

Old Age Security

Because of the possible changes in retirement patterns that such an incentive to early retirement might have, it is not possible to estimate accurately the total cost of permitting voluntary retirement on full pension at age 60 under the Canada Pension Plan and the Old Age Security program. We can, however, make some observations and approximations which might prove useful in considering the possible effects of such a decision.

First, I might note that at present 13.3 per cent of the population of Canada over age 20 is over 65 years of age, whereas 19.3 per cent is over 60 years of age. If we were to imagine for the moment that the entire population between 60 and 65 years of age were to retire, then clearly the cost of retirement programs would increase by at least 45 per cent. This would increase Old Age Security costs which, as you will recall, would already have risen to \$9.7 billion, by another \$4 billions, making the total cost 13.7 billion per year, or nearly 3 times the present total annual cost of the OAS program.

This speculation of mass retirement is not very far-fetched in the long view, if we consider the possibility that lowering the retirement age to 60 for the federal government programs might eventually lead to its being adopted as the normal retirement age in Canada. If we suppose, however, that only the approximately one half of the population between 60 and 65 who are not now in the labour force were to take advantage of this early retirement proposal, the cost of OAS would still rise by about \$1 billion annually at the current benefit rate, or \$2 billion at the proposed \$300 rate. This in itself is more than ten times the estimated amount currently spent on social assistance for persons aged 60 to 64, excluding the spouse's allowance.

If this proposal also suggests that these people in the 60 to 64 age category receive full GIS as well, this would make the total annual program cost of Old Age Security nearly \$12.2 billion, almost \$7.7 billion more than the cost of the current OAS program.

In the Canada Pension Plan, we find a similar pattern. If all eligible persons were to retire at age 60 instead of 65, then the CPP beneficiary population would jump by almost one half. In the long run, the contribution rate would also have to rise by almost one half to pay for these benefits. Since it is now projected that the CPP contribution rate will have to more than double in the next fifty years, we might wish to reflect whether we have the right to commit succeeding generations to such an additional burden.

If legislation were introduced to allow CPP retirement pensions to be payable at age 60 in 1979, and if we assume that only half the eligible population takes advantage of early CPP retirement, we find that benefit payments would rise by \$40 million in 1979 and would cost an extra \$640 million by 1985.

The tale of financial woe does not end, however, with increases in numbers of pensioners and the dollar amount of benefits paid. We must remember also that, by increasing the number of pensioners, we decrease the number of people in the labour force who must pay the taxes and make the contribu-

[Mr. Philbrook.]

tions to support the larger population of pensioners. In other words, we are not simply increasing by five the number of years for which the eventual pension must be paid, we are also lowering by five the number of years in which the individual contributes towards the benefits of others.

The effect might be made clearer if we think of the individual as "earning" his or her own eventual retirement through active participation in the economy and in Canadian society prior to retirement. A person who works from, say, age 20 to age 65, a total of 45 years, and then retires and lives a further 15 years to age 80, has, in effect, worked three years for every year of retirement. If we lower the retirement age by just five years in this example, we find that the individual has worked only two years for every year of retirement. Clearly the amount that is set aside in respect of every working year to pay for the eventual benefit must be considerably increased.

One final and vital factor must also be considered and that is the changing population profile in Canada. Our birthrate is dropping and is now well below the replacement rate. This means that the average age of our population is rising. If present trends continue, some demographers estimate that the ratio of retired persons to workers in the labour force will nearly double in the next fifty years, even with the normal retirement age still set at 65. This means that the tax burden required of each worker to pay benefits for the retired population will increase over the next fifty years. It is said that if we lower the normal retirement age to 60, the ratio will be three times what it is now and the eventual tax burden therefore three times as great.

There are other, hidden costs associated with lowering retirement ages and increasing benefits, on which we can only speculate. If income security benefits such as Old Age Security are drastically increased, will this encourage people to become more dependent on public pensions and to decrease their personal retirement savings? Certainly, the average private pension benefit will have to be smaller, or the contribution rate much higher, if we lower the average working career by five years, and increase the average payment period by the same amount.

There is one final point in the member's proposal with considerable financial implications, that is, the suggestion that the indexation of old age security benefits should relate not to the cost of living, but to the "standard of living". While this term may be fairly hard to define, we could take as an example the indexation of benefits in accordance with the average industrial wage, which traditionally has risen more rapidly than the consumer price index by a margin of 2 per cent to 2½ per cent.

If we were to index benefits by 2 per cent more than the cost of living, we would raise the cost of the Old Age Security program by more than \$90 million in the next year alone. If the 2 per cent were calculated on top of the other additional expenditures implied by this motion, the additional cost would be \$310 million.

If we wish to sum up the costs of the member's suggestions as far as they can be estimated we can say that the changes in