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Reducing the Cost of Working through Reform to GIS Thresholds

Issue

Labour shortages, already a pressing issue for Canadian businesses before the COVID-19 pandemic, are growing and new ones emerging. Yet Canada's Guaranteed Income Supplement (GIS) program clawbacks are creating barriers to labour market participation for many employable older adults by discouraging the pursuit of income exceeding set values to qualify for GIS. This is increasing labour market pressures, negatively impacting quality of life and limiting Canada's potential economic output.

Background

Canada's Retirement Income System (RIS),¹ which includes GIS, functions on many of the assumptions that we had decades ago. Though some reforms recently have been introduced, innovation to Canada's RIS programs has been slow, especially in light of the evolving economic, demographic, social and labour market context. Research posits that a lack of integrated political decision-making, regulation and research is restricting RIS innovation.²

When Canada's public pension programs were designed over 50 years ago, the average age of the population was under 30. We're now on average over 40-years-old and living longer. About 23% of the working age population will be 65 years or older by 2024. Between 2021-2024, Canada will lose about 600,000 workers as people age and exceed 65-years-old, lowering the share of the population participating in labour markets.³

Further, many Canadians now face personal financial uncertainty.⁴ Forty years ago, almost half of working Canadians had some form of pension coverage. Today, only about one-third do. Faced with living longer and fewer savings, worries about "inadequate savings for retirement, outliving their money, and affording health services that are not universally guaranteed (such as long-term care)"⁵ are more prevalent.

What is concerning is that while Canada is experiencing a declining labour force and Canadians are facing increasing costs of living and inadequate savings for retirement, research⁶ shows features of Canada's public retirement income system have significant work and income earning disincentives for older workers. The greatest impact is on recipients of Guaranteed Income Supplement (GIS), a government program intended to support low income seniors.

Basic Old Age Security (OAS) is a monthly payment available to all Canadian residents aged 65 and over. GIS is based on income and is available to low income OAS recipients. A single senior qualifies for GIS if their income is below \$19,464; couples qualify if their combined income is below \$46,656.

These thresholds are meant to provide "floors" to keep people out poverty. To provide greater context for GIS thresholds, in Alberta, for example, the thresholds to meet "low income status" for Alberta's Community Housing Program are much higher: \$25,500 to \$43,000 (bachelor, 2021), depending on

¹ Canada's retirement income system is federally-administered publicly funded, and contains three pillars: 1) Old Age Security (OAS) and the Guaranteed Income Supplement (GIS); 2) the Canada and Quebec Pension Plans (C/QPP); and, 3) tax-deferred and other private savings and workplace pensions.

² https://static1.squarespace.com/static/5c2fa7b03917eed9b5a436d8/t/5e41c25873b8a7233f398b72/1581367901417/Improving-Canada-s-Retirement-Income-System-Setting-Priorities_final.pdf

³ <https://thoughtleadership.rbc.com/squeeze-play-higher-wages-alone-wont-solve-canadas-labour-shortage-problem/>

⁴ <https://www.cpacanada.ca/en/news/features/2021-11-04-labour-shortage>

⁵ https://static1.squarespace.com/static/5c2fa7b03917eed9b5a436d8/t/5e41c25873b8a7233f398b72/1581367901417/Improving-Canada-s-Retirement-Income-System-Setting-Priorities_final.pdf

⁶ Ibid.

where you live.⁷ This represents the minimum income required to meet basic needs in different municipalities throughout Alberta.

What is discouraging low earning seniors from saving for retirement and taking employment is that GIS benefits are reduced or clawed back for other income earned, including employment and self-employment income, above \$5,000 per year. For earnings between \$5,000 and \$15,000, GIS will be reduced by 50 cents for every dollar of income received.⁸

Further, because GIS is based on previous year's income, the effect of earning additional income can be experienced for up to two years. For example, if an individual receiving GIS earns other income over \$5,000 in 2020, the GIS for that year is clawed back after they file their 2020 taxes and they will continue to lose the monthly benefit amount until they file their 2021 tax return showing no additional income. Although GIS is paid retroactively for qualifying years, the loss of GIS income for an entire year can have significant impact on quality of life during that time period.

In addition, other provincial income supplements, and health and basic needs programs are also restricted if the individual earns income. Although these individuals are in need of additional income to meet basic living expenses, the risk of losing benefits creates a major disincentive for earning additional income through part-time employment.

Reform of GIS clawback mechanisms to incentivize older workers to participate in the labour force aligns with recommendations from the Melbourne-Mercer Global Pension Index (MMGPI), which benchmarks and ranks retirement income systems across the world. In 2019, MMGI made three recommendations for improvement to Canada's RIS. One of those is: "Increase labour force participation rates at older ages as life expectancy increases."⁹

When Canadians work longer there are numerous benefits to the economy and workplaces:¹⁰

- Modeling shows that the impact to Canada could be substantial in terms of extra labour supply and real output and would result in a substantial increase in living standards.
- Studies show that 1) older workers' accumulated knowledge, leadership skills and high job match quality contribute to high productivity; and, 2) since experience is a key element in the commercialization aspects of innovation, an older workforce may increase this dimension of innovative capacity.
- More seniors working drives economic growth and generates tax revenue for government.

Recommendations

That the federal government:

1. Work with provincial and territory governments, industry and academia to create a modern framework for RIS that includes undertaking a comprehensive review of the GIS income thresholds and clawback rates to allow for higher earnings exemptions and income thresholds, which will incentivize older Canadians to voluntarily delay receiving RIS, delay retirement or enter the labour force after retirement.
2. Ensure reform encourages and allows as much participation as possible in the workforce for GIS recipients, helps these individuals stay out of poverty, and allows them to maintain or improve their standard of living.

⁷ <https://open.alberta.ca/dataset/423df5de-6562-4b06-9ccb-596e9d130bb5/resource/1128ae16-d050-4a98-860c-2e503d84a677/download/sh-2021-income-threshold.pdf>

⁸ <https://www.canada.ca/en/services/benefits/publicpensions/cpp/old-age-security/guaranteed-income-supplement/apply.html#h2.2-3.1>

⁹ https://static1.squarespace.com/static/5c2fa7b03917eed9b5a436d8/t/5e41c25873b8a7233f398b72/1581367901417/Improving-Canada-s-Retirement-Income-System-Setting-Priorities_final.pdf

¹⁰ [https://www.ic.gc.ca/eic/site/eas-aes.nsf/vwapj/SRIsr02.pdf/\\$FILE/SRIsr02.pdf](https://www.ic.gc.ca/eic/site/eas-aes.nsf/vwapj/SRIsr02.pdf/$FILE/SRIsr02.pdf)