will be affected by this will not be able to prepare to protect themselves. The reality is that most Canadians cannot save through their personal savings anything remotely sufficient to provide for their own pensions. In fact, most Canadians do not save anything through their personal incomes. That is why the universality of the public system is so important. Telling Canadians that they have 10 or more years to prepare for this in demonstrated reality will not make any difference for their actual pension income for most of them. That is why so many pension experts are saying we have to shift the pension system away from reliance on individual savings into requisite government universal programs.

The other comment was in terms of the earlier question regarding targeting of the benefits. Research has shown that the group of Canadians who are most at risk from inadequate income replacement after retirement is middle-class Canadians. Low-income Canadians are covered by some programs, including GIS. Upper-income Canadians are able to save from their own incomes. It is middle-class Canadians who face the biggest hole to fill in terms of their

replacement income, and that is exactly where the phase-out issue currently is in place, both the ceiling on the CPP and the clawback for the OAS. Reducing either of those as a way of saving money will only make the problem all the worse for middle-class Canadians, who are already in the weakest shape.

Senator Buth: You would say you do not want changes to any of the programs?

Mr. Stanford: I would not want to see the clawback threshold reduced for the OAS. The gist of my comment is, as a wealthy society, given the modest nature of the increased costs associated with this program, we should be not thinking about reducing the total envelope of costs. We should say yes, this is a natural cost associated with the aging of society, and we are wealthy and compassionate and will take care of our seniors.

Senator Buth: I think what we have here is duelling numbers, essentially. There are differing views in terms of the impact of the programs, and people's comments essentially come based on the different numbers that they start with.

The Chair: I think Mr. Clemens has been provoked into another comment.

Mr. Clemens: I wanted to provide some statistics from the Canada Revenue Agency. In the 2009 tax year, 4.4 million Canadians contributed to registered pensions. These are tax filers. I will give you the percentage. There was 5.9 million contributed to RRSPs. Obviously 2009 was a difficult year for anyone trying to save money. If you do that as a percentage of tax filers, 26 per cent contributed to a registered pension and 35 per cent contributed to an RRSP. I only raise that because Mr. Stanford brings an important issue to the table, which is our ability and our decision to save. I would suggest it is not as dire as Mr. Stanford has indicated, with respect to Mr. Stanford.

The Chair: Thank you, Mr. Clemens.

Mr. Stanford: My goodness, we are all being very polite today. That is refreshing, let me tell you.

Senator Campbell: We are worried. He looks like he is in heaven.

[*Translation*]

Senator Hervieux-Payette: In view of the fact that the Régie des rentes du Québec forms the base, the Government of Quebec is not going to adjust to this reality. Have you determined the difference between 65 and 67?

You talk about percentages, but how much would the social assistance bill increase? People who fall below the poverty line receive benefits from the Régie des rentes and those who receive the Guaranteed Income Supplement cannot afford to meet all their needs.

Since many measures mean that the provinces will have some expenditures transferred to them, we learn that, at the borders, harmonized sales tax will no longer be collected. Many provincial expenditures are being added in this bill. Have you calculated the impact of this change on the provinces?

[*English*]

Mr. Clemens: The only thing I expressed concern about at the time was when the government indicated that they would compensate the provinces for a loss. It seemed to me to a great extent that they have mitigated any potential savings. In other words, if the federal government is creating an add-on to the CST, for example, or some other mechanism to transfer funds to the provinces to compensate for the GIS benefit between 65 and 67, then that essentially is a wash. All we are really saying is that instead of the federal government spending it, the provinces are. The savings, it seems to me, will be less than indicated, which is why I brought up some other potential changes that I thought would be productive.

In terms of the direct answer to your question, I have not calculated the specific cost, but my estimate is that much of that would be a wash between the two levels of government.

[*Translation*]

Senator Hervieux-Payette: I do not understand your answer. You probably mean that it will not affect citizens. I rather think that it is going to affect citizens because Quebec is the highest-taxed province in Canada on account of the social programs it offers. So we will not drop the 65-to-67-year-old category and we will pick up the bill. Perhaps people will get this amount.

But, to your knowledge, are the provinces going to receive the full amount? Then why introduce this measure if, for all practical purposes, it will be transferred to the provinces? I am trying to understand at least the reasoning. If you tell me that it is a wash, that means that it all amounts to the same thing. And if it all amounts to the same thing, why are we introducing this measure?

[*English*]

Ms. Eng: I have not done the actual calculations, but here are some parameters that are important to keep in mind. We got an estimate that the amount that would be saved by doing this, of deferring the receipt of OAS by two years, was worth in the neighbourhood of \$2 billion to \$3 billion a year overall. In addition, 35 per cent of all people receiving OAS today receive some measure of GIS. That is an estimate approximately of the kind of people who are going to need additional assistance. These are the people who are now getting GIS. They would necessarily be the same group of people who would apply for provincial social assistance, subject to my comment before that some people who need it will not do it, first, and second, provincial social assistance rates are much lower across the country than the combination of OAS and GIS.

The net result of all of that is that government dollars will be saved across the board, all levels of government, because not everybody will need that additional support. Many others will not apply, and those who do apply will get a lot less. There will be a net savings to the tax burden across the country at all levels of government, with the result that the individuals who need this money are the ones who are bearing the burden.

The other thing in this case also is that the provinces have not said they will do this. It is not clear that these people will be in any position

to apply for social assistance.

[*Translation*]

Senator Hervieux-Payette: So there will not be a combination between the Canada pension fund, which for us is the equivalent of the Régie des rentes. There will not be any compensation for the additional amount granted to people who are below the poverty line. Obviously I understand that, if people remain in the workforce, the costs will not be covered by the federal and provincial governments. But are there any statistics on the ability to remain in the labour market?

Since the beginning of these hearings, we have been told that the average retirement age in Canada is 62; so people have not even reached 65. That means that, for a large majority of people between 65 and 67, unless the province takes over, from what I understood, a transfer will be made by the federal government. Have I understood the measure properly?

[*English*]

Ms. Eng: I am not sure if I understood the question. On the issue of whether or not people are in fact retiring at the age of 62, there are still going to be a sizeable number of people who are retiring earlier than the age of 65. Largely, those people are people who already have good workplace pensions or are otherwise on disability.

There is the opposing trend taking place right now, which is more and more people staying in the workforce because they need to. I think that is going to continue to be the case, as the economy fails to recover, and these are people who will be most at risk of facing poverty in old age.

[*Translation*]

Senator Hervieux-Payette: And what Mr. Standford, who is in the sky, told us earlier is that this would have an impact on youth employment. Could you elaborate on this?

[*English*]

Mr. Stanford: In terms of the impact on provincial budgets and then eventually on individuals, I think it is entirely unclear. To answer your first question explicitly, I have not done that research, and I am not aware of anyone who has. I think this is precisely one of the reasons why we have to be extremely cautious before we start fiddling around with crucial, long-standing programs like this one, so that we really track through what will happen.

In terms of the government's promise to compensate the provinces, this is a very broad, vague promise. It is not at all clear how that would happen. If it would happen through a bundling of this issue with a bunch of others through the social transfer that is happening already, that is a shell game at the best of times anyway. Being able to show that you have actually received that full compensation will be a very tricky exercise.

Then there are the issues that Ms. Eng mentioned, which is who will qualify for these provincial welfare programs? Will they be fully taken up? How will the provincial governments change their own policies in future years as well? There is tremendous uncertainty on both how this will affect provincial governments and how it will affect those who need the income and who may end up on provincial social assistance anyway.

At any rate, the federal government's promise to offer some compensation clearly takes away from the so-called fiscal benefits of doing this in the first place, which again takes me back to the question, why do it?

Senator L. Smith: Ms. Eng, how many people were actually polled? You made the statement that you polled your constituents and they said "no" to the changes. What is the number of people you would have talked to?

Ms. Eng: We have an online newsletter that we send out to our membership. We have about 300,000 to 350,000 members across the country in about 190,000 households. Of those, we have email addresses for 95,000 of them. We send out the newsletter every two weeks, and our response rate for high interest issues such as this would range from 4,000 to 5,000 respondents over the course of a

weekend, and we never get less than 2,000 or 3,000 respondents. Those numbers, I am told by the person who does the polling for us, are statistically significant and probably more numbers than all the polling firms that you normally hear from in the media.

That group of people tends to be a regular group, and they focus clearly on the very detail of the different proposed changes. When the issue of the OAS changes was first mentioned in January, the reaction was quite strong. In fact, we had phone calls and emails from our membership before we even put out the newsletter to ask them their opinions.

Senator L. Smith: To clarify the number and put it in perspective, say 3,000 to 4,000 people out of 300,000 members of which 90,000 were —

Ms. Eng: Had email addresses.

Senator L. Smith: Right. What do we base the number on? Is it 300,000 respondents?

Ms. Eng: You go on the number of people who answer your survey. Admittedly, it is an online survey. I cannot really comment on the polling industry today, but the use of online surveys and panels has become quite regular. The number of people who answer the surveys that are published usually is no more than about 1,000 to 1,500 respondents.

Senator L. Smith: You made a strong statement, and I wanted to ensure I understood what the numbers were really based on because it does affect the credibility of the statement. I think it is legitimate to ask the question.

Ms. Eng: I guess that challenges the entire industry of polling and how representative of public opinion they tend to be. In this case, they tend to reflect public policy trends and public polling results.

Senator L. Smith: It would be interesting to know the sample you used, how exact a measurement it is. It would be helpful to substantiate the statement that you made, that a large number of your members said not to do it.

I am not trying to be offensive. I am just asking the question to understand the basis of your numbers, and to be specific, if you had a measurement that could really quantify the impact of the statement. We are not going to answer that one right now, but I just bring it up.

Second, taking money from health care and the military to fund something like this seems to remind me of taking money from your left pocket and putting it in your right pocket. If we agree we have an aging demographic, which I hope we all agree on, and health care is going to become more expensive to service older people — for example, my mother is 94 years of age and she is in a long-term care facility, which my brother and I pay for and is quite costly. I find it strange that we would take money from health care to put into the pension system.

The other thing I found strange was that we only spend 2.5 per cent of GDP on old age benefits, and we are seeing in Europe they spend an average of 7.5 per cent and in Italy 12 per cent. However, when we look at the economic catastrophe these countries are in because they have not managed their money properly, I wonder where the basis of that statement comes from.

Ms. Eng: On the issue of health care reform and the potential for savings, it is something I have addressed before this committee previously, and I am happy to focus on that because there is an opportunity for massive savings through health care reform. If we continue as we are today, the demands on the system will go up exponentially, as predicted.

We have recommended a refocusing of how we deliver on our health care, including improving and funding a home care focus or out-of-institution care. The opportunities for savings in that category are massive and estimated to be in the tens of billions of dollars per year. Similarly, bringing down the cost of drugs is another opportunity.

We are not saying to divert those dollars as such. The argument around the OAS spending is a question of fiscal sustainability and budgetary choices, if you look at the budget as a whole. All we are saying is that if you are looking to find the additional dollars represented by this change, then look elsewhere; there are

opportunities elsewhere within the larger budget where you may find the savings so as to avoid having to make this change here. That is the opportunity that arises with the changes in health care funding.

Senator L. Smith: We have talked about the necessity to improve the health care system and the delivery of it, which in many instances is a management issue. Again, I found it a little strange identifying health care, because to me, we can pick any area, but we need to assess the numbers.

When we go from Mr. Clemens to Ms. Eng and then to Mr. Stanford, it is interesting that there seems to be juxtaposition, or an opposite position. What is the right position?

Mr. Clemens: With respect to which question, senator?

Senator L. Smith: The issue of raising the age from 65 to 67. You seem to support it, and then we have people opposed. Where does it all wash out?

Mr. Clemens: I think Mr. Stanford and I would agree to disagree. I think it was a step in the right direction.

As I say, if you indexed the age of eligibility for life expectancy, in other words, did not allow a stealth increase in the benefit beginning in 1966 — which is what has happened in that every year that life expectancy increases, the program increases in cost permanently, but there is no decision to expand the program — and said that we would increase the age of eligibility to life expectancy, it would be 74 today. We are increasing it to 67, which we see in a number of other industrialized countries. They are increasing their age of eligibility slightly.

I should note that age of eligibility for a public program is different than the retirement age, and we should not conflate the two. It seems to me moving from 65 to 67 is a modest step in the right direction, but I would certainly like to have a robust discussion about better targeting the elderly benefit. I just think you could ask the average Canadian whether two seniors living together making a household income of \$100,000 or \$120,000 require the full OAS benefit, or should some of that be clawed back to ensure that the GIS program

remains intact and helps people who make the transition? I think Mr. Stanford and Ms. Eng are concerned about that.

In addition, I would like to see some differential between single seniors who are living in high-cost metropolitan areas and seniors who are not. It seems there is an opportunity there, without crowding out other spending or without having increased taxes, to better target the elderly benefit package.

Mr. Stanford: I would like to jump in on that angle as well. On the issue of indexing the eligibility year of the program for your life expectancy, I find that a very curious line of argument. In the olden days, before there were public pensions, you basically worked until you died. Why do we not do that anymore? We do not that anymore because we have become more prosperous as a society, more compassionate as a society, and we recognize that your golden years are a very important payback for the efforts you made to support your family and community through your entire life.

As we go forward and progress as a society, we get to live longer, first of all, because that is one dimension of our prosperity. I do not see it at all obvious that because you live longer, you should work longer. In fact, I would say because we live longer that is a benefit of our prosperity, that we get more years in which to enjoy that payback.

Secondly, it is very important to remember that there is tremendous inequality in life expectancy. How long you live is strongly correlated with your income. The difference in life expectancy between a high-income Canadian and a low-income Canadian is about seven years. Indexing a whole program to the average life expectancy for low-income people or for others who have had poor health or very strenuous jobs and are not likely to live as long will have a much higher impact on them than it will on high-income Canadians who have a much better chance of living in good health until they are 85 or 90 or longer.

For many working Canadians, the idea of working until you are 74 and having your pension put off later and later, simply because medical technology is lifting the average life expectancy, is a horrifying idea.

Senator Ringuette: This is a very interesting conversation that we are having. All three of our witnesses are in agreement with the fact that there has been no discussion. There has been an announcement by the Prime Minister of Canada in Davos. The inclusion in this budget bill of a project for 10 years down the road without any kind of discussion is most regrettable because I think the Canadian population is mature enough to have a decent discussion on this issue and come to a decent conclusion for the future.

I have asked twice at this committee to have the Parliamentary Budget Officer as a witness, and twice I was refused by the government senators on this committee. It is most disturbing because we certainly would like to have more accountability and transparency in any process.

Mr. Clemens, when you identify examples of two seniors living on a household income between \$120,000 and \$140,000, my guess is these seniors would not get GIS.

Mr. Clemens: That is right.

Senator Ringuette: My guess is also that these seniors are paying income tax. We have never, as of yet, in this entire discussion, had any data from anyone that describes the amount of income tax that is received by the Government of Canada, coming back from the OAS payment, because it is universal. That is a way of clawing back, Mr. Clemens.

Does any one of you know how much income tax is paid by those senior citizens who have a certain income bracket so that OAS is taxable income? What is it? How much is the Government of Canada getting back in taxes from the OAS payment? Do we know that? Mr. Clemens, you raised the issue.

Mr. Clemens: What I looked at was the marginal tax rate applied on the clawback, which is the 15 per cent. I would not disagree that there is revenue coming in. My question is on the front end as to how well the program is targeted. It just strikes me that when you have a full benefit payment up to \$140,000 in income, and it is not fully taxed back until almost \$225,000, I have trouble agreeing that that is a well-targeted program, particularly when all three of us agree there are

concerns with GIS.

Senator Ringuette: Maybe we should include in this discussion a higher income taxable bracket for the higher income citizens of this country.

Mr. Clemens, you are not able to tell us what the revenue is that the Government of Canada gets as income tax paid on OAS, plus the provinces also.

Mr. Clemens: I would recommend asking someone from Finance. I am not a particular fan of the PBO, given Finance has outperformed them on forecasting. I would ask someone from Finance to give you the tax statistics, which they have.

Senator Ringuette: We have been asking quite a lot of questions, and we have this process. We did not get a lot of answers; I can tell you that.

Ms. Eng: From a slightly different angle, I would like to find out how many people have \$140,000 of household income and are still getting their OAS.

I think we distort the picture. The issue of clawback is not on the table anywhere in the bill. It would be something that would be part of a fuller discussion, of course. At the present time, the people affected by this bill are nowhere near that money in their households. Between the two of them, they are living below the poverty line, and there is no provision for them, and there are a lot more of those people we would be worried about.

Mr. Stanford: I would like to respond to Mr. Clemens' point that the OAS program is not well targeted. The OAS program was never intended to be a targeted benefit. It was designed precisely as a universal benefit.

The GIS benefit is a targeted benefit, and it does the job effectively at that end of the income scale. Remember, there is this thing called the "middle class" out there that also has to pay for their pensions when they retire. As I mentioned, the evidence suggests it is middle-class Canadians who face the biggest hole in their pension planning. A

benefit of the OAS is precisely that it has been universal. When the clawback was introduced, it started to reduce the universality of it a little, not dramatically so.

I think that the importance of the OAS is kind of like our medicare system. It is something that is there for everyone. Medicare is there for everyone when they are ill, and the public pension system is there for everyone when they retire. It is part of a social contract that binds us together as a society. If we start whittling it away to apply only to those in the greatest need, then most Canadians stop seeing a benefit for themselves in that program and, before you know it, the program is run into the ground. The idea of the OAS was not to be targeted, and so it is not surprising that it is not a well-targeted program.

Senator Ringuette: Exactly. One of the things that really puzzles me is that two years ago, before this Finance Committee, we had a budget bill presented by the same Minister of Finance that allowed Canadians, instead of waiting until age 65 to collect CPP, to start at the age of 60. When questioned, the officials of the Department of Finance told us exactly the data that was indicated earlier, that Canadians want to retire earlier, on average at age 62. That is why they were bringing the CPP eligibility down from 65 to 60. That was 18 months ago. Today, we are being told that Canadians live longer so they should be working longer and therefore they should only retire at 67. It is pretty difficult to get real facts from the government officials in order to have a decent discussion about the future.

Mr. Stanford, could you provide us more data in regard to the middle class and your statement about them being crunched in this entire process? I would tend to believe that you are right, but if you could provide us some data to back up the information that you just gave us, I would really appreciate it.

Mr. Stanford: Senator, I would be pleased to do that. I will gather some information and submit it to the clerk of the committee for you.

Senator Ringuette: Thank you.

Does anyone have any comments about how to reconcile the CPP going from 65 to 60 and the OAS going from 65 to 67? No one wants

to venture into that issue.

Mr. Stanford: I will make one point, senator. If you get different ages for the different pieces of the public pension system, it will make that problem that I mentioned about the integration between the public pensions and the occupational or workplace pensions all the more difficult to manage. Just to explain how it works, in many cases, in a workplace pension plan, especially if there is an opportunity for early retirement after 35 years of service or factor 85 or something like that, usually it specifies a certain ceiling level of benefit that you get that is a transition to take you through to the onset of Canada Pension and OAS and so on. The workplace pension fills in the space that is left until you turn 65 and qualify for those benefits. That is what an integrated system means. Similarly, even after age 65, it could be specifying a total level of benefit, and then within that is the benefit that you are expected to receive from the CPP and OAS in terms of the pension formula.

In both cases, in early retirement or regular age retirement, postponing one or more of the components of the public system can end up imposing an extra cost on those private pension plans, and it is all the more complicated when the age thresholds for the different components of the plan could end up being different, as you have highlighted.

Senator Runciman: Mr. Clemens, I am not sure where this comes from, but if you look at the changes with respect to the age of eligibility in the OAS, even with the changes, the number I have here is that by 2030 it will represent close to 22 per cent of federal program spending. I do not know if that is a number you have. If you accept the fact that the program is sustainable, then the share of program spending even with these changes will continue to increase. From your organization's perspective, what are the broader implications of that across the country? We talked about taxes and about cutbacks in other areas. What do you see as the implications of chewing up a bigger and bigger share of program spending?

Mr. Clemens: The actuarial numbers you refer to show that the elderly benefit portfolio of spending will go from about one in five to just under one in four, so 23.5 per cent, if my memory is correct.

There has been a lot of rhetoric about the term “sustainability.” Normally, when we talk about sustainability, the question is, can the program exist in the current framework over time? The data tells us that it will consume more of federal spending. The government will have to make a decision. It either has to cut other spending or it has to raise taxes or finance that through deficit, which was Professor Christopher Ragan's point in the paper he did for us, which was a warning about the accumulation of debt and that there is a threat from that due to the aging of the population.

It strikes me that one of the things that we are not talking about, which I think is part of the question, is this crowding out effect. As an example, even though the federal government in the last budget enacted spending cuts across a whole bunch of programs, the total amount of spending by the federal government is increasing. Part of that is because the program cuts are overwhelmed by the transfers to the provinces and to individuals. It seems to me this is part of the balancing that we are going to have to struggle with on a go-forward basis. How do we balance needs of seniors, and I would stress low-income seniors and the programs that are there for them, against the other essential programs that the federal government has? I couch all of that within the framework that I would not advocate tax increases, so I would keep tax rates at the same or lower rates. Not to speak for Mr. Stanford, but my understanding is that we disagree on that point. The real risk there is this crowding out effect.

If you want to see what the federal government will look like in terms of that pressure in 10 years, just look at the provinces. If you look at the provinces, they are reducing spending in core areas of government services like transportation and justice in order to accommodate spending in health care and education. Mr. Stanford and I would probably agree that some of that spending, particularly on basic infrastructure and judicial, is very difficult for the market to respond to. It is that kind of a crowd-out effect that is a real risk at the federal level from elderly benefits. That comes right from the actuary's own data.

Senator Runciman: Ms. Eng, I share Senator Smith's concerns. I have been a fan of CARP, and I have been enthused since the ownership of Mr. Znaimer with respect to the revitalization of the

organization. I know that you have always had a position of being a non-partisan advocacy group. I cannot speak to the accuracy of those polling comments, but you did mention your newsletter. From the point of view of being non-partisan, I went to your website, and right off the top, on your Hands Off the OAS campaign, you have, "Time for big ideas: Imagine Canada after Harper." I will not use the language here, but it is a very nasty and negative reference to the Prime Minister.

Ms. Eng: If I may interject, that is not our article. Can I clarify?

Senator Runciman: It is a link.

Ms. Eng: As you know, we tend to reprint all news articles in which CARP is mentioned, and that is actually a column by someone else that happens to mention CARP and its position on OAS. That is clearly credited to another columnist.

Senator Runciman: It is, I agree, but you are talking about your membership and the position your membership takes. This is something you send out on a regular basis. The article underneath that is about CARP members supporting the NDP and then "Omnibus Bill Shakes Loose CARP Support."

I think you do good work, but I want to put on the record my concern about the long-standing view of CARP as a non-partisan advocacy group, that you do your own reputation harm by the way you have dealt with these kinds of issues, as well as perhaps the questions about the polling of your membership to say that you had an overwhelming majority of members opposed to the OAS initiatives. I will give you an opportunity to respond.

I am not saying this in the sense of trying to be overly negative. I am just trying to pose the question in a constructive way as a long-time supporter of your organization. I am concerned about the approach you have taken on this issue.

Ms. Eng: Thank you for the opportunity and thank you for your continued support of the organization.

I think that if you look back at the previous polling results as well as

many of the other articles — we have thousands of articles on the website that deal with both this issue and a whole manner of other issues over the last four and a half years — you will find that historically there has been — as you know, in the polls, we ask that if an election were held tomorrow, what would be your voting preference. We measure the degree to which that support changes on account of current public issues.

Consistently, you would be pleased to know that our membership has always been supportive of the Conservative Party, both as the government of the day as well as in terms of the formal party, on various and a number of issues we have put before them, whether it be pension reform, health care or other things.

On this point, they were very opposed to the issue of OAS and the changes that were suggested, even though they knew right from the beginning that they themselves would not be affected. They were concerned about the social safety net as a public policy issue. They were even more offended by the lack of opportunity for full public discussion, and that is something we reflect in the answers they gave us in the polls.

In that case, despite a historical trend of supporting the Conservatives over others on a consistent basis, the trend line actually reversed. Given that they are usually more supportive of the Conservative Party than is the general population, this reversal was interesting to the media. When we get these numbers, we report them if they are of interest.

As I mentioned, we do reprint those media articles that cover our quotes or our initiatives and leave them up for everyone to see. We try to keep a balance of all of the reports that are out there so our members have an opportunity to see all that is there.

We do our best to maintain a non-partisan position. You have picked on two titles that seem non-partisan in your opinion, but I encourage you to look at all of the other articles that try to present a broader perspective.

Senator Runciman: It is pretty nasty. It should not have gotten by your screeners, in my view.

Senator Seth: I am learning so much as I am not a permanent member of this committee. I sit on the Standing Senate Committee on Social Affairs, Science and Technology. It has been a good experience listening to all of you, but I want to go away from the subject.

Ms. Eng, as millions of baby boomers age and family sizes decrease, do you not agree that the provisions of Division 54 of Part 4 of Bill C-38 will help us bring the exact type of immigrants we need to help boost the economy and provide senior aid programs?

The Chair: Did you say Division 54?

Senator Seth: Yes.

The Chair: We are not dealing with Division 54. Division 24 is under study today. Do any of our witnesses want to comment on immigration issues in Division 54 of Part 4?

Senator Seth: It is related to what we are talking about here.

Ms. Eng: I do apologize; I have not looked at Division 54.

The Chair: Nor were you expected to or told to.

I am sorry, Senator Seth, but your question seems to be beyond the witnesses' mandate. If you want to come on round two with another question, let me know.

Senator Finley: Ms. Eng, you made a statement about 2.5 per cent public pension expenditures of GDP in Canada — Senator Smith made reference to this — and then 7.5 per cent up to 14 per cent in other countries. It is kind of a disingenuous statement. Can you absolutely guarantee to this committee that is an apples-to-apples comparison?

Ms. Eng: It is the GDP, the proportion of the country's output that is being spent on elderly benefits. That is a straight comparison.

Senator Finley: With respect to the numbers for the other countries, that is the sole thing involved in their 7.5 to 14 per cent? Is that what

you are saying?

Ms. Eng: These are the same numbers they use for the category called “elderly benefits.”

Senator Finley: There is a lot more to elderly benefits than pensions.

Ms. Eng: We call our OAS and GIS “elderly benefits.”

Senator Finley: Do the Italians, the Greeks and the Spaniards have exactly the same definition and therefore the same —

Ms. Eng: We use the definition that OECD uses.

Senator Finley: I am not asking what you use. I am asking what the other guys do. You cannot say A equals A if it does not. That is what I am asking. Are you telling me that your statement about 2.5 per cent is entirely translatable to the 7.5 and 14 per cent?

Ms. Eng: It is the amount of money they spend out of public coffers on the category called “elderly benefits and public pensions.” You realize, of course, that in Canada our pensions are funded not by government but us paying into the CPP, for example. Therefore, our CPP would not be in that category. In other countries it is a state pension, and that is comparable to the OAS, which is paid out of public coffers.

Senator Finley: I am obviously not going to get where I would liked to have gone with this, so I would like you, if you would please, to provide the committee through the clerk with the matching statistics that you just stated.

Ms. Eng: We would be happy to. I do have a copy of this.

Senator Finley: I am asking you to do that, please. I do not have much time.

The second question I have, also as a follow-up to Senator Smith, is the poll that you did. You did an online poll with how many responses?

Ms. Eng: We did several polls during this period of time, since January.

Senator Finley: What I am interested in is the initial poll where you had the immediate reaction. How many responses did you get?

Ms. Eng: I would be mistaken if I tried to guess the exact number. We had four polls in the last little while, and they range from about 2,500 respondents up to about 4,000 respondents. I believe that first one was within that range.

Senator Finley: So 2,500 out of 90,000 email addresses out of 300,000 members. I would accept the fact that that would be a scientific data set as long as you can tell me that the polling company that is doing this is following all of the new sciences of online polling, such as maintaining communities, profile groups, understanding the demographics, et cetera. Can you guarantee that is what is happening?

Ms. Eng: I am afraid that I am not qualified to talk about the polling industry and its dynamics. I am satisfied that online polling is something new, and some criticism is levelled against it. We make it clear that this is a self selected group of people who answer an online poll, and we reflect it as such, as a snapshot of member opinion.

In terms of the representativeness of the number, remember that the public polls that you hear about are 1,500 respondents out of a population of 35 million people here in Canada. It is not — I am sorry —

Senator Finley: Those numbers, with all due respect, Ms. Eng, are scientifically arrived at, understanding the balance rate between gender, age, and a variety of other things. Your poll does not appear to reflect that, but, rather than just be apparently critical, I would invite you to supply the data sets, the questions and the timing of the polls, please.

Ms. Eng: All of that is available, yes.

The Chair: Ms. Eng, you were cut off. We would like to give you the opportunity to finish your sentence.

Ms. Eng: I would appreciate that.

The polling industry will be the first to admit that polling is more of an art than a science, and the standards that they use are the ones that we try to follow. We do have a professional pollster who writes the polls for us and analyzes them, and he assures us that these are reliable numbers. We do not try to say that this is scientific. We simply say it is a reflection of the opinion of our membership, and that is as far as we take it.

The Chair: If you can provide us with the information that you have been asked for, it will get to all the members.

Ms. Eng: Thank you.

The Chair: Senator Finley, you still have the floor.

Senator Finley: I would like to address Mr. Stanford. You said in your introduction, and I do not have the exact quote — I am not a stenographer — that there is no significant fiscal reason to up the age. This is essentially a temporary bubble through the demographic map. Does that reflect what you said?

Mr. Stanford: I think that is a reasonable interpretation; thank you, senator.

Senator Finley: On what assumptions is this based? This is 20 years from now. Are you assuming, for example, everything else stays as is, that all the relationships between government expenditures, revenues and so on do not change, and therefore OAS does not need an adjustment, or have you other data to support that?

Mr. Stanford: The main source I have been using, senator, is the Chief Actuary's report, which forecasts the level of OAS and GIS benefits, the number of recipients, the total cost of the program, and then reports as a share of GDP, which, in my judgment, is the appropriate denominator with which to analyze the relative costs of this program.

Earlier today, we had a discussion about the share of OAS benefits in total federal program spending, which I think is a less meaningful

denominator because that does depend on everything else that the government is changing its spending on. In fact, over the coming years, federal program spending is declining as a share of GDP, even though the absolute number of dollars being spent is growing.

According to the Chief Actuary's report, the total envelope of OAS/GIS and the administration costs of it for this year will be around 2.4 to 2.5 per cent of Canadian GDP. That grows over the next two decades, as that bulge in our demography works its way through the retirement age; then it begins to decline again. According to his forecasts, it starts to decline as a share of GDP, in the year 2031, some 19 years from now, and then it starts to fall. That is because we did have the baby boom after World War II, which means you have a disproportionate number of Canadians in that particular age group, so we will have a slightly disproportionate burden to pay for their retirement when they get there.

During that 19-year period, the system peaks at 3.16 per cent of GDP; then it starts to decline again. That rise in the economic burden of the program, as it currently stands, of about 0.6 to 0.7 per cent of our GDP, is entirely manageable within the current general fiscal capacity of the federal government. I do not think it would require dramatic tax increases, and it would not require dramatic spending cuts in other program areas.

Senator Finley: Thank you for that explanation of the baby boom.

Would you agree that things like OAS, EI and other corporate tax cuts, for example, are part of an overall economic package — a plan? They have to be. If you increase one here, you may have to take away from something here.

For example, I know that you have predicted 46,000 jobs lost because of corporate tax cuts. I know that you have suggested that if we stay in a trade treaty with the economic union, there would be 150,000 jobs lost. In your book, you recommend more centralization and more of a socialist purview, if you like, and I understand all that. However, you have to be looking at a total package of programs. You cannot say, "Well, this in isolation will make this impact, but we need this in another isolation," and I listened to people yesterday on EI and

the day before on EI. Are you really taking into account the whole economic package when you say there is no reason to fiscally change the structure of OAS?

Mr. Stanford: I think I am, sir. I am looking at, first of all, the federal government's current fiscal situation. We have a situation where we have a deficit today in the order of 1 per cent of GDP, which is small. That deficit is clearly cyclical in the sense that until the recession hit, the government was running repeated surpluses.

Then, as we are recovering from the recession, the deficit is shrinking rapidly, primarily because of economic recovery, more so than proactive spending.

I am looking at the federal government's debt situation, and the debt ratio as a share of GDP is about 35 per cent, and that is declining.

Without doing anything, just maintaining the current profile of spending and taxes, the government will find itself back in surplus within a very short number of years. Without increasing taxes dramatically at all — in fact, just probably maintaining taxes — I believe in the future we will be able to pay for that temporary and modest increase in the overall economic burden of OAS. In that context, I think it is entirely sustainable today, and that is the judgement of others who have looked at overall picture, as you say, sir.

The Chair: Can I put you down to round two?

Senator Finley: Sure.

The Chair: Thank you.

I have three names still on round one. We are coming along nicely.

Senator Callbeck: There has been so much talk about whether OAS is sustainable or not. The Parliamentary Budget Officer has said, in no uncertain terms, that it is sustainable. We just heard from Mr. Stanford the figures from the Chief Actuary that show that in 2012 it is 2.43 per cent of the GDP, and then it goes up some, but in 2060 it is 2.35 per cent, which is actually less than it is right now.

What I find strange about all of this is we asked the government for figures — obviously, they analyzed this — but I cannot understand why those figures were not released to show us why they think it is not sustainable. In this committee, we have asked bureaucrats and ministers several times, and the only answer I have ever heard is, “Well, other countries are going in this route.”

Do you think that is strange? Why do you think the government will not release the analysis? They are asking us to vote on this piece of legislation. They are saying “Trust us; it is not sustainable,” when we have other credible people like the Parliamentary Budget Officer and the Chief Actuary, who has put out a report that obviously shows that it is. Could I have a comment from anyone?

Ms. Eng: I think there is an opportunity to look at those kinds of details much more carefully than the rush that is taking place right now to put this program through. It is not going to take place, not going to have the first effect for nearly 10 years. There is an opportunity for full and complete debate where questions like that can be more fully answered with proper experts, myself excluded, in terms of getting those numbers on the table and looking at other options as well.

Mr. Clemens: I cannot speculate on why the government would or would not do what you have asked them to do. I am happy to respond to questions with respect to what I have presented, but I am not here as a representative of the government.

Senator Callbeck: Do you not find that strange?

Mr. Clemens: I find a lot of things in life quite strange. After spending three and a half years in the United States, it is difficult to surprise me with respect to government policy.

Mr. Stanford: I spent four years in the United States, and it is difficult to surprise me, too.

Senator Ringuette: Thank God you are back in Canada.

Mr. Stanford: Hear, hear; I agree.

Senator Callbeck: It makes for a confusing situation.

Ms. Eng, you referred to single women and divorced, unattached women who are the hardest hit. You give some statistics here that show that for women over age 65, 20 per cent live below the poverty line. If we look down the road, that will get worse. It is 30 per cent for single women between the ages of 45 and 64.

As you mentioned, under the OAS program there is an allowance and there is a survivor's allowance. However, a single or a divorced or a separated person cannot apply for it, which does not make any sense to me at all because they are the people who are hardest hit financially.

Have you approached the government about this? What is the response?

Ms. Eng: We made this recommendation when we had an opportunity to present on pre-budget consultations with the Finance Committee and we raised it individually as well with the finance department. Yes, this is a category of people who need particular support. There is a gap in public policy at the present time. If there were an opportunity to fully examine the OAS and GIS programs and the spousal allowance and this issue were to arise, there would be an opportunity to address it. However, that is not on the table here, and it is not on the table anywhere at the moment. It is a growing concern.

Despite the gains for women's equality in pay over the years, we still have a generation of people who are not as well off. The poverty rates among older women and those over 65 are in the double digits as compared to those in couples and men. It is a continuing concern, and it has not been resolved by the gains that we have had in society for women's wages.

Senator Callbeck: I have an inquiry in the Senate right now on this issue because I do not think it is fair at all.

Ms. Eng: No.

Senator Callbeck: The women who are finding life the hardest from a financial point of view are not allowed to apply for this allowance.

Ms. Eng: No.

Senator Callbeck: Mr. Clemens, you wrote an article about the tax credits and you felt, I think, that most of them should be eliminated because they do not really help the people who need help the most.

Mr. Clemens: To which tax credit are you referring?

Senator Callbeck: I read an article that you had written about these special tax credits, but they do not help people, for example, who do not pay income tax.

Mr. Clemens: You mean the article I wrote on tax expenditures?

Senator Callbeck: Yes.

Mr. Clemens: I wrote an article in February indicating that I was and am concerned about the increase in the tax expenditure portfolio on a whole set of programs where we are basically giving money to groups who are already doing what they were doing before we gave them the money. As an example, there is the Children's Fitness Tax Credit. First, it is only \$75; and, second, by and large we are giving money to people who were already doing that. The incremental benefit is very small but it costs us. The question I raised is, one, it complicates the tax code; and, two, what is the necessary benefit of those expenditures? As you know, these expenditures do not show up on the spending but on a completely separate report.

I would like to see a curtailment and elimination of many of the tax credits. Use those resources either to correct a direct spending program, which I think is more accountable because it does get reviewed; or lower marginal tax rates to provide families more money directly. By lowering marginal tax rates, we will change incentives for behaviour like work effort, investment and saving.

The tone of the piece was not to eliminate all of them, but I did say that I would like to eliminate some of them and curtail others.

Senator Callbeck: I certainly agree because there are so many people who cannot take advantage of those tax credits. People who really deserve the help the most are not getting it at all — people who

do not pay income tax, for example.

Mr. Clemens: My work on that was prompted — and Mr. Stanford may concur — by my three and a half years in the United States. One of the things that were quite striking to me was the fact that the average person — and even well-educated people — had no understanding of the tax code. It is such a dense document that well-educated people, let alone average people, do not understand it. It is impenetrable. My concern over the last four or five years is that our tax code is getting very complicated. I do not think we should go down the road of further complicating the tax code.

Ms. Eng: I used to be a tax lawyer. It was always in our interests to keep the tax code as complicated as possible to guarantee our future income. I would, however, agree that tax credits do not always do what they are supposed to. One of the ones I have raised before this committee before is the Family Caregiver Tax Credit, which is not available to those who do not pay taxes. There is an opportunity here to redirect those dollars to more targeted relief. If you want to support people who need the help to support family members, for example in that case, then a spending program is much more accountable. In that way, I would agree.

Senator Comeau: I am trying to get a sense of the numbers of those who would be most impacted if we presume that this program will be implemented. Also, we can probably presume that some people between the ages of 65 to 67 will continue to work an extra two years. We can also presume that some people will have private pension plans and that if they wish to retire at 65, they will be covered.

I am trying to get a sense about the numbers of those low-income seniors who will be impacted because they need to retire at age 65 due to ill health or for other reasons. Do any of the witnesses have any sense of a number on this?

Ms. Eng: I would again set some parameters. The recent change in last year's budget, where the top-up was increased for the lowest income seniors by the government, was a very welcome increase to the GIS payments. In that case, they were addressing 160,000 of the most needy of Canadian seniors.

Today about 35 per cent of all those who are receiving OAS or are eligible to receive OAS receive GIS. It is a high proportion of the seniors who have some need for the additional supplement. Not all of them are getting the full amount, of course.

Senator Comeau: I am talking about those who need to retire because they are 65, can no longer work and have to retire.

Ms. Eng: There is not an estimate. We have to draw proxies from the number of people who receive GIS today and are eligible after qualifying, and of course the much lower income group addressed by the GIS top-up.

Senator Comeau: I will try to get the number elsewhere.

Ms. Eng: There would be about 300,000 people who live under the poverty line today.

Senator Comeau: I do not think you understand where I am going with this. I want to get a sense of the numbers of people who have to retire. In other words, at 65 they cannot work anymore. It is okay if you do not have the numbers. I am fine.

Ms. Eng: I will try to get them as well.

Senator Comeau: That would be helpful.

Mr. Clemens, you made a comment, and like Senator Finley I am not a stenographer, so I did not get the sense of where you were going. However, you indicated that we should be targeting the needs of seniors in high-cost urban settings. I may be paraphrasing somewhat. One then has to presume that there is a higher cost to living in an urban setting versus a rural one. I presume that is where you are going.

Mr. Clemens: Yes, senator. In addition, we do see reasonably important differences in basic costs of living between the major metropolitan areas such as Toronto, Vancouver, Calgary and smaller urban areas. You would have multiple differences and so part of the issue that we would like to see discussed is the adequacy of GIS and OAS for lower income seniors, both in two-adult households as well

as single. If you look at them living in Toronto versus my hometown of Windsor, they get the same benefit, but that money is going to translate into a different level of living standard just because of the basic costs of living.

Senator Comeau: I would be interested in the study, if you could. I am trying to picture a senior living in a rural setting who must have a car because there is no mass transit, whose doctor is probably miles away, as are the hospitals, drug stores and stores. I am trying to get a sense of how much cheaper it is to live in a rural setting versus an urban one. I presume it probably is, but it would be nice to know.

Mr. Clemens: There are two data sets that I am aware of. The first is the Statistics Canada series on the CMAs and some of that will relate to less urbanized areas. In addition, Chris Sarlo from Nipissing University has done detailed work on basic cost of living by region, by city, and I would be happy to pass that on.

In addition, the interesting question if you wanted to pursue how best to differentiate the benefit based on cost of living would be: Is it best done at the federal or provincial level?

It seems to me it is a worthwhile consideration of how to best achieve that, but I would be happy to pass the information on to the chair.

Senator Comeau: Mr. Stanford, you indicated five areas that should be considered. I think the fifth one was the consequences of youth employment and so on. One of them was the impact on existing pension plans. I did not quite understand what you meant by that consequence. Could you go over that again for me?

Mr. Stanford: I would be glad to. Many workplace pension plans define a benefit that the member of the plan will receive at a certain point when they qualify for retirement. In many plans — these plans are called integrated plans — the formula for the benefit incorporates the impacts provided by the public pension system, always including the Canada Pension Plan and in some cases including the OAS benefit as well.

The plan specifies a certain formula, a certain share of income, often specified in per cent per year of service. A plan might provide say

1.6 per cent of your benefit per year of service with the company. Then the plan calculates how much pension you receive as a result of that. It is integrated with the CPP in the sense that it will be part of the distance that must be covered.

Another way that the integration of the plans could have some impact is through early retirement provisions where the plan targets a certain level of benefit which allows you to retire at 60 or 62 and provides you a bridge benefit until you reach 65. Then you qualify for the public pension system. In circumstances like that, the fact that you are deferring a big chunk of your public pension for a couple of years could, depending on the language of each particular plan, impose additional costs on the plan.

Even if the language does not require that the gap be filled in by the plan, we can be sure that members of the plan will be pushing to have that gap covered. You do not want to have a situation where your income is at a certain level from 60 to 65, suddenly drops for two years and then comes back up when you get to 67. These are some of the complicated and unintended consequences by a unilateral decision to push part of the plan off by a couple of years. If we were doing genuine due diligence on an issue like this, we would call in the sponsors of major workplace pension plans, find out the language of how those plans work, and discuss what the impact on their plans is likely to be of a deferral by two years of the OAS benefit.

Senator Campbell: For full disclosure, I was once on the advisory board of *Zoomer Magazine*, which is the CARP magazine. I am no longer on that board.

I find myself in a good place as I am able to agree with Senator Ringuette and Senator Finley, both on the same day, which is quite amazing.

There are two issues that may be minor, but do we know the ratio of those who work after 65 because they need to and those who work after 65 because they want to? Do we have any figures dealing with that? The reason I ask is because 65 was sort of arbitrarily picked at a point in time; if you made it to 70, you were doing pretty good. Now we know that is not true, and I do not know anyone. I know people

who say they would like to retire, but when you dig down deep with them, they say, “I do not golf and I do not fish; I like the social portion of work.” Do we have that ratio?

Ms. Eng: I do not have access.

Senator Campbell: We always trot it out. Do we have any information on that from any of the witnesses?

Ms. Eng: I am not aware of that information. I am not sure it has been gathered, simply because it is a relatively new phenomenon to even start looking at the question. It was just assumed that people left at age 65 because that is when their pensions kicked in. Now there is a new phenomenon where more and more people are extending their work career past 65. I do not believe that I have seen the statistics gathered to give you a precise proportion.

Mr. Clemens: I am not aware of the statistics.

Mr. Stanford: I am not aware of any quantitative research on that question, and that again is one of the reasons I think policy initiatives like this require more research and consideration.

Qualitatively or anecdotally, let me tell you what I hear from many of the members I represent in terms of the issue of working past 65. Some people who have a relatively interesting, pleasant job that is not physically demanding are very much in the line of thinking, “Yes, this is not so bad; I enjoy it and would like to stay on a bit longer.”

On the other hand, I tend to come across a larger number of people whose jobs are not pleasant, may be physically demanding and take a toll on your body and psychology as you go through life. For them, the prospect of losing two years of that golden age — which was the light at the end of the tunnel that gets them out of bed on Monday morning — is quite distressing.

As with life expectancy itself, the point I made earlier is that there is tremendous inequality out there in terms of what it actually means to work an extra couple of years. In some cases it is not a bad idea, but in many cases it is a very daunting idea.

Senator Campbell: Do we have any statistics on how many senior couples are making \$140,000 a year? That is another one that is brought out here and we continue to use it. How many people are out there are each making a salary of \$70,000 a year?

Mr. Clemens: I can certainly get you those statistics. I do not have them with me.

Senator Campbell: There are statistics that will tell you that?

Mr. Clemens: There are multiple sources, but the source I would use is the Canada Revenue Agency's data where you can control for age and income.

Senator Campbell: You have looked at those?

Mr. Clemens: I have looked at them, though it has been a while. Regardless, I can certainly get you that information.

Senator Campbell: Any ballpark figure of how many we are talking about? How many couples are there?

Mr. Clemens: I try not to speculate, but my —

Senator Campbell: If you are to come here and use this example, you need to be here with the backup that goes with it.

Mr. Clemens: I understand that, senator, but let me clarify. The point I was chiefly trying to make was my disappointment that this issue was not even on the table for discussion. It does seem to me that if we are concerned with GIS as a shield against low income, then given these changes, one of the ways to deal with that is to more aggressively claw back the benefit.

Senator Campbell: However, you cannot do that and you cannot make that suggestion if you cannot tell me how many numbers there are. There might be eight. There might be 200,000. We do not know. That is the frustrating thing: People throw this out there, and when you have to then ask what it is, how can I make a judgment on that?

Lastly — and this is from Senator Finley, and I think he is right — this

will take place in 11 years. The gap between the time this comes into place and when we find ourselves back in the same position or in a better position than we are now, as Mr. Stanford said, is a total of eight years. Therefore, Mr. Stanford has a point, too.

I think this is a plan; I think that it is a Conservative plan. They are the government. I think you have to look at everything, but I also believe that, over the next 11 years, I hope we will be able to have a fulsome discussion on this. Things change. The economy could change. It could get worse. If the economy goes in the tank, this might be looking pretty damn good to us.

I do not like omnibus bills. I would like to have a great discussion on this, as I would on the other one. I think we have to recognize that we do not have all the information and we will not get all the information. However, if I were a betting man, I would be willing to bet that over the next 11 years we will get that information. I would also be willing to bet that what we see here we will be looking at and saying, "That was 2012." I am almost convinced of that.

I am tired of coming to committees where people throw numbers at me and then, when I try to figure out what they are, the response is "We will get them to you." You guys would not be back here and I would not be back here to get to them.

I appreciate you all coming — I think all three of you have incredible knowledge. I thank you.

The Chair: We are now into round two with short, snappy questions. We have nine minutes and three people on the list. They will get three minutes each. I will have to be quite rude and cut you off after three minutes.

Senator L. Smith: In following up Senator Campbell, the concern I have is the world economy moving forward and the returns with pensions. In your deliberations, could all three of you comment: When people are forecasting out to 2030 or 2040, what types of returns are we forecasting? It goes back to Senator Campbell's question: How legitimate are they?

Mr. Clemens: Do you mean in private pension plans or in the

baseline assumptions?

Senator L. Smith: The Canadian government has a pension plan — OAS, CPP. They need to have a certain return in order to substantiate what they are able to pay out, I assume. In your studies, what type of information do we have on returns, and what is the likelihood of volatility on returns over a significant period of time and how does that influence where we are going with pensions and with extended life spans? I am not sure we have all these numbers, but I am looking for comments from the three of you.

Mr. Clemens: On the CPPIB, they have exceeded expectations over time. There is generally less concern on the Canada Pension Plan. I do not know of anyone who is raising alarm bells about the sustainability of the CPP through the baby boom. On OAS, it is more complicated because what you are really talking about is the increase in general revenues, because that is where the funding for OAS/GIS comes from. It is not a pre-funded program in that sense.

I think on the private pension plan side, the real concern — almost the totality of the concern — rests with the defined benefit program. The rate of return, while worrisome on the defined contributions, is different because of the liability differences.

The concern on the private side would rest largely with the defined benefit programs.

Mr. Stanford: I will supplement that, if I may. The concern is just as acute on defined contribution plans in the private sector; it is just that it is the individual who bears the risk rather than the plan sponsor.

In terms of the issue of the OAS, there is no need to forecast investment returns because it is financed out of general revenue. The key issue there will be around nominal growth of GDP and job creation and so on; those will be the forecasts that went into the Chief Actuary's simulations, the Parliamentary Budget Officer simulations, and the OECD simulations, all of which indicated that the funding for the OAS seems to be quite sustainable.

Senator Ringuette: Ms. Eng, Senators Smith, Runciman and Finley have questioned your poll and have asked you to table the

demographic, data set and so forth. I, in turn, would like to ask these three senators to table to this committee all the polling with taxpayers' dollars done by PMO, PCO, HRSDC and by the Department of Finance in regard to the issue of OAS and GIS. Also, in regard to the issue of data, information, accountability and transparency, I would like for them to supply all the analyses and reports that have been tabled to PMO, PCO, HRSDC and the Department of Finance in regard to OAS and GIS.

The Chair: Interesting question. I rule it out of order because these senators are here the same way as the other senators: to hold the executive to account. The money that you have indicated you want to know about, Senator Ringuette, was spent by the executive branch, not by the parliamentary branch.

Senator Ringuette: Let me rephrase my question, then. Could our clerk request this information through access to information, if it is not freely provided by PMO, PCO, HRSDC and the Department of Finance? The information I seek is in regard to any kind of polling, analysis or report that has been provided to all four of these departments in regard to OAS and GIS?

The Chair: We will take that under consideration.

Senator Finley: It is interesting to hear Senator Ringuette going on about accountability and transparency. Her party has voted against every single bill on that in the last six years.

You guys are good at projecting forward, obviously — you have come up with a lot of stuff — but I want to go back to a period in time. This leads to Senator Campbell's point about things changing.

Governments change, too. In the early 1990s, Prime Minister Chrétien and Finance Minister Martin recognized that there was a looming issue with OAS. I do not know how public this is — I am working here from memory — but they did talk about changing the age of OAS from 65 to 67 over a period of 24 years; in other words, changing it one month at a time every year for 24 years. What do you think the state or condition of the OAS system would be now if that had been done then?

The Chair: Does anyone wish to speculate on that very speculative

question?

Senator Finley: It is no more speculative than 20 years forward.

The Chair: Does anyone wish to speculate on that question?

Mr. Stanford, are you getting ready to speculate?

Mr. Stanford: Yes, I am speculating from heaven, again. If the retirement age had been deferred two years, then you would have a group of seniors today who would be poorer. Some of them would be a lot poorer; some of them would be a bit poorer; and the government's spending would be a couple of billion dollars lower than it is today. That is a fairly safe judgment to make.

Mr. Clemens: I have two points. First, as you have brought up, senator, part of the understanding is the other moving part. For example, the extension of the RRSP program and the introduction of the Tax Free Savings Account are important considerations that we will want to monitor over the next decade to see what the uptick is. It may well be that there is a group of people, and Mr. Stanford mentioned he is concerned about the middle class, who may self-finance a substantial portion of that gap. As part of the speculation backwards, the question would be: Were there other measures that would have been taken in accordance with the change in old age retirement?

Second, what observance would we have made of labour force participation for the elderly, which several senators have asked questions about and which is important?

Senator Finley: The same moving parts as we have going forward, maybe by a different name.

Mr. Clemens: Absolutely. The only difference I would make between what we expected in the early 1990s versus what we expect now is that today, we generally expect a fairly marked labour shortage. In many ways, we will have to encourage/incentivize older workers to remain active in the labour market in some way or form.

Ms. Eng: Any change of this magnitude, if properly prepared for, is sustainable by any government at any time. Our focus has been to

say that if you just make one change in isolation, there is the danger of creating unintended consequences and negative impacts on people who can least sustain it. That is why we encourage broader debate and resistance to making a change like this at this time.

Senator Finley: That is in coordination with a whole bunch of other changes, which is actually what you are proposing.

Ms. Eng: Those other proposals are not on the table.

The Chair: Senators, please join with me in thanking Mr. Jason Clemens, from the Macdonald-Laurier Institute; Ms. Susan Eng, from the Canadian Association of Retired Persons; and Mr. Jim Stanford, from Toronto — or heaven — appearing on behalf of the Canadian Auto Workers.

We will have to get a different backdrop for you next time, Mr. Stanford; you look like you are in the clouds.

Thank you very much.

(The committee adjourned.)