Will the Looming Federal Budget Try to Slip by Another Liberal Seniors Benefit?

Description

Weeks before the next federal budget is due to descend on Canadians, an economic advisory council is recommending that the Trudeau government boost the age of retirement eligibility.

The proposals unveiled on Monday could well telegraph what's in an expected "Bad News" budget, as the free-spending Liberal government tries to dig itself out of a deficit that's turning out to be far larger than it promised in the buildup to the last election.

Ironically, one of the measures suggested by the one-year-old Advisory Council on Economic Growth is to raise the age of eligibility for Old Age Security (OAS) from the current 65 to 67. It's ironic, because that's what the previous government — Stephen Harper's Conservatives — had already tried to phase in, but the Trudeau Liberals reversed it as soon as they came to power.

Citing the trend to longer life expectancies around the world, the Council also suggested that the age of eligibility for the Canada Pension Plan (CPP) be "recalibrated and increased," along with that of OAS. Currently, you can defer both CPP and OAS to 70 and be paid more monthly once you begin in return for having deferred the onset date for receipt of benefits; the Council suggested deferrals of both could be extended beyond 70 (presumably in return for even higher monthly benefits), and they also suggested deferrals past 65 might be made more attractive.

Many financial advisors — notably Doug Dahmer of Burlington-based Emeritus Retirement Solutions — regularly counsel retirees to defer CPP and often OAS as long as possible for this very reason.

However, a day after the report was released, Social Development Minister Jean-Yves Duclos said the government would not be raising the retirement age to 67 — a move it said would "throw vulnerable seniors into poverty." But he also said Ottawa is looking at other incentives to keep workers in the work force longer if they're able and willing.

That's a big qualifier

It's one thing to sweeten the pot to entice willing workers to defer benefits in exchange for working longer (and pay more income taxes in the process); but it's quite another thing to deny those who hoped to retire at 65 the opportunity to do so. Even if healthy and willing, not every senior of that vintage is able to find willing employers or clients to fund such a protracted extension of their work lives.

The Economic Council believes extending the retirement age would add $56 billion to the Gross Domestic Product, but even if it was agreed that doing so would be a net positive, the rules would have to be changed gradually over several years. In fact, even the Conservative plan to raise OAS eligibility to 67 wouldn't have come to full fruition until 2023 to minimize the impact on those nearing a retirement age they and their advisors may have planned on for decades.

It's tough to keep planning when rules on retirement and taxation keep changing

Despite the Liberals's professed desire to help beleaguered middle-class taxpayers, they also reversed another positive measure the Conservatives had introduced: the $10,000 annual contribution limit for Tax-Free Savings Accounts (TFSAs) was quickly reversed by the Liberals once Justin Trudeau won power.

Another ominous possible rule change was revealed by the *National Post's* John Ivison earlier this week: killing the Age Credit currently claimed by seniors who are at least 65 years old. The Age Credit was worth $7,125 in 2016, but is calculated using the lowest tax rate of 15%, making it worth $1,069. The effect is to increase the "tax-free" zone on senior incomes above and beyond the $11,474 basic personal amount that all Canadian taxpayers receive. The Age Credit starts to get phased out with annual income near $36,000 and is completely phased out at around $83,000.

It's clear that OAS is once again in the cross-hairs of this government, since, as the Baby Boomers continue to retire, the number of OAS recipients is expected to double in the next 20 years. I say "again" because the Liberals have tried before to slay this looming monster. Back in 1996, then Liberal finance minister Paul Martin tried to implement a so-called revamp of OAS and the Guaranteed Income Supplement that it dubbed the "Seniors Benefit."

OAS benefits are already "clawed back" for seniors with modest retirement incomes (as are GIS benefits for the poorest seniors), and the Seniors Benefit attempted to accelerate these clawbacks for some supposedly affluent seniors. Thus, the benefit would have accrued more to the Liberal government and less so to seniors. Fortunately, due to a huge public outcry, that Liberal government, headed by Jean Chretien, was ultimately forced to abandon the plan.

Whether the upcoming federal Budget tries to make another stab at the Seniors Benefit remains to be seen, but it wouldn't surprise me if they tried at least a watered down variant of it. All the warning signs are there.

Don't get me wrong. I'm all in favour of healthy seniors remaining active as long as possible — that's the subject of the book mentioned in my bio below — but a decision to work longer into old age should be a voluntary one made by seniors themselves, not a revenue-hungry government whose motivation to keep seniors in harness is only too obvious.

My fear is that the Liberals will view aging Baby Boomers as nothing more than tax cows to be milked well into their 70s. This generation has played by the rules for decades, and the rules should not be changed just as we start to cross the retirement finishing line.

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