FINANCIAL POST

Old age security spending will soon hit all-time highs but softened by CPP increases: report

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OTTAWA — A mandatory review of the country's largest seniors benefit program is predicting all-time highs in spending over the coming years with waves of baby boomer retirements — spending levels that could have been even higher if not for changes to the public pension program.

The report is the first glimpse into how the CPP expansion, phased in over the next 40 years, will affect old age security.

The country's chief actuary writes in his report that program spending is projected to hit about $247 billion by 2060, an almost five-fold increase from planned spending this year, as more Canadians hit retirement and live longer, meaning more beneficiaries drawing payments for longer periods of time.

The projected increase is expected to be cushioned by ongoing economic growth.

Over the same projection period, Canada Pension Plan benefits will increase.

The extra money to be doled out through CPP, funded by an increase in employee and employer premiums, is expected to reduce the number of low-income seniors — meaning $3 billion less in spending on the guaranteed income supplement in 2060 — and reduce overall spending on old age security benefits, which are scaled back as incomes rise.

Paul Kershaw, an associate professor in the school of population and public health at the University of British Columbia, said the report shows that the country is expecting younger adults to rely less on old age security down the road by paying more into CPP, while simultaneously asking them to pay for increases in spending for today's aging population, noting they are often parents and grandparents.

"Younger generations will (hopefully) gladly do this. But they will be much happier doing so if their aging parents and grandparents contribute to an honest conversation about the fact that today's aging population didn't prepay for OAS like they did for their CPP, and that this is having substantial implications for the public resources that are available to spend on all age groups — including their kids and grandchildren," Kershaw, the founder of the group "Generation Squeeze," which seeks to engage young people in politics, said an email.

The most recent census figures showed the ranks of seniors grew by the fastest rate in 70 years, with Statistics Canada projecting there could be 12 million seniors by 2061. Declining birth rates mean that without increases in immigration levels, there will be fewer younger workers to replace coming waves of retirees.

The previous Conservative government raised the age of eligibility for old age security by two years to 67 from 65 to save on costs and prod people to work longer. The Liberals reversed the decision in their first budget, but have stuck by the need to keep older Canadians in the workforce longer.

A spokesman for Social Development Minister Jean-Yves Duclos said the Liberals knew reversing the age of eligibility back to 65 would have an impact on program cost, but noted that the parliamentary budget watchdog has reported that spending is sustainable in the long-term.

"Without the changes proposed in Budget 2016, the most vulnerable Canadian seniors would have lost up to $13,000 per year," Mathieu Filion said.

"We think that it was the best decision to take for our seniors."

A February presentation to a group of deputy ministers said that if the retirement age stays fixed at 65, and life expectancy increases, there will be relatively more people claiming pension benefits for longer, and fewer people working and paying income taxes.

“Younger generations may be required to pay higher taxes to compensate for higher spending commitments and lower tax revenue,” one slide reads.

“This could create disincentives to work and for firms to invest, and in turn lead to **a fall in g**rowth and productivity.”