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We wanted pension changes, but OAS age wasn't one of them

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Prime Minister Justin Trudeau said this week that the upcoming federal budget will reverse the previous government's decision to gradually increase the eligibility age for Old Age Security to 67 from 65 by 2029. In our view, the eligibility age for OAS should increase beyond 65.

Canada's Old Age Security Pension program started in 1952, and is a fundamental part of our pension system. The three pillars of the system are: OAS and the Guaranteed Income Supplement, government-backed programs unrelated to employment history and designed to help ensure that all Canadians have a certain basic level of retirement income; the Canada Pension Plan and Quebec Pension Plan, mandatory contributory government-sponsored plans; and other savings, including employer-sponsored plans such as registered pension plans and group RRSPs. Unlike CPP, which is funded by employee and employer contributions, OAS is a pay-as-you-go plan, essentially taxpayer funded, as it's paid from general government revenues. It's a means-tested benefit, clawed back as income increases.

Reversing the decision to raise the eligibility age for OAS is a step backward. When modern pension systems were designed, it wasn't anticipated that people would live so long. When the OAS Act was introduced, the eligibility age was 70 and Canadians that age were expected, on average, to live another 11 years. In 1967, the eligibility age was changed to 65, and the expected payout period was 15 years. Today, the average life expectancy for a 65-year-old Canadian is more than 20 years – a third longer than the payout period anticipated in 1967. If the eligibility age isn't changed, the payout period will continue to grow as life expectancy increases. It's a sign of human progress that life expectancy is increasing, but it costs money from a pension perspective.

Not only are people living longer, but fewer working taxpayers will be available to fund these benefits in the future. In 2015, just under one in six Canadians was over 65. According to Statistics Canada, the most recent projections estimate that more than one in four Canadians will be over 65 by 2036.

Mr. Trudeau's contention that increasing the OAS eligibility age is a simplistic solution is out of step with what we're seeing in other countries. Some have implemented a phased-in increase in the general retirement age. According to the latest OECD Pensions Outlook Report, postponing retirement as life expectancy increases is the best ap-proach to address the challenges faced by publicly funded pay-as-you-go pension schemes. The United States, Britain, Germany, France, Spain, Italy and the Netherlands all have plans in place to increase the general retirement age to 67 from 65 by 2028 or sooner. Canada should be taking similar measures. In addition to affecting OAS affordability, eligibility age also arguably sets a "behaviour anchor" for retirement age. As people live longer and our population ages, perhaps it is appropriate and likely that people will continue to work past 65.

We await next week's federal budget with great expectation. There are many pension-related

changes we would love to see: tax changes to even the playing field between defined-benefit and defined-contribution plans; tax changes to address innovative plan designs such as target-benefit plans; and changes to facilitate the introduction of target-benefit plans by federally regulated employers. But this change to OAS eligibility age isn't one of them.

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