

## Today's Objectives

- To discuss the economic problem of old age and ways to attack it
- To discuss Old Age Security (OAS)

## Module 2 – Old Age

### → Overview

#### Economic Problem of Old Age

The economic problem of old age consists of the following:

1. Growing population of older people
2. Loss of earned income because of retirement
3. Longer retirement period
4. Insufficient income and assets
5. Poor health
6. Long term care
7. Heavy property taxes
8. Inflation
9. Other financial problems
10. Abuse of the elderly

## Module 2 – Old Age

### → Overview

### Economic Problem of Old Age (continued)

#### **5. Poor health**

- Those in old age see doctors more, are more likely to become disabled, have longer hospital stays, need more prescription drugs
- We will also look at this area further

#### **6. Long term care**

- This deals with receiving care in a nursing home or some other health care facility (including home care)
- We will also focus on this area

## Module 2 – Old Age

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## Economic Problem of Old Age (continued)

### **7. Heavy property taxes**

- Property taxes can be significant portion of income
- Increasing rent can also be a problem (esp. for those on fixed income)

### **8. Inflation**

- Affects cost of food, housing, clothing and other expenses

### **9. Other financial problems**

- e.g. transportation costs

### **10. Abuse of the elderly**

- Financial exploitation and scams

<https://www.bloomberg.com/news/features/2018-05-03/america-s-elderly-are-losing-37-billion-a-year-to-fraud>

## Module 2 – Old Age

### → Overview

### Attacking the Economic Problem of Old Age

- Various techniques can and have been used to help address old age problems such as; retirement (no more working income), reduced health (using health care system more), nursing home, poverty among the elderly
- These techniques include
  1. Continued employment
  2. Retirement planning programs
  3. Age discrimination in employment laws (addressing discrimination)
  4. Tax relief
  5. Other measures
- **We will focus on attacking the problem of the loss of earned income because of retirement**

## Module 2 – Old Age

### → Overview

#### Attacking the Problem of Loss of Earned Income because of Old Age

- The (*traditional*) **Three Pillars of Old Age Financial Security** (aka the three-legged stool)



Pillar I – Government Plans

Pillar II – Group or Employer (E'er) Plans

Pillar III – Individual Savings Plans

## Module 2 – Old Age

### → Overview

#### Attacking the Economic Problem of Old Age (continued)

- A few things to consider before we review ‘the Pillars’:
  - a) There are other sources of retirement income (not in “the pillars”), that are worth mentioning:
    - i. Post retirement employment
      - Often retirees work part-time or on contract
      - Around 25% of retirees have income from earnings
      - This has and may become more important in future as pressures build on social security programs
    - ii. Private intergenerational transfers
    - iii. Reverse mortgages and other emerging techniques
      - With a reverse mortgage, part of retiree’s home equity is converted into a steady stream of income payments

## Module 2 – Old Age

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#### Attacking the Economic Problem of Old Age (continued)

b) We need to also distinguish between:

- **Retirement savings** – these are efforts to save money for retirement
- **Retirement income** – turning your savings into income upon retiring
- The two are linked – to obtain retirement income you need to have retirement savings plans/programs in place



## Module 2 – Old Age

→ Government Pension Programs (Ch 2 of *Morneau Shepell Handbook*)

### Government Plans

- The three core components of government retirement plans are:
  1. Old Age Security (OAS) Pension
  2. GIS and Allowance Benefits
    - This includes Guaranteed Income Supplement (GIS), **Spouse's Allowance** and **Allowance for the survivor**
    - These are all **often referred to as "OAS Benefits"**
  3. Canada Pension Plan (CPP/QPP)
- There are also some provincial based supporting programs

## Module 2 – Old Age

→ Government Pension Programs (Ch 2 of *Morneau Shepell Handbook*)

### 1. Old Age Security (OAS) Pension

- OAS provides a flat monthly pension for Canadians age 65 and older who meet certain residency requirements
- *Historical Highlights – Old Age Security Act*
  - OAS pension **introduced in 1952** as a universal benefit (no means test)
    - The benefit started at age 70 and the payment was \$40/month
  - In **1965**
    - Age gradually reduced to 65 (for OAS pension)
    - Monthly benefit gradually raised
    - GIS was added effective 1967 (needs based supplement)

## Module 2 – Old Age

→ Government Pension Programs (Ch 2 of *Morneau Shepell Handbook*)

### 1. Old Age Security (OAS) Pension

- *Historical Highlights – Old Age Security Act*
  - In **1972** benefits were fully indexed (quarterly, to cost of living), started in 1973
  - In **1989** benefits ‘clawbacks’ were introduced (which erodes universality intent)
  - In **2013**
    - Option to defer OAS payments (up to 5 years) was introduced
    - Automatic enrollment process was introduced (completed in 2015)

## Module 2 – Old Age

→ Government Pension Programs (Ch 2 of *Morneau Shepell Handbook*)

### 1. Old Age Security (OAS) Pension (continued)

#### *OAS Benefits*

- Monthly payments (if residency test met) commence at age 65
- **Current max. monthly OAS pension** (Jan 1, 2020) is **\$613.53**
  - Some recipients receive a proportionate amount of this benefit (based on residency criteria - see eligibility comments)
- The OAS pension benefit is considered taxable income
- The OAS pension benefit is indexed to the Consumer Price Index (CPI) and adjusted quarterly
- The 'clawback' provisions results in those with very high income in retirement receiving little or no OAS benefit

## Module 2 – Old Age

→ Government Pension Programs (Ch 2 of *Morneau Shepell Handbook*)

### 1. Old Age Security (OAS) Pension (continued)

#### *OAS Benefits*

- There is the option to defer the OAS pension start date
  - There is an increase of 0.6% in the OAS pension for each month of deferral beyond age 65, but the pension must start by age 70
- Note that
  - i. OAS is paid in addition to CPP benefits
  - ii. If a person is late in applying for OAS, they can apply for up to 12 months of missed payments (with the automated enrollment process that was recently implemented, there are fewer of these cases)

## Module 2 – Old Age

→ Government Pension Programs (Ch 2 of *Morneau Shepell Handbook*)

### 1. Old Age Security (OAS) Pension (continued)

#### *OAS Eligibility*

- To qualify for OAS, a person must apply, provide proof of age and meet the residency requirements
- Fairly detailed residency requirement rules but those who have lived most/all their adult life in Canada will likely qualify
- There are two sets of residency rules that may come in to play
  - i. “Pre-1977 rules” can apply to anyone who was 25 year or older in 1977 and who also resided in Canada on or prior to July 1/77)
  - ii. Current (‘new’ rules) which took effect in 1977

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→ Government Pension Programs (Ch 2 of *Morneau Shepell Handbook*)

### 1. Old Age Security (OAS) Pension (continued)

#### *OAS Eligibility*

#### i. Old or “Pre-1977 Residency Rules”

- Can qualify for the full OAS pension if meet 1 of these conditions:
  - 40 years of residence in Canada after age 18 OR
  - 10 years continuous residence in Canada immediately prior applying OR
  - If applicant did not have 10 years of Canadian residency between ages 55-65, each missing year could be offset by 3 years of residency between age 18 and 55, but must be residing in Canada for at least one year prior to date of application
- Note that these rules now are essentially phased out (those 25+ in 1977 are now more than age 65)

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→ Government Pension Programs (Ch 2 of *Morneau Shepell Handbook*)

### 1. Old Age Security (OAS) Pension (continued)

#### *OAS Eligibility*

#### ii. New or “Post-1977 Residency Rules”

- Need 40 years of residence in Canada after age 18
- Notes
  1. A Proportionate benefit is payable for those with 10 to 40 years of residency after age 18.
  2. If not residing in Canada in year prior to turning 65, then need at least 20 years of residency (after age 18) to qualify for proportionate benefits
  3. Those that were 25 years or more on July 1/77 (and resided in Canada prior to 77) can be assessed under old or new rules (whichever gives best benefit)



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### **Example - Residency Rules**

- Determine what proportion of the OAS benefit each of the 3 individuals below were eligible for on September 1, 2017. Assume each individual was born on September 1, 1952.
  - a) Jim Smith has lived in Canada for a total of 27 years as follows:
    - from ages 18-25 (7 years)
    - ages 32-40 (8 years)
    - ages 48-56 (8 years)
    - ages 61-65 (4 years)
  - b) Tom Brown lived in Canada from ages 23-27 (4 years) and ages 49-65 (16 years)
  - c) Penny Jones has lived in Canada since her 37th birthday (28 years)