

REDUCING POVERTY

1952-1967

Summary

Old Age Security (OAS), the first universal pension for Canadians, was introduced in 1952:

- The maximum pension was \$40 per month or \$480 per year.
- The pension was available to Canadians 70 years of age and over who had lived in Canada for at least 20 years.
- Status Indians were included.
- For the first time, Canadian seniors could receive a pension without undergoing a "means test"¹.

However, retirement still meant a drastically reduced standard of living for many people. There was growing public and political support for a universal, employment-based pension plan that would be portable from job to job. The provinces agreed to another Constitutional amendment to extend federal government powers beyond legislations that applied only to old age.

As a result, the contributory **Canada Pension Plan (CPP)** and **Quebec Pension Plan (QPP)**² were established in 1966:

¹ The "Means Test"

The "means test" was used to determine a senior's income, or means.

The test involved provincial pension authorities calculating all aspects of a senior's income (e.g., pensions, income from boarding house operations, etc.) as well as the value of "perks" they received, such as free room and board. The means test, however, did not take into account how much money a person needed to pay for food, shelter, clothing, fuel, utilities or household supplies.

If a senior's annual income, including pensions, was greater than \$365, he or she was not eligible for the Old Age Pension. The income each received determined the amount of assistance to which he or she was entitled. The problem, however, was there was no specific way to calculate a senior's income. Provincial pension authorities had extensive discretion, so the calculations were inconsistent and varied greatly from province to province. For example, some calculations were based on the assumption of income from property when, in fact, such income did not exist. The value of free room and board varied depending on the province. Because a senior's income depended on where he or she lived, some seniors were denied assistance while others received widely varying amounts.

² **Quebec Pension Plan:** The Canada Pension Plan (CPP) statute permits provinces to opt out of the CPP if they develop a similar contributory program that provides retirement and supplementary benefits.

In 1966, Quebec introduced the **Quebec Pension Plan** as a sister program to the CPP. It has the same contributory scheme and provides retirement, disability and survivor benefits. Representatives of Quebec, the other provinces and the Government of Canada work together to ensure that all Canadian workers and their families are protected.

In 2000, Quebec paid \$6 billion in benefits to about 1.3 million residents of the province.

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- The plans protected workers and their families from loss of income due to retirement.
- Death, survivor and disability benefits were provided.
- Recipients received benefits based on the amount they contributed.
- Status Indians were not included.

The **Guaranteed Income Supplement (GIS)** was introduced in 1967 as a temporary measure to further reduce poverty among seniors. The GIS:

- Was part of the Old Age Security program;
- provided low-income Old Age Security pensioners with additional money;
- helped those who would retire before they could benefit from the Canada Pension Plan; and
- was income-tested; meaning that as the amount of income increased (to a maximum of \$720 for a single pensioner), the amount of the supplement decreased.

By the 100th anniversary of Confederation in 1967, Canada's current retirement income system was in place.

Researcher's Summary

The Old Age Security program introduced in 1952 provided the first universal pension for Canadians 70 years of age and over and an income-tested Old Age Assistance allowance for those between 65 and 69. The Old Age Security pension was not an income replacement measure; it was a safety net that conferred on all seniors who met the residency requirements a basic amount of support.

Private pension plans or savings were supposed to supplement that amount, if possible. However, for most people, retirement meant a drastically reduced standard of living. Even with Old Age Security, the average income for seniors in this period was only around 50 per cent of average industrial wages. Some workers had employment-based pension plans, but they faced several problems: these plans were tied to a particular job, they were not portable, and they usually required very long contributory periods. They were also poor in the area of survivor benefits.

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Responding to the need for a public pension plan that offered portability, a greater measure of income replacement, and insurance for families against the death or disability of a breadwinner, Lester Pearson's government introduced the Canada Pension Plan in 1966. This was a compulsory, contributory scheme for salaried and self-employed workers between the ages of 18 and 70. A sister program, the Quebec Pension Plan, was enacted in the same year to cover Quebec workers and their families.

The existence of two plans stemmed from the desire of the Quebec government to retain primacy in the social welfare field in that province and to have control of pension fund reserves for investment in provincial development. The other provinces had the option of establishing their own parallel plans as well, but none did. Ontario had legislated its own plan but never brought it into force, throwing its weight behind the Canada Pension Plan in the national interest. A Canada Pension Plan without either Ontario or Quebec would have faced significant challenges to its credibility and, perhaps, longevity. Development capital for the provinces could be acquired through loans from the Canada Pension Plan surpluses.

Section 94A of the Constitution, added in 1951 to permit the federal government to make laws in relation to old age pensions, was amended. This change permitted the Canada Pension Plan to provide pensions to survivors and disabled persons who were not "old" and whose pensions would therefore not be old age pensions. The paramountcy clause, which ensured that the CPP would not affect any provincial old age pension program, was also retained although its language was slightly modified.

Over the next five years, the eligible age for the Old Age Security pension and the Canada Pension Plan would be lowered to 65. Both pensions would be indexed to offer inflation protection. In the interest of fairness, a Guaranteed Income Supplement (GIS), tied to Old Age Security, was introduced in 1967 to help those who would retire before they could take advantage of the new contributory plan.

Old Age Security benefits continued to be available to Canada Pension Plan recipients and constituted the first level of the government's new retirement income system. The Canada Pension Plan was the second level and was a fully portable plan that offered survivor, disability and death benefits in addition to retirement pensions.

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The Canada Pension Plan would not conflict with the third level, composed of private savings and employer pension plans. Nor was it intended to replace them. Instead, the government would encourage people, through tax incentives, to make private arrangements to add to their combined Old Age Security and Canada Pension Plan benefits.

Daily Life

Near the end of the Second World War, Canada (and many other countries) experienced a baby boom that lasted into the 1960s. The number of babies born grew sharply in contrast to the Depression years when poverty forced many people to have very small families. Immigration also increased once again, following years of very low rates during the Depression and the Second World War. As a result, the percentage of older people in Canada grew far more slowly than in the 1930s, and even decreased in some years, while the number of young people multiplied.

After the Second World War, the process of industrialization continued in Canada, but at a slower pace. The 1950s and 1960s in Canada were, in large part, years of economic stability and prosperity. Prices leveled out in the early 1950s with the end of the Korean War, and overseas trade grew steadily. The fastest growing part of the economy became the service sector, including many professional and office positions, also known as “white collar” jobs. These tended to pay higher salaries than those in industry, so that more people could now afford to save for retirement.

The strength and influence of unions also continued to grow. In 1956 the Canadian Congress of Labour joined with the Trades and Labour Congress to become the Canadian Labour Congress. The Canadian Labour Congress remained in the forefront of the fight for contributory pensions leading up to the introduction of the Canada Pension Plan.

Despite this prosperity, numerous social problems still plagued the country. As economic growth slowed down in the late 1950s, the issue of social security once again gained prominence and new initiatives were introduced to help Canadians in old age and periods of unemployment and sickness. Unemployment Assistance was enacted in 1956 to supplement the Unemployment Insurance program begun in 1940. Before 1957, no national medical insurance programs

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existed, and as medical technologies improved, the cost of receiving treatment became increasingly unaffordable for many people. In 1957, the introduction of national hospital insurance improved the situation.

The benefits of these national social programs helped develop a widespread belief among many people that all Canadians could, and should, be provided with a basic, guaranteed level of economic security. As a result, criticism for the programs that existed grew steadily. The funds provided by Old Age Security, the *Blind Persons Act* of 1951 and the *Disabled Persons Act* of 1954 gradually came to be seen as insufficient for senior citizens and people with disabilities. Widespread public support for initiatives in these areas helped influence the federal government's decision in the early 1960s to seek a Constitutional amendment to be able to include people with disabilities along with younger survivors of contributors to the Canada Pension Plan. The original draft plan had only covered older survivors due to the old age limitation in the 1951 version of Section 94A of the Canadian Constitution.

Political Events

As Canada's economy grew over the 1950s and early 1960s, the question of the purpose of national pensions became an important political issue. In 1951, the principle of universality was considered to be the most important aspect of the new Old Age Security program. The means-test that had been part of the 1927 Old Age Pension program was seen as humiliating, and in response, in 1951 Old Age Security was made available to everyone at age 70. Despite this important change, Old Age Security continued to be considered only a supplement to what people saved for their retirement, since the maximum payments remained the same as the maximum Old Age Pension payments. By the late 1950s, however, the influential Beveridge Report of 1942 (which called for a comprehensive system of social security that would ultimately end all poverty) remained very popular. More and more people began to call for a new public pension program that would no longer be merely supplemental, but that would provide people with an income on which they could live.

In 1957, the monthly Old Age Security benefits increased twice, in July and November. Benefits rose in July from \$40 to \$46 per month (\$6 represented an increase of 15 per cent which, applied today, would translate to an increase of approximately \$53). The first increase, under the Liberal government of Louis St. Laurent, was an attempt to win votes during the June 1957

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election. This was characterized as a political blunder. The mocking terms “six-buck boys” and “six-buck Harris” (referring to W.E. Harris, Finance Minister from July 1, 1954 to June 21, 1957) were used by the Conservatives, who went on to win the election. The newly-elected Conservative government led by Prime Minister John Diefenbaker further raised Old Age Security benefits, this time in November, by \$9 to \$55 per month.

Because a number of politicians had argued, throughout the early 1950s, that the American *Social Security Act* provided a good example for Canada to follow, the government commissioned Dr. Robert M. Clark, an economics professor at the University of British Columbia, to conduct a study of the American system. The study suggested that such a system would not in fact work in Canada because of demographic and economic differences between the two countries. Nonetheless, Clark praised the United States’ inclusion of disability and survivor benefits, and this led Diefenbaker’s government to make these benefits a part of its reform proposals. In addition, an income tax exemption was introduced for self-employed people who put money aside for retirement in the form of contributions to a Registered Retirement Savings Plan.

By the end of the Conservative government’s term, all the other political parties had developed proposals for a national, contributory pension system. Thus in early 1963, when the Liberal party returned to power under Prime Minister Lester B. Pearson, pensions had become such a prominent issue that the new government introduced a plan for a contributory program within a few months. For the next two years, the issue was studied by a Senate committee led by Senator David Croll, and was discussed between federal Minister of Health and Welfare Judy LaMarsh and the provincial governments, among the various political parties, and in public consultations. As these talks continued, Old Age Security, Disability and Blind Persons’ payments were increased in response to pressure from the public and various Members of Parliament, in particular Cooperative Commonwealth Federation MP Stanley Knowles.

A breakthrough in the talks came in April 1964. In March of that year, Premier Jean Lesage of Quebec had announced that his government intended to introduce a provincial contributory pension plan that was more comprehensive than the federal plan, including disability and survivor benefits, larger benefits for everyone involved, and more funding from the provincial government. This was the first time a provincial government sought to take on added responsibility in the field of social security, and it therefore came as a surprise to the federal government as well as the other provinces. Moreover, the more comprehensive nature of

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Lesage's plan made it attractive. This move by Lesage is considered to be one of the first initiatives of Quebec's Quiet Revolution.

After days of negotiation, it was agreed that Quebec would have a Quebec Pension Plan that would be closely coordinated with the Canada Pension Plan. This arrangement was possible because the 1951 Constitutional amendment gave the federal government the right to provide old age pensions and, through the paramountcy clause, had preserved the jurisdiction of the provinces in this area.

Once this was resolved, the provinces agreed to allow another Constitutional amendment so that the Canada Pension Plan could extend beyond the federal government's existing powers to legislate only old age coverage. Now, the Plan could include people with disabilities and survivors of Plan contributors regardless of age. Section 94A of the *British North American Act*, which was added in 1951 to enable the federal government to introduce Old Age Security, was amended to this effect.

Another important aspect of the federal-provincial agreement on the Canada Pension Plan was the defining of its amendment process. Two-thirds of the "included" provinces must agree on changes to the Plan, and these provinces must contain two-thirds of Canada's total population. An opted-out province such as Quebec would be considered "included" for this purpose so long as it had an agreement with the federal government to cover workers in its territory who would otherwise be subject to the Plan (such as bank and railway workers).

The Canada Pension Plan and Quebec Pension Plan finally came into effect in 1966. A Guaranteed Income Supplement followed in 1967 to help seniors and near-seniors who would not be able to benefit fully, if at all, from the Canada Pension Plan or Quebec Pension Plan and who had little or no income beyond Old Age Security.

World Events

Throughout the 1950s and 1960s, the merits of both the American and British social security systems continued to be discussed within the Canadian government. After the 1957 study commissioned by the Diefenbaker government revealed the problems involved in adopting a social security system similar to the American one, Britain's introduction of a contributory

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pension plan in 1959 drew particular interest from Canadians.

Despite the popularity of the American and British examples, by the end of the 1950s Canada fell behind many industrialized countries in terms of its social security provisions. By the mid-1960s, almost all Western European countries had introduced contributory, earnings-related pensions, and many included survivor and disability benefits, coverage for self-employed people, and payment adjustments to counter inflation.

In 1960, Canada was spending substantially less on pensions than many industrialized countries.³ This can be partly explained by the fact that the percentage of seniors in Canadian society was lower at this time than in most Western European countries, in large part because Canada lost far fewer people in the Second World War. However, the benefits available to seniors and disabled people in Canada were also lower than those offered elsewhere.

The growing belief among many Canadians, by the 1960s, that the entire population should be entitled to basic economic security did not develop in isolation. This view of social security was brought to prominence in the international arena in this period through the efforts of the International Labour Organization.

Following the drafting of the 1948 International Labour Organization Convention calling for recognition of the right to organize, the International Labour Organization worked with the United Nations for many years to develop a Covenant on Economic, Social and Cultural Rights. This replaced the United Nations Declaration of Human Rights in 1966. In addition to basic human rights, Articles 9 and 10 of the new Covenant declared access to social security and assistance to be a universal right for both individuals and families. These international initiatives lent support to those in Canada who fought for the Canada Pension Plan and subsequent social welfare legislation.

³ See Keith G. Banting, "Institutional Conservatism: Federalism and Pension Reform," in J.S. Ismael, ed., *Canadian Social Welfare Policy: Federal and Provincial Dimensions* (Kingston, 1985), p. 51.

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Influential People

The success of the Canada Pension Plan was due in large part to unrelenting pressure from various federal and provincial politicians as well as from the public and labour groups.

Judy LaMarsh (1924-1980) represented Niagara Falls as a Liberal in Parliament between 1960 and 1968, and she served as Minister of National Health and Welfare from 1963 to 1965.

LaMarsh oversaw the drafting of the Canada Pension Plan through its various stages, from the first proposal in 1963 to the passage of Bill C-136, *An Act to Establish a Comprehensive Program of Old Age Pensions and Supplementary Benefits*, and the implementation of the Canada Pension Plan in 1966. She also contributed to the creation of the Guaranteed Income Supplement, which was introduced in 1967.

Jean Lesage (1912-1980) represented the riding of Montmagny-l'Islet, Quebec. He left federal politics upon the defeat Louis St. Laurent's Liberal government in 1957. As a Liberal Member of Parliament in Ottawa, Lesage took part in the development of the Old Age Security program. After leaving Ottawa he became the leader of the Quebec Liberal party and was elected Premier of Quebec in 1960. In early 1964, at a federal-provincial conference on the proposed Canada Pension Plan, he revealed his government's plans to create a separate Quebec Pension Plan. Lesage's term of office is associated with the beginnings of Quebec's Quiet Revolution, and his insistence on securing a separate pension plan is seen as an important part of the changing political atmosphere in Quebec at the time.

Stanley Knowles (1908-1997) was a very active member of the Commonwealth Cooperative Federation and the New Democratic Party after its creation (which he oversaw) in 1961. Knowles took over J.S. Woodsworth's seat of Winnipeg North Central upon Woodsworth's death in 1942. He held the seat until 1958, and again from 1962 to 1984. His persistent lobbying both for large increases in Old Age Security benefits and the introduction of the Canada Pension Plan helped keep the issue of pensions in the national political arena. Regarding Knowles's persistence on the issue of pensions, Judy LaMarsh praised his activism, stating, "no minister has ever done such a thing for an Opposition member before."⁴

John P. Robarts (1917-1971) was Premier of Ontario from 1961 to 1971. His decision to

⁴ Judy LaMarsh, *Memoirs of a Bird in a Gilded Cage* (Toronto, 1969), p. 96.

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support the creation of the Canada Pension Plan was critical. Judy LaMarsh, the federal Minister of Health and Welfare, noted at the time:

“The participation of the provinces in the Canada Pension Plan was very important to us. It would have been impossible to bring in a universal, portable plan without provincial participation...If Ontario and the other provinces refused consent to add survivors’ benefits to our plan, it would hurt. It would be fatal should Ontario decide to go it alone.”⁵

What Canadians Received

January 1952 saw the beginning of the country’s first universal old age pension, Old Age Security, for people 70 years of age and over. It also saw the first payments flow from the accompanying program, the income-tested Old Age Assistance for 65 to 69 year-olds. Both Old Age Security and Old Age Assistance were subject to a 20-year residency requirement and started with benefits of \$40 per month.

By the early 1960s, the 20-year residence rule had been reduced to 10 years and regulations applying to the payment of Old Age Security pensions to people who were absent from the country had become less restrictive. Benefits had risen to \$75 per month through ad hoc increases made by governments from time to time. As well, the personal, corporate, and sales taxes that funded the Old Age Security program had been increased.

By 1964, the government was distributing \$755 million per year in Old Age Security pensions and \$77 million per year in Old Age Assistance. The Old Age Security Fund out of which pensions were paid had acquired a deficit of approximately \$670 million. Increases in funding were not sufficient to cover the rising pension costs, and more and more the program had to rely on the Consolidated Revenue Fund (i.e., general taxes) to make up the shortfall.

In 1965, with the passing of the Canada Pension Plan legislation, the qualifying age for Old Age Security was reduced from 70 to 65. The adjustment would take place one year at a time over the next five years. Old Age Security benefits were still \$75 per month, but they would now be

⁵ Judy LaMarsh, *Memoirs of a Bird in a Gilded Cage* (Toronto, 1969), p. 115.

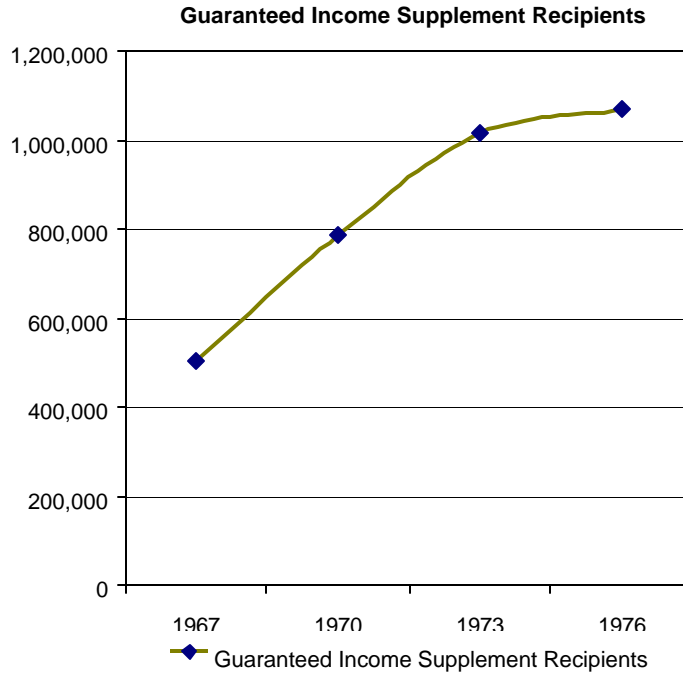
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indexed, with provision for automatic increases of up to two per cent per year based on inflation. Old Age Assistance benefits would continue to be paid until Old Age Security came down to the age of 65 and rendered them obsolete. A revision in the residency requirements made it possible for applicants to discount absences if they had lived in Canada for a total of 40 years after reaching the age of 18.

Another amendment of the *Old Age Security Act* in 1966 established the income-tested Guaranteed Income Supplement. Although the first Canada Pension Plan pensions would commence on January 1, 1967 full pensions would not be available until 1976. The Guaranteed Income Supplement was meant to be in place only long enough to help the people who reached 65 before the full Canada Pension Plan pensions became available and who would have little or nothing other than Old Age Security, and perhaps a reduced Canada Pension Plan pension, to live on. However, the supplement was later made a permanent feature of the program. Under its provisions, income outside Old Age Security benefits was measured and the maximum supplement payable was reduced 50 cents per dollar.

Guaranteed Income Supplement payments would start in 1967 with a maximum set at 40 per cent of the indexed Old Age Security benefits. Unlike benefits under the earlier Old Age Assistance program, Guaranteed Income Supplement payments could be made to persons absent from Canada, but only if they were gone for six months or less. By the end of March 1967, Guaranteed Income Supplement payments were being paid to over 500,000 people.

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F. H. Leacy, ed., *Historical Statistics of Canada*, 2nd Edition (Ottawa, 1983) Series C92-104

While Old Age Security and the Guaranteed Income Supplement were designed to provide a basic minimum amount to Canadian seniors, the new Canada and Quebec Pension Plans were contributory social insurance programs established to provide basic death, survivor and disability benefits as well as retirement coverage. The Canada Pension Plan was compulsory and earnings-related. It would cover the vast majority of workers between the ages of 18 and 70, and there were no residency requirements.

Like Old Age Security, the qualifying age for the Canada Pension Plan retirement pension would be reduced to 65 over the five-year period between 1965 and 1970. Contributions would commence in 1966 and were to be made by both employees and employers, with each paying the equivalent of 1.8 per cent of a worker's earnings between an exempted minimum amount and a stipulated maximum, or ceiling. At the beginning of the Plan, this meant earnings between \$600 and \$5,000 were considered "pensionable".

For the self-employed, the contribution rate would be 3.6 per cent of pensionable earnings, as they were to pay both employee and employer shares. Anyone with an income less than \$600, or \$800 if self-employed, was not included in the Plan and made no contributions. Contributions

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would not be collected on income over \$5,000.

Retirement benefits would be 25 per cent of the average pensionable earnings a worker earned in his or her lifetime. These earnings were adjusted to inflation, and benefits would be paid monthly. The higher the earnings, the higher the ultimate benefits. In the beginning, for an individual to qualify for a full pension, he or she had to have made contributions for at least ten years. Therefore, although the first benefits would start on January 1, 1967, full pensions would not be available until 1976. If a person took the pension before that time, he or she would receive an amount proportionately below the 25 per cent that had been established as the level in the legislation.

Canada Pension Plan contributions were collected through payroll deductions, or at the time of tax return submissions in the case of the self-employed. North American Indians whose income was earned on reserves and therefore not subject to income tax were excluded from the Canada Pension Plan. For people who were in the Plan, contributions but not benefits would be exempt from income tax.

All contributors needed a Social Insurance Number. The Social Insurance Number was introduced in 1964 to provide the Unemployment Insurance program with an improved numerical system for record-keeping. Since the Canada Pension Plan and the Quebec Pension Plan would also require an efficient and computer-compatible system for keeping track of transactions with contributors and beneficiaries, and a majority of future Canada Pension Plan and Quebec Pension Plan participants were already registered for Unemployment Insurance, the same nine-digit personal identifier was to be used for both programs.

Old Age Security recipients were not required to have a Social Insurance Number. Their benefits were partly funded by income tax, but the government did not keep a record of individual contributions, or link them to eventual benefits, as was the case with the Canada Pension Plan.

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Like Old Age Security and the Guaranteed Income Supplement, the Canada Pension Plan was placed under the general administration of the Department of National Health and Welfare, although the Department of National Revenue would take care of matters related to the collection of contributions. The Department of Finance would oversee surplus monies, which were loaned to the provinces at a favourable rate of interest.

When the Department of National Revenue received Canada Pension Plan contributions, they were placed in a special account in the Consolidated Revenue Fund. In addition to the Canada Pension Plan Account, there was a Canada Pension Plan Investment Fund that would take the surplus that accumulated over and above administration costs and the amount of money required to pay immediate benefits (i.e. three months' worth) and invest it in provincial and federal securities.

As the Quebec Pension Plan was a separate (though parallel) plan, contributions remained under the control of the Quebec government, which was responsible for investing any reserves. The other provinces would have access to Canada Pension Plan surpluses, in proportion to the contributions made by their residents, through the sale of provincial bonds and provincially guaranteed securities on 20 year terms at the long-term federal bond rate. These were payable to the Canada Pension Plan Investment Fund. Access to the Canada Pension Plan surpluses would provide the provinces with a valuable and much-desired borrowing source for development capital. The federal government agreed to this access during Canada Pension Plan negotiations. It was an additional enticement to get provinces to agree to federal proposals for a national contributory program.

The Canada Pension Plan legislation provided for an appeals process for people who were unhappy about decisions concerning their benefits or eligibility. The first resort was to the Minister of National Health and Welfare. Then further appeals could be made to a Review Committee and, finally, the Pension Appeals Board. Queries related to contributions were to be directed to the Tax Court of Canada (formerly the Tax Review Board) established under authority of the *Income Tax Act*. Old Age Security appellants were provided with the first two levels only, although appeals related to income were, likewise, heard by the Tax Court of Canada.

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The Canada Pension Plan came into effect on January 1, 1966 and applied to all provinces and territories except Quebec, where the separate but similar Quebec Pension Plan was established in the same year. By agreement the two plans would be coordinated so that workers could move freely from one to the other without penalty.

Both were subject to the same contribution and benefit rates and offered not only retirement benefits, but disability, survivor, and lump-sum death benefits. Both were indexed on a yearly basis. Membership and contributions did not terminate with a change in employment as they had under private employer-sponsored plans; they were portable. Contributions merely commenced again with the new employment. In addition, there was provision for future agreements with other countries regarding reciprocal pension arrangements.