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IN BRIEF

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Old Age Security and Guaranteed Income Supplement – Cost of Increasing Benefits

The issue of increasing the benefits paid out under the Old Age Security (OAS) and Guaranteed Income Supplement (GIS) programs has been raised on numerous occasions. For example, a motion introduced in the House of Commons in 2003 stated that: “the government should increase both the basic Old Age Security and the Guaranteed Income Supplement by 10%.”⁽¹⁾

This document provides an estimate of what it would cost the federal government to raise the basic benefits under these two programs by 10%.

OLD AGE SECURITY PROGRAM

The OAS is the foundation of the entire Canadian retirement income program. Funded from federal general tax revenues, it pays a monthly pension to the majority of persons aged 65 and over who have lived in Canada for a certain period of time. According to the Statistics Canada Social Policy Simulation Database and Model (SPSD/M),⁽²⁾ the cost of the program in 2003 is estimated at approximately \$20.54 billion. OAS pensions are taxable at the tax rate specific to each recipient.

GUARANTEED INCOME SUPPLEMENT

The GIS is a payment over and above the OAS to low-income residents of Canada. In order to be eligible for the GIS, Canadian citizens must be in receipt of the OAS and meet certain income requirements. According to the SPSD/M, the cost of the program in 2003 is estimated at approximately \$6.32 billion. The GIS is not taxable.

ESTIMATE AND METHOD

The estimated combined cost of these two programs is, therefore, approximately \$26.86 billion for the 2003 fiscal year. A 10% increase in the benefits paid that same year would raise the figure to \$29.55 billion, at a gross cost of approximately \$2.68 billion

A portion of this amount would, however, be recovered by the government:

- OAS pensions being taxable, the government would receive an amount determined by the recipients' marginal tax rate.
- Based on the probable hypothesis that recipients would allocate all of the additional income to the consumption of goods subject to the GST, the government would recover 7% of the benefits paid out under the OAS (after taxation) and the GIS.

The amount thus recovered is estimated at approximately \$510.39 million, which brings the estimated net cost of a 10% increase in basic OAS and GIS payments to approximately \$2.17 billion (see the Appendix).

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- (1) Motion M-430, introduced by Mr. Paul Crête, (Kamouraska—Rivière-du-Loup—Témiscouata—Les Basques), *Order Paper and Notice Paper*, No. 95, House of Commons, 37th Parliament, 2nd Session, 5 May 2003.
 - (2) Using the SPSD/M, the amounts paid out under the two programs (OAS and GIS) can be estimated according to taxable income.

APPENDIX

Estimated Cost of a 10% Increase in the Basic Benefits Under Old Age Security and the Guaranteed Income Supplement, 2003

	Taxable Income (\$)	Actual Amount (\$ million)	Increased Amount (\$ million)	Gross Cost (\$ million)	Marginal Tax Rates (%)	Transfers to Government* (\$ million)	Net Cost (\$ million)
O A S	0 to 32,183	17,490.60	19,239.60	1,749.00	16	382.68	1,366.32
	32,184 to 64,368	2,854.60	3,140.00	285.40	22	78.37	207.03
	64,369 to 104,648	195.80	212.10	16.30	26	5.08	11.22
	104,649+	0.00	0.00	0.00	29	0.00	0.00
	<i>Subtotal</i>	<i>20,541.00</i>	<i>22,591.70</i>	<i>2,050.70</i>	–	<i>466.13</i>	<i>1,584.57</i>
G I S	0 to 32,183	6,317.00	6,948.70	631.70	n/a	44.22	587.48
	32,184 to 64,368	5.50	6.00	0.50	n/a	0.04	0.47
	64,369 to 104,648	0.00	0.00	0.00	n/a	0.00	0.00
	104,649+	0.00	0.00	0.00	n/a	0.00	0.00
	<i>Subtotal</i>	<i>6,322.50</i>	<i>6,954.70</i>	<i>632.20</i>	–	<i>44.26</i>	<i>587.95</i>
Total	26,863.50	29,546.40	2,682.90	–	510.39	2,172.52	

* Transfers to government comprise tax revenue (for OAS) as well as GST-related income (for OAS and GIS), based on the hypothesis that recipients will spend all additional income on goods subject to GST.

n/a = Does not apply.

Note: Numbers have been rounded.

Source: SPSD/M, Statistics Canada.