

The Old Age Security Fund

Between 1952 and 1972 the Government earmarked personal income taxes, corporate taxes and sales taxes for contribution to a special fund, called the Old Age Security Fund. For individual Canadians, a separate tax, clearly identified on their income tax form, identified the amount of their contribution to the fund. In 1972, the special earmarked tax was discontinued but the fund was credited with the amount of revenue that it would have received had the tax been still in place. The Old Age Security Fund had an accumulated deficit of \$121 million when it was abolished in 1975.

A number of witnesses that appeared before the Committee stated that payment of the special earmarked tax between 1952 and 1972 set up an obligation on the part of the Government to deliver OAS benefits to contributors to the fund. The statement by representatives from the Federal Superannuates National Association is indicative.

"People paid for something, and when they reached the age at which they would become eligible they expected to have that paidIn effect the government has changed the rules of the game because it extracted a payment This has been a clear breach of that undertaking and I do not think that you gentlemen or the government would allow a similar breach of an undertaking, for example, by an insurance company that had provided an annuity and then turned around and refused to pay it when it was due."(27:8)

The idea that the Government has a legal obligation to contributors to the Old Age Security Fund runs through the testimony of several witnesses. However, evidence submitted to the Committee indicates that the system did not operate on a contributory basis as an insurance scheme would. Individual benefits were not linked to individual contributions nor were overall benefits equal to total contributions in any one year. Before 1960, shortfalls were treated as current expenditures by the Government. After 1960, annual shortfalls were paid from accumulated surpluses, if these were sufficient. Otherwise, the federal government lent money to the fund to cover the shortfall. Furthermore, the House of Commons debates show that the Government's purpose in establishing the ear-marked system was not to set up an actuarially-sound fund but as a means of showing Canadians the cost of funding the program.

Although the Government may not have a legal obligation to provide Old Age Security benefits to contributors, the special tax did lead many Canadians to expect that they would continue to receive OAS benefits. As a result, the Committee believes that a moral obligation to these taxpayers may exist on the part of the Government and, it