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Summative Evaluation of the Old Age Security Program

Final Report

April 2012

Summative Evaluation of the Old Age Security Program

Final Report

***Evaluation Directorate
Strategic Policy and Research
Human Resources and Skills Development Canada***

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List of Abbreviations

CPP/QPP	Canada Pension Plan/Quebec Pension Plan
HRSDC	Human Resources and Skills Development Canada
GDP	Gross Domestic Product
GIS	Guaranteed Income Supplement
GSS	General Social Survey
LAD	Longitudinal Administrative Data
LICO	Low Income Cut-Off
LIM	Low Income Measure
MBM	Market Basket Measure
OAS	Old Age Security
OECD	Organization for Economic Co-operation and Development
SFS	Survey of Financial Security
SLID	Survey of Labour and Income Dynamics
SPSD/M	Social Policy Simulation Database and Model

Executive Summary

This report presents the findings and conclusions of the summative evaluation of the Old Age Security (OAS) program. The OAS program is the first pillar of Canada's retirement income system, followed by the Canada Pension Plan and Quebec Pension Plan. Private pensions and savings make up a separate set of pillars of possible retirement savings. The three pillars of Canada's retirement system were designed to work together to fulfill two different but related broad objectives, namely to reduce the incidence of low income in old age and to enable seniors to maintain a certain living standard in retirement. As such, the OAS program plays a key role in helping to meet these two broad objectives. The OAS program was intended to provide a *basis* (minimum income) upon which income from other sources could be added.

Evaluation Scope and Methodology

The evaluation was undertaken to assess the relevance, objectives achievement, and cost effectiveness of the OAS program. Most of the analysis was focused on examining program take-up, the importance of OAS program benefits in seniors' income and the contribution of these benefits to reducing low income among seniors.

This final report presents a synthesis of ten technical studies that were conducted by Human Resources and Skills Development Canada (HRSDC) between 2008 and 2010. The evaluation covers a 15-year period (from 1992 to 2007), and represents the first comprehensive evaluation of the OAS program since 1992.

A mix of qualitative and quantitative methods was used. For the most part, quantitative methods were used. The range of data sources for the quantitative methods included the Census, the Survey of Labour and Income and Dynamics (SLID), the Longitudinal Administrative Database (LAD), the General Social Survey (GSS) and the Survey of Financial Security (SFS). The range of analytic methods included computer modeling and standard statistical and econometric techniques. Qualitative methods included two literature reviews: one on the OAS program, and the other on international comparisons.

Several cautions are in order when interpreting the findings and conclusions presented in this report. For instance, the technical studies often needed to adopt different definitions and make statistical adjustments to compensate for data limitations, and to accommodate their methods of analysis. In addition, data were not always available for the identical time period for all studies. In this context, the results provided by the individual technical studies often differed, although the overall conclusions are consistent. Behavioural impacts were not within the scope of this evaluation; it was therefore assumed that there was no behavioural response on the part of program recipients. In other words, it was assumed that the OAS program benefits did not affect the desire of individuals to save for retirement or

the desired age of retirement. While this assumption was adopted as a means of limiting the scope of this evaluation, academic studies in the area do show that OAS program benefits could potentially influence seniors labour force participation. Behavioural effects, however, are often difficult to accurately quantify and since the OAS program offers a quasi-universal pension, the availability of a comparison group of individuals is limited to those who earn an excess of \$67,668.¹ Therefore, it was decided that behavioural effects were beyond the scope of this OAS Evaluation.

Continued Relevance

The OAS program was founded in 1952² on a strong rationale and remains relevant in 2011. As the first pillar under Canada's retirement income system, the OAS program provides a quasi-universal social safety net to virtually all eligible Canadian seniors. The continuing role of government in providing income supports to those in need, along with equity considerations and contributions to the public good support the continued relevance of the OAS program. As well, the program is in line with seniors' benefits in other countries of the Organization for Economic Co-operation and Development (OECD).

Achievement of Program Objectives

The program take-up rate is an important indicator of the effectiveness of program delivery. ***Overall, estimated take-up rates indicate that delivery of the OAS pension and the Guaranteed Income Supplement (GIS) is highly accessible, as almost all eligible seniors received OAS benefits.*** The analysis showed that the OAS pension take-up rate remained stable at around 97 percent over the course of ten years (1996 to 2006). Moreover, GIS take-up increased by 12 percentage points (75 percent to 87 percent) over the same period of time. In addition, the gap between women and men in GIS take-up has narrowed in recent years.

At the same time, however, some subgroups of beneficiaries have lower take-up rates. For example, according to the LAD, take-up of the Allowance and the Allowance for the Survivor in 2006 was estimated to be 63 percent and 60 percent, respectively. As well, certain groups have somewhat lower OAS take-up rates, including those who live in the Territories, and immigrants who have lived in Canada for 20 or more years.

The OAS program is designed to provide extra income through the GIS to low-income seniors to help reduce low income, and the evidence from a variety of sources indicates a high degree of success. LAD data from 2001 showed that when all OAS components were considered, there was an estimated before-tax incremental reduction in the incidence of low income of 26.9 percentage points for unattached seniors, and 27.8 percentage points for households. In addition, using 2001 Census data, the combined components of the OAS program reduced the before-tax low-income gap among unattached seniors by 79 percent.

¹ The Old Age Security pension repayment range (OAS Recovery Tax) in 2011 is from \$67,668 to \$110,038.

² The 1952 OAS program replaced an earlier program that began in 1927.

For households with one senior member, the OAS program reduced their before-tax low-income gap by 82 percent and further reduced the before-tax low-income gap by 96 percent for households with two seniors over the age of 65.

The analyses also showed that the OAS program plays a key role in reducing low income among certain groups such as women, the unattached, older seniors, Aboriginal seniors, immigrants (with more than 10 years of residence in Canada) and seniors with low pre-retirement earnings. However, low-income rates remain high among some of these subgroups even with the help of the OAS program. For example, OAS benefits have enabled immigrants (with more than 10 years of residence in Canada) and Aboriginal seniors to improve their income situation at least as much as other Canadian seniors. For instance, 84 percent of Aboriginal seniors would be living in low income without OAS benefits as opposed to 55 percent with OAS benefits (before-tax LIM). As well, the combined components of the OAS program reduce the incidence of low income for women from 36.4 percent to 17.2 percent (and for men from 24.7 to 11.7 percent). The incidence of low income among single women over 75 years falls from 73 percent without OAS benefits to 43 percent (before-tax low income measure [LIM]) with the OAS benefits. These results indicate that, even with the OAS program, significantly more members of these subgroups remain at greater risk of low income.

The OAS program has a positive impact on smoothing seniors' transition to retirement by helping them to maintain their pre-retirement income levels. The analysis indicates that these benefits are providing high levels of earnings replacement to individuals and families with very low pre-retirement earnings plus a foundation for the replacement of pre-retirement earnings for other Canadians. For instance, the average OAS replacement rate was 28 percent for women and 23 percent for men. Average OAS replacement rates were well over 100 percent for individuals with pre-retirement earnings under \$10,000 and less than 10 percent for individuals with pre-retirements earnings greater than \$80,000. Consequently, the low-income rate goes down among seniors when compared to near seniors (60 to 64 years).

Over the past fifteen years (1992 to 2007) there has been a decreasing trend in the average OAS and GIS replacement rates received by seniors. This decrease reflects the fact that standards of living have risen slightly, and that the benefits delivered by the OAS program have typically increased by the rate of inflation through indexation. In contrast, earnings³ have been increasing slightly faster, mainly reflecting the impact of wage growth and the increasing labour force participation of women during this period.

To further examine the importance of OAS program benefits to seniors, the evaluation examined the share of seniors' income (in retirement) represented by OAS program benefits. The income share ratio takes on added significance for low-income Canadians and certain groups as it reflects the contribution of the OAS program towards alleviating low income. ***The magnitude of the OAS income share rises as income decreases. An overall estimate of the ratio for individual seniors lies around 25 percent and rises to 35 percent when***

³ Based on single-adult equivalents.

GIS is added. The magnitude of the OAS income share increases to 58 percent among those who fall below the low income measure (LIM) and to 70 percent for households that lived below the low income cut-off (LICO). As well, the OAS income share increases as seniors grow older, is higher for females compared to males (especially for women over 80 years of age), and is 25 percent higher among Aboriginal seniors than non-Aboriginal seniors. Analysis also indicate that the ratio of combined OAS and GIS to total income fell slightly over the period from 1986 to 2001, as program expenditures grew with inflation and income grew with inflation plus productivity growth.

Cost Effectiveness

The analysis of the 2008 Office of the Superintendent of Financial Institutions (OSFI) data indicates that the OAS program has become more cost effective between the years 1981 and 2006. Specifically, the administrative cost of the OAS program fell from \$0.51 per \$100 in 1981 to \$0.31 in 2006. As well, the administrative cost per beneficiary has fallen from \$27.66 in 1992 to \$20.44 per beneficiary in 2006. The data show a definite trend towards a decline over the years. However, an in-depth understanding of this trend does not exist at this point in time.

When compared to other large income security programs such as the Canada Pension Plan or Quebec Pension Plan and Employment Insurance, OAS costs are significantly lower. As well, the administrative cost of program delivery in Canada is comparable to those of similar benefit programs in other countries such as the United States, the United Kingdom, France, Sweden, and Switzerland. These findings suggest that the *program delivery cost of OAS is relatively low.*

Management Response

Introduction

The Old Age Security (OAS) program is a cornerstone of Canada's retirement income system. The program currently provides a basic pension to 4.8 million seniors, aged 65 years of age or over. This income is intended to provide a basis upon which seniors may build additional income from other sources, such as the Canada and Quebec Pension Plans (CPP/QPP), Registered Pension Plans (RPPs), Registered Retirement Savings Plans (RRSPs), and other personal savings. The OAS program provides additional support through the income-tested Guaranteed Income Supplement (GIS) to 1.6 million low-income seniors with little or no income apart from the OAS pension. The OAS pension, together with the GIS, ensures a minimum income to seniors. In addition, the Allowance and Allowance for the Survivor are currently paid to 92,000 low-income individuals aged 60-64 who are the spouses or common-law partners of OAS pensioners receiving the GIS or widowed.

An evaluation of the OAS program was conducted from 2008-2010 and assessed the program's relevance, achievement of core objectives, and cost effectiveness. The evaluation covers a 15 year period (from 1992 to 2007), and represents the first comprehensive evaluation of the OAS program since 1992.

The Seniors and Pensions Policy Secretariat and the Canada Pension Plan and Old Age Security Renewal Directorate agree with all of the report's four recommendations and are pleased to present the following management response. This evaluation is integral to ensuring the program remains relevant and continues to meet its objectives.

Key Findings

Overall, the evaluation shows that the OAS program continues to play an important role in the income security of Canada's seniors. Findings indicate that the program contributes significantly towards reducing the incidence of low income among Canada's seniors. The program also has a positive impact on income replacement. In 2007, the median OAS replacement rate was 28 percent for women and 23 percent for men. It was well over 100 percent for seniors with pre-retirement earnings under \$10,000. However, average OAS replacement rates have decreased slightly over time.

Findings indicate that OAS benefits represent the most significant income source for low-income seniors and a basis of retirement income for most other seniors. For example, based on data from the Longitudinal Administrative Databank (LAD), OAS income accounted for 58 percent of the total income of senior households with incomes below the Low Income Measure (LIM) and 70 percent of the total income of households with incomes below the Low Income Cut Off (LICO). OAS benefits also constitute a significant income source for female, older and Aboriginal seniors, as well as seniors who have lived in Canada for more than ten years, but fewer than 20 years. However, even with the OAS program, some groups of seniors remain at risk for low income.

The evaluation found that, overall, the OAS program is effective in reaching its target population, as reflected by take-up rates for the program's main components. For example, the take-up rate for the OAS pension among tax-filers, based on LAD data, remained around 97 percent from 1996 to 2006. GIS take-up increased from 75 to 87 percent during this period. The take-up rate for the Allowance significantly improved, from 39 to 63 percent, while the rate for the Allowance for the Survivor remained stable, at 60 percent. In addition to lower take-up rates for the Allowances, GIS take-up rates are lower for some groups, including residents of the Territories and senior immigrants who have lived in Canada for 20 or more years.

Findings indicate that the OAS program has become more cost effective over time. Specifically, the administrative costs per beneficiary and overall administrative costs have decreased over time. OAS program delivery costs appear to be relatively low, when compared to those of similar programs in other countries.

The evaluation makes four recommendations. The first three recommend areas for further study, while the fourth recommends action in the area of service delivery.

Recommendation #1: Further investigate areas of low take-up

The Department agrees with this recommendation.

Since the implementation of the recommendations of the Parliamentary Committee on the under-subscription of the GIS in 2001, GIS take-up has improved.

This evaluation indicates an improvement in overall take-up for the OAS program. It also shows that while take-up rates for the OAS pension and the GIS are relatively high, the rates for the Allowance benefits are lower. In addition, take-up for the GIS among some groups (such as individuals who live in the Territories, women, and non-recent immigrants) were lower. It recommends further investigation of areas of low take-up. It also recommends that operational policies be considered to implement special tracking methods, to continue targeted outreach initiatives, and to address take-up barriers.

Given evidence of lower take-up rates for OAS Allowance benefits, the 2012-2017 Departmental Evaluation Plan commits to undertake an evaluation of these benefits. The OAS Allowance evaluation will be led by the Evaluation Directorate and conducted in collaboration with the OAS program area. It will include an analysis of Allowance take-up rates.

The Department uses a variety of approaches to reach individuals who may be eligible for OAS benefits. Service Canada sends OAS applications and information packages to Canadian residents for whom a valid address is on record, at age 64. It mails approximately 1.9 million GIS or Allowance entitlement letters every July. Most of these letters are sent to individuals whose benefit is automatically renewed based on Canada Revenue Agency (CRA) data while roughly 200,000 letters are sent to eligible individuals who did not file an income tax return by April 30. General information on the OAS program is also inserted in OAS T4 (Statement of Remuneration Paid) slips.

The Department has taken steps to facilitate the application process for OAS benefits. For example, Service Canada mails pre-printed application forms to tax-filing individuals who are thought to be eligible for benefits but not receiving them, based on CRA income tax information. In addition, the Seniors and Pensions Policy Secretariat produces an annual Guaranteed Income Supplement Renewal Training Guide through the Community Volunteer Income Tax Program. The guide is used to train volunteers who prepare income tax returns for eligible individuals to recognize situations where they may be eligible for the GIS.

The Department has taken steps to simplify application forms and processes, as well as supporting information material. Legislation was passed in 2007 that allows for the automatic renewal of GIS benefits, once an initial application is made. Seniors only need to apply once for the GIS benefit, as long as they file an annual income tax return and remain eligible. As noted in the Evaluation, in 2009-2010, almost 96 percent of GIS recipients had their benefit automatically renewed by filing an annual tax return by April 30. In addition, the Department sends GIS renewal applications annually to GIS recipients whose benefit is not automatically renewed. In March 2011, Service Canada mailed GIS renewal applications to roughly 130,000 seniors, most of whom did not file an annual tax return the previous year or filed it late. In June 2011, it also mailed a reminder application kit to roughly 80,000 late applicants, including individuals who did not return the renewal application sent in March or did not file an income tax return by April 30.

The Department has introduced communication measures to reach individuals who may be eligible for benefits. For example, Service Canada has undertaken public awareness campaigns to encourage Canadians to contact the organization for information about federal programs and benefits for which they may qualify, including the GIS. The campaigns included television, print, web and radio ads. The Department continues to explore ways to improve awareness of the OAS program and enhance understanding of the eligibility requirements and application processes.

The Department also conducts targeted outreach activities (i.e. mobile outreach service) to increase awareness and take-up of public pension programs. These activities target seniors who face barriers or are hard to reach through conventional service delivery channels (Web, phone, and in-person). Service Canada works with service delivery partners, such as community organizations, settlement agencies and homeless shelters, that serve different populations (e.g. Aboriginal, immigrant, and low-income seniors) to provide information sessions on Canada's public pension programs so that they can support their clients in accessing benefits. For example, the Government of Canada's Working Together Workshop brings culturally relevant information about CPP and OAS benefits to Aboriginal seniors. The workshop is designed to help ensure that older Canadians in remote Aboriginal communities are receiving CPP and OAS benefits to which they may be entitled. In 2010-2011, Service Canada delivered 328 information sessions on the OAS program, including the GIS, and the CPP to service delivery partners serving seniors.

Service Canada offers fact sheets on the OAS program and the GIS in 8 Aboriginal languages, in 12 foreign languages, as well as Canada's two official languages. These fact sheets are available on its website. This information can improve awareness of benefits to which individuals may be entitled. The Department maintains close relationships with representatives of seniors in official language communities, such as seniors' organizations.

Service Canada provides information sheets on Canada's International Social Security Agreements, which are available on its website. These agreements can help individuals who have lived or worked in agreement countries meet the residence requirements for OAS benefits. An international social security agreement allows periods of contributions and/or residence in the other country to be added to periods of residence in Canada to meet the minimum residence requirements for OAS benefits. Canada currently has 53 agreements in force. Immigrant seniors who do not come from agreement countries may qualify for OAS benefits after ten years of residence in Canada.

Financial literacy is particularly important from an HRSDC perspective, given that individuals are required to apply for benefits, such as those provided by the OAS program. Steps taken to improve the financial literacy of Canadians could strengthen the basic level of financial skills and knowledge required for accessing benefits available to them.

The Department continues to seek ways to improve service delivery for seniors who are eligible for benefits. Service Canada continues to assess ways to make the application process more accessible.

In addition, mobile outreach priorities and measurable targets are set every year by the Citizen Service Branch of Service Canada in consultation with other areas of the Department (the Income Security and Social Development Branch and Service Canada regional offices). As part of its strategy moving forward, Service Canada plans to intensify its outreach efforts to service delivery partners, as this approach has been found to be very effective in reaching seniors who face barriers. Starting in 2012-2013, an annual activity report will be prepared to assess the effectiveness of mobile outreach service in order to improve upon the delivery of outreach activities and further increase take-up of the OAS program.

Recommendation #2: Conduct further study of low income among seniors

The Department agrees with this recommendation.

Canada has had significant success in reducing the incidence of low income among seniors. The low-income rate among seniors in Canada has declined significantly, from 21.4 percent in 1980 to 5.2 percent in 2009, according to Statistics Canada's post-tax Low Income Cut-Offs. Other measures of low income also show a significant decline in the low-income rate among Canada's seniors. The low-income rate among seniors in Canada is now one of the lowest among member countries of the Organisation for Economic Cooperation and Development (OECD).

The OAS program plays a key role in supporting Canada's low-income seniors. Roughly 1.6 million low-income OAS pensioners currently receive additional income through the GIS, most of whom (over one million) are women. Employment history is not a factor in determining eligibility for OAS benefits, which is an important feature for individuals who are more likely to interrupt paid work or work at home due to family responsibilities. In addition to OAS income, the vast majority of GIS recipients receive some income from the CPP or QPP. These contributory plans provide basic income protection in the event of disability, retirement or death of a contributor and contain several features that help protect the economic security of Canadians. The provinces and territories provide income supplements to eligible low-income seniors.

The GIS top-up introduced in Budget 2011 provides additional income to the lowest-income seniors. About 680,000 individuals, most of whom are unattached, benefit from this measure. It represents the largest increase to OAS income-tested benefits for the lowest income seniors in a quarter of a century. The GIS benefit was also increased in 2006 and 2007 by a total of 7 percent above indexation.

While progress has been made in reducing low income among seniors in Canada, some groups remain more at risk for low income. The evaluation found that some groups, such as unattached seniors, older seniors, and Aboriginal seniors, remain at risk for low income even with OAS benefits. The evaluation recognizes that being unattached is the primary risk factor for low income among seniors. Senior women are more likely to be unattached, especially at older ages, and, therefore, at greater risk for low income. However, findings show that the relative importance of OAS benefits tends to increase with age.

The Department continues to investigate and monitor low income among seniors and explore ways to further address their needs. Assessing the needs of seniors includes reviewing and ascertaining where improvements could be made to retirement income adequacy in Canada.

Recommendation #3: Investigate the behaviour impacts of the OAS program, such as those linked to labour force participation

The Department agrees with this recommendation.

The Department concurs that the impacts of the OAS program on labour force participation is an important area of study, especially in the context of an aging population, where Canadians are living longer and demand for the skills of older workers is expected to increase.

It is worth noting that individuals are not required to stop working to receive OAS benefits, as eligibility for OAS benefits is not based on work status or the date of retirement. Some older Canadians stop working once they start receiving OAS benefits, while others continue to work. Others stop working and subsequently return to paid work while in receipt of benefits.

Steps have been taken to provide greater flexibility for low-income seniors who wish to work while receiving OAS benefits. GIS recipients who choose to work can earn up to \$3,500, before their GIS benefit is reduced. Nonetheless, a small percentage of GIS recipients (roughly 5 percent in 2011, based on previous annual income tax data) have employment

earnings before the application of the exemption. This percentage has increased slightly since the GIS earnings exemption was increased in 2008. However, most GIS recipients who work have less than \$3,500 in employment earnings. The decision to combine work while receiving OAS benefits can be influenced by several factors, making it difficult to isolate the impact of the OAS program on labour force participation.

The Department will continue to monitor the labour force participation of seniors in receipt of OAS benefits.

Recommendation #4: Continue to explore approaches to improve administrative effectiveness of the OAS program in light of Canada's aging population

The Department agrees with this recommendation.

The effects of population aging have already begun to exert pressure on the delivery of OAS benefits. Over the past decade, the number of OAS pensioners increased from 3.9 million to 4.9 million. By 2020, it is projected that there will be approximately 6.8 million OAS pensioners.

The increased number of seniors will not only lead to an increase in the number of applications that are processed each year, but also to a significant increase in the workload associated with maintaining up-to-date client files (reviewing key information such as marital status, income levels, biographic data and direct deposit information) to ensure continued timely and accurate benefit payments.

Without further efforts to gain efficiencies, administration costs will rise dramatically. The Department is proposing a comprehensive strategy that seeks to improve services to seniors, reduce the administrative costs for the program, meet changing client expectations and enhance control frameworks.

Conclusion

The findings of this evaluation are generally positive, indicating that the OAS program has been effective in achieving its core objectives. The program plays an important role in the economic security of Canada's seniors. HRSDC will continue its efforts to further improve OAS program delivery while ensuring administrative efficiencies.

1. Introduction

This report presents the findings and conclusions of the summative evaluation of the Old Age Security (OAS) program. This final report is a synthesis of ten technical reports conducted by Human Resources and Skills Development Canada (HRSDC) between 2008 and 2010. The report reflects a summary of what is known about program effectiveness at the time the report was written.

1.1 Evaluation Scope and Methods

This evaluation of the OAS program⁴ was organized around a set of evaluation questions⁵ that were approved by an advisory committee in 2007. These evaluation questions were developed in consultation with the program area. On the basis of these questions, the evaluation examined the continued relevance of the OAS program, objectives achievement and cost effectiveness. The final list of questions is included in Annex II of this report. The report summarizes what was learned from ten technical reports conducted over the period of 2008 to 2010.

The evaluation covers a fifteen-year period (1992 to 2007) which corresponds to the fifteen-year time period since the previous evaluation.⁶ The evaluation includes an examination of the trends and composition of program beneficiaries, program take-up, the importance of OAS program benefits in seniors' income and the contribution made by these benefits to alleviating low income among seniors. It should be noted, however, that behavioural effects, delivery issues and inter-provincial analysis were not considered within the scope of the evaluation.

A mixed-method approach consisting of primarily of quantitative methods using data in the public domain and to a lesser extent qualitative methods was used to examine the evaluation questions.

- For the most part, quantitative methods were used. Data sources and analysis included the following: the Census (for its breadth of population coverage), the Survey of Labour and Income Dynamics or SLID (for its level of detail and longitudinal dimension), and the Longitudinal Administrative Database or LAD (for its length of time series and the fact that it follows the same individuals over time). Other data sources were also used

⁴ Throughout this report, the phrase "Old Age Security (OAS) program" refers to the program's three component benefits: the Old Age Security (OAS) Pension, the Guaranteed Income Supplement (GIS), and the Allowances. To distinguish between the OAS program and the OAS pension component, the phrase "OAS program" or "OAS system" will be used to describe all three components and the phrase "OAS pension" will be used to refer to that specific component, unless otherwise indicated by the context.

⁵ The initial structure of the evaluation questions was based on Treasury Board's Evaluation Policy that was in force during the initial planning stages of the evaluation. Since then, where possible, attempts have been made to shift the emphasis of these questions in the direction of the Policy on Evaluation that was introduced in 2009.

⁶ *Evaluation Report Old Age Security Program*, Program Audit and Review Directorate, Health and Welfare Canada, September 1992.

including the General Social Survey (GSS) and the Survey of Financial Security (SFS). A variety of analytical methods were employed, including computer modeling with the LifePaths simulation model⁷ as well as standard statistical and econometric techniques.

- Qualitative methods included two literature reviews, one on the OAS program and the other on international comparisons.
- Both before and after-tax measures of income and low income were used in this report. Before-tax measures better highlight the incremental impact of the program, whereas after-tax measures better describe the overall condition of seniors in terms of income and are better measures of disposable income.

A total of ten technical reports were conducted and used to inform this final evaluation report. In synthesizing the technical reports, this final report often focuses on the year 2005 as a benchmark because most of the technical reports examined or included that year. As well, this final report places particular emphasis on drawing from multiple lines of evidence to corroborate and/or explore the main findings for each of the evaluation questions.

Further details can be obtained from the supporting technical reports. A brief description of the technical reports is provided in Annex VI along with examples of the additional information that can be found in those reports and some key considerations for each source.

1.2 Cautions and Limitations

When interpreting the findings and conclusions presented in this report, readers should bear in mind some general cautions.

- While the data sources used for this evaluation are considered amongst the best, each source does have certain limitations.⁸ Readers interested in the details of the limitation of each data source can review the technical reports.
- The technical reports often needed to take steps to accommodate their methods of analysis, such as adopting different definitions and performing statistical adjustments to compensate for data limitations.
- Data were not always available for the identical time period for all studies. For instance, Census data was available for 2001 while LAD data were available for 2006.

⁷ LifePaths is a Canadian dynamic computer microsimulation model developed by Statistics Canada. It simulates an individual's life cycle from birth to death based on a representative sample of Canadians, and ensures that the model's distributions and aggregations are consistent with available data on the Canadian population. Numerous aspects pertaining to an individual's life cycle can be simulated using this model and include birth, sex, migration, education, employment history, marital status, etc. The LifePaths simulation model is particularly useful when analyzing policies that have a longitudinal component.

⁸ For example, Census data report self-reported income, combine all OAS income sources and work with ten-year age categories. The SLID and Social Policy Simulation Database and Model (SPSAD/M) incorporates Allowance benefit income into the reported amounts for GIS. The General Social Survey (GSS) collects self-reported perceptions of well-being. The Longitudinal Administrative Database (LAD) excludes capital gains income and excludes the lowest income Canadians in the assessment of the replacement rate.

- Low-income rates vary in this report depending on the type of measure (Low Income Cut Off (LICO), Low Income Measure (LIM), or Market Basket Measure (MBM)), data source, year, and whether before or after-tax rates were used. Of note is that Market Basket Measures was not available for many studies.

For these reasons, results provided by the technical reports often differed even when the same measure of response or evaluation criterion was examined (as discussed further throughout this report).

It should be noted that behavioural effects were outside of the scope of the evaluation. As such behavioural effects such as labour supply changes are not considered in this evaluation. However, the behavioural impacts of income security programs, such as OAS, are a core area of research among academics. As well, research has shown that programs such as OAS can influence senior's labour force participation. Therefore, a suggestion to examine the behavioural impacts of the OAS program is included in the Recommendation section of this Evaluation report.

1.3 Structure of the Report

Chapter 2 provides a description of the OAS program including the historical perspective, benefit components, expected outcomes, and an overview of program activity. Chapter 2 also examines the continued rationale of the OAS program. Chapter 3 examines the achievement of program objectives, Chapter 4 considers program effects and Chapter 5 examines cost effectiveness. Chapter 6 provides the overall conclusions and recommendations.

2. Description of the Old Age Security program

This chapter begins with a brief history of the OAS program, along with a description of the benefit components. It then examines the continued rationale of the program. As well, this chapter presents the program's expected outcomes, trends and composition of beneficiaries, and program expenditures.

2.1 Brief History

The first old age pension was introduced in 1927 by an act of the Federal Parliament. It was jointly financed by federal and provincial governments, but was administered by the provincial governments because pensions were considered to be a constitutional responsibility of the provinces at that time.

In 1952, the Canadian Parliament passed the *Old Age Security Act*, which provided a universal pension, financed and administered by the federal government. All Canadians age 70 years and older who met the residence requirements were eligible, regardless of their income or assets.^{9,10} Pension payments began in 1952 and were taxable. In 1989, the OAS Recovery Tax was introduced into the *Income Tax Act*, requiring higher income OAS pensioners to repay 15 cents of their OAS pension for every dollar of their income that exceeded a certain threshold. It was at this time that the OAS pension became quasi-universal. The *Old Age Security Act* has been amended many times since 1952. A list of the major legislative changes can be found in Annex IV of this report.

Financed from the general tax revenues of the Government of Canada, the current OAS program is the first pillar of Canada's retirement income system (see annex III for the logic model). The OAS program is intended to provide a basis, upon which eligible seniors may add income from other sources, such as the Canada and Quebec Pension Plans (CPP/QPP), private pensions and personal savings.¹¹ It also provides additional assistance to low-income OAS pensioners through the GIS.

In 2007, it provided 4.5 million seniors with \$32.6 billion in cash benefits, 76 percent in OAS pension, 22.5 percent in GIS, and 1.5 percent in Allowance benefits.¹² The OAS program is administered by Service Canada, under HRSDC, through regional offices located throughout Canada.

⁹ The Canadian Encyclopaedia, retrieved on January 12, 2011, from <http://www.thecanadianencyclopedia.com/index.cfm?PgNm=TCE&Params=A1ARTA0005909>

¹⁰ There was a phased-in drop in the eligibility from age 70 to 65 years, one year at a time starting in 1966.

¹¹ In addition to residence and age requirements, a person living in Canada must be in the country legally on the day before the pension starts to be paid and a person living outside Canada must have been in Canada legally on the day before the person left Canada.

¹² OSFI (2009), 8th Actuarial Report on the Old Age Security Program, Cat. No. IN3-16/2-2009E-PDF.

OAS benefits include three types of benefits: the basic OAS pension, the GIS, and the Allowances. These benefits are briefly described in the following section.

2.2 Benefit Components

2.2.1 Old Age Security Pension

The OAS pension is a flat-rate monthly benefit available to Canadians 65 years of age or older who meet the residence requirements. A minimum of 10 years of residence in Canada after reaching age 18 is required to receive a pension in Canada, and a minimum of 20 years of residence in Canada after reaching age 18 is required to receive a pension outside of Canada. The residence requirement may be met under the terms of an International Social Security Agreement.¹³ In addition to meeting the age and minimum residence requirements, a person must be a Canadian citizen or a legal resident of Canada on the day before the pension starts to be paid. If the person is living outside Canada, he or she must have been a Canadian citizen or a legal resident of Canada on the day before the person left Canada. An applicant's employment history is not a factor in determining eligibility, nor does the applicant need to be retired.

The amount of a person's OAS pension is determined by how long he or she has lived in Canada. To qualify for a full OAS pension, a person must have lived in Canada for at least 40 years after the age of 18.¹⁴ A person is eligible for a partial pension if he or she has lived in Canada between 10 and 40 years after the age of 18. The partial pension is paid at the rate of 1/40th of the full amount for each year of residence in Canada after 18 years of age. Once a partial pension is approved, it may not be increased as a result of added years of residence in Canada.

In October 2011, the maximum monthly benefit was \$537.97,¹⁵ up from \$502.31 in October 2007. OAS pension rates are reviewed every January, April, July and October to reflect increases in the cost of living as measured by the Consumer Price Index. The amount of the OAS pension is taxable and is recovered, at a rate of 15 percent of net income beyond

¹³ A social security agreement allows periods of contributions and/or residence in Canada and an agreement country to be added together to meet the residence requirements for OAS benefits. Canada currently has 53 agreements in force. Once eligibility is established through totalizing, each country pays a benefit in proportion to the actual periods spent under its own social security scheme.

¹⁴ A person who has not lived in Canada for 40 years may still qualify for the full pension if he or she was 25 years of age or older on July 1, 1977 and lived in Canada on that date; or had lived in Canada after the age of 18 and before that date; or possessed a valid immigration visa on that date and lived in Canada for the 10 years immediately before the approval of his or her OAS application. A person who did not live in Canada continuously for the 10 years immediately before the approval of his or her application may still qualify for a full pension if he or she lived in Canada for the entire year immediately before the approval of his or her application; and lived in Canada (since age 18) for at least 3 years for every 1 year of absence from Canada during these last 10 years.

¹⁵ Service Canada 2011 (visited October 17: <http://www.servicecanada.gc.ca/eng/isp/oas/oasrates.shtml>).

a certain threshold, through a provision of the *Income Tax Act*. In 2011, the OAS Recovery Tax applies at an income level of \$67,668. The OAS pension is entirely recovered when one's net income exceeds \$110,123.^{16,17}

2.2.2 Guaranteed Income Supplement

Introduced in 1967, the GIS is a monthly benefit paid to OAS pensioners who have little or no other income. To receive the GIS benefit, a person must be receiving an OAS pension and have income (or combined family income in the case of couples) below the income cut-off level. GIS payments may begin in the same month as OAS pension payments. As of 2007, pensioners may make a one-time application for the GIS and have their benefit automatically renewed as long as they remain eligible and file an annual income tax return. In 2009-2010, 95.8 percent of GIS recipients had their benefit automatically renewed.¹⁸

The amount of monthly payments determined for the year may increase or decrease according to reported changes in a pensioner's yearly income. Unlike the basic OAS pension, the GIS is not subject to income tax.

The amount of GIS to which a person is entitled depends on his or her income and marital status. The calculation of GIS excludes OAS pension and the first \$3,500 of employment income. Income for GIS purposes is defined the same way as it is for federal income tax purposes, with a few specific exceptions. Aside from OAS pension income, it includes any other money which a pensioner receives, such as an earnings-related retirement pension, foreign pensions, interest, dividends, rents, and wages or workers' compensation payments. If married or living in a common-law relationship, the combined income of the pensioner and spouse or common-law partner is taken into account. The maximum GIS of a partial OAS pensioner is increased by the difference between his or her partial pension and the maximum OAS pension. This ensures that the income of low-income partial pensioners does not fall below a certain threshold, which represents the combined amount of the maximum OAS pension and the maximum GIS benefit.

The amount of GIS also depends on the pensioner's marital status. There are two basic rates of payment for the GIS benefits. The first applies to single pensioners (including widowed, never married, divorced or separated persons) and to married pensioners whose spouses or common-law partners do not receive either the basic OAS pension or the Allowance. The second applies to legally-married couples and to couples living in common-law relationships, where both spouses and common-law partners are OAS pensioners. The GIS single rate is higher than the GIS married rate. However, each spouse or common-law partner in a couple is entitled to a benefit, so the combined GIS benefits for a couple are higher than the GIS benefit for a single person.

¹⁶ Note that the OAS repayment range is adjusted annually.

¹⁷ Service Canada 2011 (visited October 17: <http://www.servicecanada.gc.ca/eng/isp/oas/oasrates.shtml>).

¹⁸ Service Canada, Operations (2010).

In October 2007, the maximum monthly GIS benefit was \$634.02 for single individuals and \$418.69 for each spouse or partner of a GIS recipient. Benefits have risen over the years to reach a maximum monthly GIS benefit of \$729.44 for single individuals and \$483.68 for each spouse or partner of a GIS recipient in October 2011.¹⁹ GIS benefits are fully indexed for inflation and, as noted above, are not taxable under the *Income Tax Act*. For a single pensioner, the maximum monthly GIS benefit is reduced at a rate of 50 percent based on income. If the spouse or common-law partner in a couple is receiving the OAS pension, the maximum monthly GIS benefit for each pensioner is reduced at a rate of 25 percent based on income. In October 2007, the GIS benefit was reduced to zero when other income exceeded \$15,240 for a single person and \$36,528 for a couple. The GIS cut-off threshold is not a measure of low income but is an administrative cut-off.

2.2.3 Allowance

The Spousal Allowance,²⁰ now called the Allowance, was introduced in 1975. It provides a monthly benefit to low-income 60 to 64 year-old spouses or common-law partners of an OAS pensioner receiving the GIS. The benefit was extended in 1978 and 1979.²¹ Added in 1985, a variant of the Allowance, known as the Allowance for the Survivor, is a monthly benefit available to low-income surviving spouses or common-law partners aged 60 to 64 years. The Allowance benefits were designed to recognize the difficult circumstances faced by low-income couples living on the income of just one OAS-GIS beneficiary and low-income survivors aged 60 to 64 years.²²

To qualify for an Allowance benefit, an applicant must be the spouse or common-law partner of an OAS-GIS beneficiary or widowed, between the ages of 60 and 64 years and have lived in Canada for at least 10 years after turning 18. An applicant must have been a Canadian citizen or a legal resident of Canada on the day preceding the application approval. Applicants must also meet the income test.

The maximum amount payable to the spouse or common-law partner of a low-income pensioner is equal to the combined full OAS pension and the maximum GIS at the married rate. In October 2007, the maximum monthly benefit for the regular Allowance was \$921. The maximum amount of the Allowance for the Survivor is somewhat higher, at \$1,020.91 in October 2007. In October 2011, the maximum monthly benefit for the regular Allowance was \$1,021.65 and Allowance for the Survivor was \$1,143.78.²³

¹⁹ The October 2011 rates include the GIS Top-Up, which was introduced in Budget 2011 and provides additional benefits of up to \$600 annually for singles and \$840 for couples for the lowest-income seniors. These benefits are adjusted, based on the Consumer Price Index, like all other OAS benefits.

²⁰ The term “Allowance” is generally used to describe both the Allowance and the Allowance for the Survivor.

²¹ See Annex IV for details on legislative changes.

²² The limited nature of Allowance benefits was recognized by original and subsequent legislators. Since income security for low-income persons under the age of 65 years is a provincial responsibility, it was assumed that never married, separated or divorced individuals in this age group who faced financial hardship and met eligibility requirements could qualify for provincial social assistance.

²³ Service Canada 2011 (visited October 17: <http://www.servicecanada.gc.ca/eng/isp/oas/oasrates.shtml>).

The maximum monthly Allowance is reduced at a rate of 75 percent of the beneficiary's annual income for a widowed spouse or common-law partner or the couple's combined annual income. This happens until the OAS equivalent is reduced to zero. For a couple, both the GIS equivalent portion of the Allowance and the pensioner's GIS are reduced at a rate of 25 percent of the couple's combined monthly income. For a survivor, the GIS equivalent portion is reduced at a 50 percent rate of his or her monthly income. In October 2007, the Allowance stopped being paid at an income of \$28,176 and for a survivor, payment ceased at an income of \$20,520. These maximum annual income limits are reviewed quarterly to reflect increases in the cost of living.

The Allowance stops being paid when a recipient becomes eligible for an OAS pension at age 65, leaves Canada for more than six months, or dies. In addition, the regular Allowance stops being paid if a recipient separates or divorces or his or her spouse ceases to be eligible for the GIS. Payment of the Allowance for the Survivor stops if a survivor remarries or lives in a common-law partnership for more than 12 months.

A summary of the main features of the OAS program is provided in Annex V of this report.

2.2.4 *International comparison of eligibility and benefit amounts*

A comparative study was undertaken to examine how the eligibility requirements and benefit amounts of Canada's OAS program compare with the public income security programs of other OECD countries.²⁴ Ten OECD countries with institutional frameworks comparable to Canada were included in the analysis as comparison countries (Australia, Austria, Denmark, France, Germany, the Netherlands, Sweden, Switzerland, the United Kingdom (UK), and the United States (USA)). Some of the analysis was extended to four additional OECD countries that differ from Canada in several aspects, but have features noteworthy to old age pension programs (Iceland, Ireland, New Zealand and Norway).

Eligibility conditions for public pension programs similar to the OAS program vary widely across OECD countries. Some countries specify age requirements only, while others specify a minimum number of years of residence in the country, and some have both age and residence requirements. Other countries specify a minimum contribution period for their payroll taxes.

- In Canada, a minimum of 10 years of residence is required to become eligible for an OAS pension and 40 years of residence is required for a full OAS pension. In Denmark and Norway, the eligibility condition is also 40 years of residence, but the minimum residence requirement is three years. In Sweden, three years of residence entitles one to full public pension, while in Australia there is no residence requirement.
- The normal retirement age in most OECD countries is similar to that of Canada, 65 years. There are some exceptions, such as 60 years in France, 67 years in the USA, Norway

²⁴ Roy (2010).

and Iceland, and 66 years in Ireland. While the Canadian OAS program does not have different age requirements according to gender, some countries (including Australia,²⁵ Austria, and Switzerland) allow lower pension eligibility ages for women. Also, many countries stipulate penalties (i.e., a reduced benefit) for early retirement and premiums for delayed retirement.

- Recently many countries announced that the age of eligibility for retirement pensions will increase over time. For instance, in France, the retirement age (60) will increase by 4 months every year, until it reaches 62 in 2018. As for Germany, Denmark and Australia, they will increase the retirement age from 65 to 67 years. In Germany the increase will take place between 2012 and 2029. In Denmark, the retirement age will increase by half a year each year between 2024 and 2027, and in Australia it will increase by six months every two years starting in 2017 until it reaches 67 years in 2023.²⁶

Public pension entitlements (benefits) differ widely across OECD countries. In Canada, under the pension program (GIS added to the basic OAS), the maximum annual entitlement in 2007 was 31.4 percent of average earnings. This level of entitlement is comparable to Austria (32.6 percent), Sweden (33 percent) and the Netherlands (31 percent). In contrast, entitlements are considerably lower in several other countries such as the UK (20 percent of average earnings), the USA (22 percent of average earnings), and France (24 percent of average earnings).

Overall, Canada's OAS program is similar to programs in other OECD countries with comparable institutional frameworks. The OAS program is very similar to the programs in the other OECD countries in terms of eligibility requirements and is amongst the more generous in terms of entitlements (benefits).

2.3 Continued Rationale

This section examines the continued rationale of the OAS program by examining the legislative changes which have been made over time, the theoretical rationale of the program, and old age security programs provided in other countries. Overall, the continued role of the Canadian government in ensuring equity, as well as contributions to the public good, supports the continued relevance of the OAS program. In addition, it is in line with international standards in providing seniors with public pension benefits adheres to the continued rationale of the program.

2.3.1 Legislative Perspective

The *Old Age Security Act* came into force in January 1952, replacing legislation from 1927. The old legislation (1927) had required the federal government to share the cost of provincially-run, means-tested old age benefits.

²⁵ In Australia, the pension age for women is being raised by six months every two years so that by 2014, both men and women will have the same pension age.

²⁶ Hering and Klassen (2010), p. 14.

Since its introduction in 1952, the *Old Age Security Act* has undergone several amendments. For example, there was a drop in eligibility from age 70 to 65 years which was phased-in between 1965 and 1969. The GIS was established in 1967 and made a permanent feature of the program in 1970. The addition of the GIS developments reinforced the program's low-income reduction objective. Annual cost-of-living indexation was introduced in 1972, followed by quarterly indexation in 1973.

A number of noteworthy amendments have also been made to provide a minimum income to low-income spouses of OAS pensioners and survivors in the 60-64 age group. For example, in 1975, the Spouse's Allowance was established to provide the same income guarantee to couples with just one OAS pensioner receiving the GIS as couples with two OAS pensioners receiving the GIS. In 1985, the Spouse's Allowance was extended to all low-income widowed persons aged 60 to 64 years (to establish the Allowance for the Survivor) to reduce the financial hardship of those who were not yet old enough to receive the OAS pension.

More recent amendments include: the extension of benefits and obligations to same-sex common-law partners (2000), the simplification of access to and delivery of benefits (2007), and the suspension of benefits for beneficiaries incarcerated in federal penitentiaries (2010).²⁷

2.3.2 Theoretical Perspective

There are numerous arguments in favour of a government role in providing citizens with old age security. These arguments include the fact that some people will not save enough for their retirement, and the government can provide equity by granting additional income transfers to those with lower incomes to ensure their income does not fall below a certain level. In addition, the provision of public goods can induce positive saving behaviour.

Although there are implicit benefits in favour of an active government role in providing seniors with pension benefits, there are some possible negative externalities to consider. For example, providing equity by granting additional income transfers to those with lower incomes can also provide a potential disincentive to work for higher income individuals, since each dollar earned by high income individuals is effectively worth less.

From an economic perspective, some individuals, such as those with low-incomes, will be unable to save in the long run and others simply do not save or do not save enough. As a result, the government must provide a social safety net by saving for them through programs such as the OAS. The importance of the government in providing seniors with OAS is expected to increase in the future as household savings have declined from 1982 to 2001 and are expected to continue to decline.²⁸

Public provision of old age income security is justified on efficiency and equity grounds. In a world of certainty, government involvement is limited because some people provide for their

²⁷ For a list of major legislative changes and changes in eligibility criteria, see Annex IV.

²⁸ Chawla and Wannell (2005).

retirement years through voluntary saving using private institutions. As aforementioned, public goods, coupled with negative externalities and imperfect information can result in a ‘market failure’. Public policy responds then by providing more efficient solutions of universal and targeted income benefits to eligible seniors. Public policy is also justified on the grounds of equity, both vertical and horizontal, given the specific goal to reduce poverty among seniors.²⁹

2.3.2.1 Equity

Some individuals will have employment incomes that are so low that they are unable to save enough to have an adequate retirement income and others will never work during their lives. These individuals are at risk for low income in their retirement. The OAS program, a non-contributory pension scheme, helps reduce low income by ensuring that all seniors have a basic level of income³⁰ and thereby improves equity in terms of the living standards of seniors. Certain groups of beneficiaries may face a higher risk of low income due to various socio-economic factors and, therefore, rely heavily on the program. These include immigrants, women, disabled individuals, and Aboriginal persons.

In addition, the program improves equity among seniors on the basis of age. As seniors age, they generally have lower income from key sources (e.g., earnings) and hold fewer assets. They are also more likely to be unattached and, therefore, more likely to fall into low income. The role of the OAS program in reducing low income for older seniors will likely have heightened importance in the context of Canada’s aging population. These equity improvements have already been realised as the income share represented by OAS and GIS between 1991 and 2001 which increased by around 4 percentage points. This trend is expected to persist due to increasing life expectancy and declining mortality rates within the Canadian population.³¹

2.3.2.2 Public Good

The OAS program contributes to the public good by reducing the incidence of low income for all seniors and enabling them to maintain a certain living standard in retirement through its income-replacement objective. The provision of public goods is meant to maximize societal welfare by granting additional income transfers to those with lower incomes. The equity considerations for providing a public good are addressed by the OAS program as it offers quasi-universal access to all eligible recipients and reduces the incidence of low-income for all seniors.

Another public good argument is that all economically developed countries provide some form of safety net that aims to alleviate or reduce low income in old age. Although there are differences in the type of approaches, as well as in the eligibility requirements (such as

²⁹ Stiglitz (2000); Barr (2004).

³⁰ Rosen et al. (2003), p. 235.

³¹ Van Audenrode et al. (2009), p. 27.

age, gender, and minimum number of required years of residence in the country),³² all these programs are provided by the public sector and have a redistributive structure. In addition, there is societal expectation that modern developed countries will have the compassion to provide some form of old age security. These arguments provide justification for providing a minimum income guarantee to seniors through the OAS program.

In order to obtain a better perspective on how Canada compares with other international countries, international comparisons of eligibility requirements, benefits paid, low-income incidence, and net pension replacement rates are investigated in this Evaluation.

2.4 Expected Outcomes

From an evaluation perspective, the two basic objectives of the OAS program are to help smooth senior Canadians transition to retirement and to redistribute income towards low-income pensioners to help reduce low income during retirement.³³

When the *Old Age Security Act* was proposed in 1952, the Minister of Finance described the program as:

“...not a total retirement and security scheme in itself, replacing and supplanting all others, but as the core, the keystone of a national savings and retirement plan, around which each individual in this country will be encouraged to build his own retirement security program in a manner and to an extent peculiarly suited to his own needs.”

At the time of introduction, in 1967, the purpose of the GIS was described as a guaranteed income. *“This [guaranteed income] is the level at which income support is provided to people whose incomes from other sources fall below designated amounts.”*³⁴ A conclusion of the White Paper which was published in 1970 and is entitled *Income Security for Canadians* was to make the GIS a permanent part of the OAS program. Today, public documents describe the GIS as a benefit which:

*“...provides extra money to pensioners living in Canada who have low incomes.”*³⁵

³² Roy (2010), p. 18.

³³ Gunderson (2009), p. 13.

³⁴ National Health and Welfare, *Income Security for Canadians – White Paper*, 1970.

³⁵ Benefits for low-income seniors, ISPB 341-03-11E <http://www.servicecanada.gc.ca/eng/isp/pub/oas/lis/lisbenefits.pdf>, March 2011.

2.5 Program Activity

2.5.1 Trends and Composition of Beneficiaries

In 2007, about 4.5 million persons were beneficiaries of the OAS program (Table 2.1). There have been significant increases in the number of OAS beneficiaries between 1992 and 2007, reflecting Canada's aging population.

Table 2.1				
OAS, GIS and the Allowances – Number of Beneficiaries (1992-2007)				
Year	OAS	GIS	Allowance	Total
1992	1,910,431	1,294,310	109,015	3,313,756
1993	1,978,765	1,304,849	106,283	3,389,897
1994	2,019,974	1,341,521	108,265	3,469,760
1995	2,111,469	1,330,283	101,702	3,543,454
1996	2,183,795	1,334,863	98,728	3,617,386
1997	2,235,778	1,348,135	97,625	3,681,538
1998	2,301,082	1,350,313	94,765	3,746,160
1999	2,324,328	1,385,956	98,679	3,808,963
2000	2,393,381	1,383,299	97,525	3,874,205
2001	2,468,614	1,379,202	95,252	3,943,068
2002	2,471,610	1,446,845	91,266	4,009,721
2003	2,513,277	1,480,870	91,819	4,085,966
2004	2,560,643	1,511,698	92,281	4,164,622
2005	2,592,291	1,563,419	94,588	4,250,298
2006	2,669,660	1,587,301	93,675	4,350,636
2007	2,725,636	1,630,862	94,015	4,450,513
Change from 1992 to 2007	42.67%	26.00%	-13.76%	34.30%
Source: HRSDC, CPP-OAS 2010 Stats Book.				

In 2007, about 37 percent of all OAS beneficiaries received the GIS and 2 percent received an Allowance benefit.

- The percentage of all OAS beneficiaries who received the GIS has shown a continuous decline over the last 25 years. Over the last 15 years, the percentage has declined from 39.1 percent in 1992 to 36.6 percent in 2007, which reflects improvements in the income-position of the elderly. As noted earlier, the GIS is income-tested and only OAS recipients whose income is below the threshold level are entitled to receive the GIS.
- Recipients of the Allowance constitute a very small group. Of all OAS program beneficiaries, the percentage receiving the Allowance has varied within the range of 3.3 percent in 1992 to 2.1 percent in 2007.

Table 2.2 shows the age distribution of the beneficiaries of OAS, GIS and the Allowance for selected years. Comparing 1992 and 2007 indicates that changes in the age distribution of these beneficiaries reflect the changing age structure. Specifically, between 1992 and 2007, there have been increases in the percentages of the older OAS, GIS and Allowance beneficiaries and decreases in the percentages of the younger beneficiaries.

Table 2.2					
Percentage of OAS, GIS, and Allowance Beneficiaries by Age, Selected Years					
Component	Age	1992	1997	2002	2007
OAS	65-69	37.6	33.9	30.3	31.4
	70-74	28.0	28.5	27.5	24.8
	75-79	18.4	19.7	21.2	20.2
	80-84	10.1	11.1	12.9	13.8
	85-89	4.2	4.9	5.8	7.0
	90+	1.7	1.9	2.2	2.7
GIS	65-69	25.6	25.1	23.2	22.6
	70-74	24.1	23.5	23.2	22.4
	75-79	21.1	20.4	20.6	20.7
	80-84	15.5	16.0	16.2	16.7
	85-89	8.9	9.7	10.6	10.9
	90+	4.8	5.4	6.2	6.7
Allowance	60	11.9	11.4	10.4	10.4
	61	15.9	15.9	16.4	16.3
	62	20.0	19.8	19.6	19.5
	63	23.7	23.4	24.7	24.4
	64	28.6	29.4	28.9	29.3
Source: HRSDC, CPP-OAS 2010 Stats Book.					

The gender distribution of OAS, GIS and Allowance beneficiaries has been relatively stable between 1992 and 2007, with the percentage of female beneficiaries decreasing slightly over the years from 1997 to 2007 (as shown in Table 2.3). This may reflect increased labour market participation among women and therefore improved retirement income conditions.

Table 2.3 Percentage of OAS, GIS, and Allowance Beneficiaries by Sex (1992-2007)						
Year	OAS		GIS		Allowance	
	Male	Female	Male	Female	Male	Female
1992	46.1	53.9	35.6	64.4	8.9	91.1
1993	46.2	53.8	35.4	64.6	9.1	90.9
1994	46.4	53.6	35.4	64.6	9.3	90.7
1995	46.6	53.4	35.1	64.9	8.9	91.1
1996	46.7	53.3	35.0	65.0	9.2	90.8
1997	46.8	53.2	35.1	64.9	9.2	90.8
1998	46.8	53.2	35.1	64.9	8.9	91.1
1999	46.9	53.1	35.0	65.0	8.6	91.4
2000	47.0	53.0	35.2	64.8	8.7	91.3
2001	47.0	53.0	35.2	64.8	8.5	91.5
2002	47.6	52.4	34.9	65.1	8.3	91.7
2003	47.8	52.2	35.1	64.9	8.3	91.7
2004	47.6	52.4	35.8	64.2	8.5	91.5
2005	47.9	52.1	35.9	64.1	8.8	91.2
2006	47.9	52.1	36.3	63.7	8.9	91.1
2007	48.2	51.8	36.4	63.6	9.1	90.9
Source: HRSDC, CPP-OAS 2010 Stats Book.						

2.5.2 Program Expenditure

The total cost of the OAS program increased from \$19.0 billion in 1992 to \$31.1 billion in 2006 (as shown in Table 2.4). This increase in OAS program expenditure was substantially smaller than in the previous decade when OAS program expenditure more than doubled (from \$9.4 billion in 1982 to \$19.0 billion in 1992). The recent trend largely reflects the maturation of the mandatory CPP/QPP and registered private pension plans.³⁶ Although total expenditures for the OAS program increased every year between 1992 and 2006, these expenditures expressed as a percentage of GDP decreased from 2.72 percent in 1992 to 2.14 percent in 2007.

³⁶ Roy (2010), p. 73.

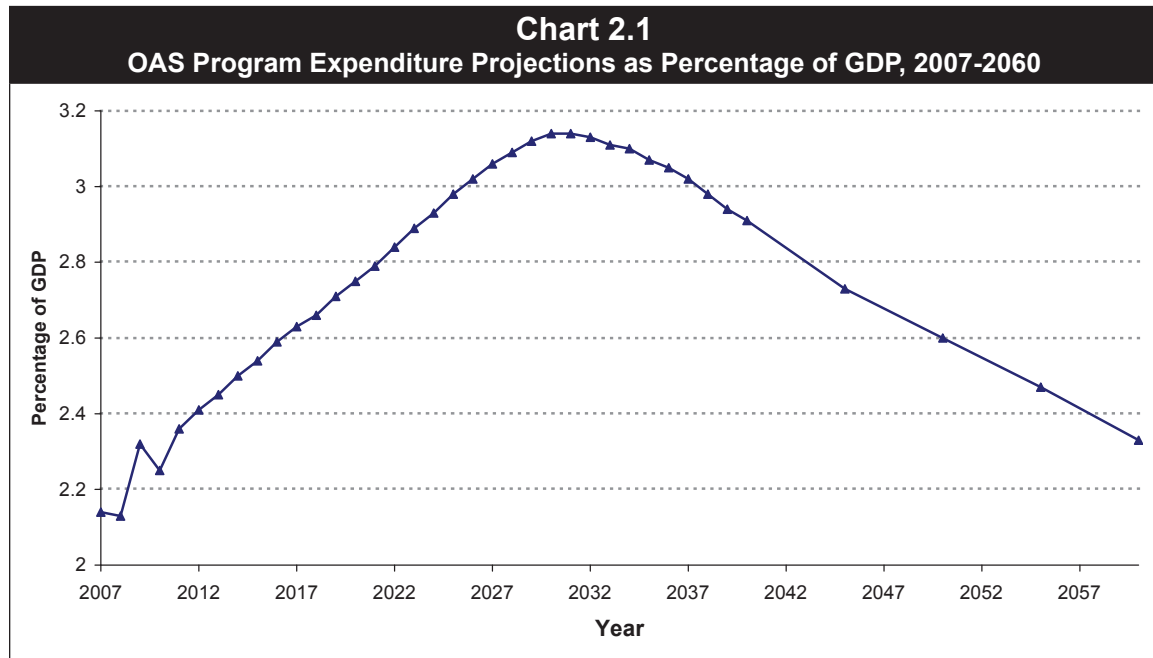
Table 2.4 OAS Program Expenditures						
Year	Expenditures (\$ million)					Expenditure as % of GDP
	OAS	GIS	Allowance	Administrative Expenses	Total	
1992	14,292	4,227	438	77	19,034	2.72
1993	14,872	4,393	430	90	19,785	2.72
1994	15,403	4,587	431	91	20,512	2.66
1995	15,832	4,601	411	106	20,950	2.59
1996	16,433	4,636	398	104	21,571	2.58
1997	16,944	4,710	393	106	22,153	2.51
1998	17,470	4,810	386	109	22,775	2.49
1999	17,903	4,894	388	99	23,284	2.37
2000	18,669	5,019	389	89	24,166	2.24
2001	19,508	5,160	390	95	25,153	2.27
2002	20,318	5,417	397	99	26,231	2.28
2003	21,217	5,710	411	97	27,435	2.26
2004	21,923	5,954	453	104	28,434	2.20
2005	22,701	6,334	469	104	29,608	2.16
2006	23,737	6,800	497	97	31,131	2.15
2007	24,711	7,346	513	112	32,682	2.14
Source: OSFI, 9th OAS Actuarial Report. Pages 27 and 30.						
Note: The OAS pension expenditures are on a gross basis, before application of the OAS recovery tax. All expenditures include benefits paid outside Canada.						

Projections over the next several decades (2007-2060) show a rise in the total expenditure amounts an increase as a percent of GDP up to the year 2030, followed by a decrease up to the year 2060 (Chart 2.1).³⁷

- 2007-2016: 56 percent increase in total expenditures for the OAS program from \$32.68 billion in 2007 to \$50.99 billion in 2016. OAS program expenditures as a percentage of GDP are forecasted to be 2.59 percent in 2016, up from 2.14 percent in 2007.
- 2017-2026: 65 percent increase in total expenditures for the OAS program from \$53.81 billion in 2017 to \$88.58 billion in 2026. OAS program expenditures as a percentage of GDP are estimated to be 3.02 percent in 2026.
- 2027-2036: 44 percent increase in total expenditures for the OAS program from 93.3 billion in 2027 to \$134.2 billion in 2036. OAS program expenditures as a percentage of GDP are estimated to be 3.05 percent in 2036. OAS program expenditures as a percentage of GDP peaked at an estimated 3.14 percent in 2036.
- 2036-2045: 29 percent increase in total expenditures for the OAS program from 134.1 billion in 2036 to \$173.3 billion in 2045. OAS program expenditures as a percentage of GDP are estimated to be 2.73 percent in 2045.

³⁷ OSFI (2009), 9th Actuarial Report on the Old Age Security Program, pgs 27, 28, 31 - Cat. No. IN3-16/2-2009E-PDF.

- 2045-2055: 33 percent increase in total expenditures for the OAS program from 173.3 billion in 2045 to \$231.2 billion in 2055. OAS program expenditures as a percentage of GDP are estimated to be 2.47 percent in 2055.
- 2055-2060: total expenditures for the OAS program are expected to reach \$266.2 billion in 2060, representing a 15 percent increase over a period of five years. OAS program expenditures as a percentage of GDP are estimated to be 2.33 percent in 2060.



3. *Achievement of Program Objectives*

This chapter examines the achievement of program objectives including program take-up, the reduction of the incidence of low income among seniors, and the program's contribution to seniors' transition to retirement.

3.1 Program Take-Up

Program take-up is an important indicator as it measures the distributive efficiency of the program in terms of reaching its target population. The take-up rate is measured as the ratio of the number of program beneficiaries to the eligible population.³⁸ In the case of the OAS program, the key to assessing the take-up rate is to obtain a reliable estimate of the eligible population for OAS benefits.

Two lines of evidence were used to estimate take-up rates for the OAS program: Census data and the LAD. It should be noted that each of these databases have advantages as well as certain limitations when used to measure the take-up rate for this program.³⁹

- Census data are collected by periodic surveys. These data provide comprehensive coverage, but capture limited income information. Further, the definition of family is different from the definition used by the OAS program (see Annex 1 for definitions).
- The LAD is a longitudinal file of individual tax filers containing information from their income tax forms. Although these data provide income information and are available annually, the LAD is limited to tax filing individuals (and provides information for individuals, not family units).

Table 3.1 provides an overview of the take-up rates by individual program component estimated using 2001 Census data and data from the LAD for the years 1996 and 2006.⁴⁰

Table 3.1			
Estimates of Take-Up Rates (Individuals)			
Program	Census 2001	LAD (1996-2006)	
		1996	2006
OAS pension	96%	97%	97%
GIS		75%	87%
Allowance	56%	39%	63%
Allowance for the Survivor		60%	60%
Source: Census and LAD. ¹			
¹ Van Audenrode et al. (2009), p. 40; Shillington (2009), p. 27-32.			

³⁸ Note that the take-up rates exclude eligible non tax-filing seniors. An estimated 217,200 seniors do not file income tax. (see Hapuarachchi (2008) OAS-CPP Information, Analysis and Liaison – Research and Analysis).

³⁹ Details on methods and data limitations are provided in the technical reports.

⁴⁰ Estimates of take-up rates are often based on a variety of different methodologies and cover different types of benefits, thus making comparisons across studies difficult.

The analysis shows that the take-up rate for OAS has remained stable at around 97 percent over the ten-year period from 1996 to 2006.⁴¹

- Take-up rates for single individuals for the OAS pension and GIS averaged 96 percent for the Census years 1991, 1996, and 2001. A similar take-up rate for the OAS pension (97 percent) was found using the LAD.⁴²
- Estimates⁴³ for the GIS, although somewhat lower than the OAS, show an increasing trend in GIS take-up rates from an estimated 75 percent in 1996 up to 87 percent in 2006.^{44, 45} This may be explained by measures taken by HRSDC and Service Canada to increase take-up among all potentially eligible seniors. These measures included, for example, providing GIS information with OAS T4 slips, a National ad campaign, direct mail outs, and simplification of the GIS application.⁴⁶ Other take-up measures include initiatives aimed at increasing the awareness and take-up of benefits among seniors who are hard to reach (including Aboriginal, immigrant, homeless and near-homeless seniors, and seniors with disabilities) through standard service delivery channels and by developing partnerships with and engaging third parties.⁴⁷

At the same time, the take-up rate for some groups of eligible beneficiaries is lower.

- According to Census data, the estimated take-up of the Allowance by individuals was 82 percent in 1991, 58 percent in 1996 and 56 percent in 2001.⁴⁸ According to the LAD, take-up rates for the Allowance for the Survivor were about 60 percent in 1996 and 2006.⁴⁹ LAD also showed that take-up rates for the regular Allowance increased throughout the period of 1996 to 2006, from 39 percent to 63 percent.⁵⁰ The Allowances will be subject to further investigation in future studies.

⁴¹ Van Audenrode et al. (2009), p. 39.

⁴² Shillington (2009), p. 27.

⁴³ Estimates of take-up using LAD are rough approximations only, as the analysis infers GIS eligibility from the available information on the receipt of "Net Federal Supplements" and age.

⁴⁴ Shillington (2009), p. 29.

⁴⁵ Note that GIS eligibility and benefits begin in July of a year, based on income from the preceding calendar year. Thus, a person may be eligible for GIS for only part of a year. In short, with annual data, an individual could be simultaneously classified as eligible and ineligible for that same year. (See Shillington, R., (2009) p. 28-29.).

⁴⁶ HRSDC (2010a), p. iii.

⁴⁷ HRSDC (2010a), p. xiii.

⁴⁸ Van Audenrode et al. (2009), p. 39.

⁴⁹ Shillington (2009), p. 32.

⁵⁰ Shillington (2009), p. 31.

- Certain groups have somewhat lower GIS take-up rates, including those who live in the Territories, and non-recent immigrants (i.e., immigrants who have lived in Canada for 20 or more years).^{51, 52} As well, women are more likely than men to not receive benefits that they are eligible for, although the gap in GIS participation has narrowed in recent years.⁵³

3.2 Reduction of the Incidence of Low Income

This part of the report examines the extent to which the OAS pension, the GIS and the Allowances reduce the incidence of low income among seniors in general and other subgroups such as women, eligible immigrants and Aboriginals.

As discussed in Section 2.2, the OAS program has a quasi-universal component (OAS pension), but also includes two income-tested components (GIS and Allowances). These components reinforce the poverty reduction objective of the OAS program by providing a minimum income guarantee to low-income individuals.

The analysis presented below examines the extent to which the OAS program contributes to reducing low income, taking into account the current state and structure of other government programs and the income situation of seniors. The analysis is structured around examining the incremental contribution of the OAS program to reducing low income among seniors in Canada. Specifically, the analysis examines the difference in income situations with and without the OAS program, which is interpreted to represent the upper bound incremental effect of the program.⁵⁴

Poverty is a complex phenomenon with many different approaches to its measurement. It is the standard approach for evaluators to use all major approaches to poverty measurement as valid and to report on them as a means of providing multiple lines of evidence. Measures of poverty vary according to the definition of the economic unit used, the time period examined, and the specific definition of “poverty line” used. In the case of the OAS program, it is possible to assess the upper bound incremental contribution of OAS program benefits with respect to either (1) the incidence of low income, or (2) the low-income gap. Both of these approaches are examined below. As well, two main Statistics Canada measures of low income are used: the LIM and the LICO. The MBM was used when available.⁵⁵

⁵¹ Shillington (2009), p. 26.

⁵² The LAD has information on immigration status as well as the year of first landing for those who entered after 1980, thereby enabling OAS eligibility assessments for this group. However, LAD cannot distinguish between those who immigrated before 1980 and Canadian-born residents (See Shillington (2009), p. 27.).

⁵³ Shillington (2009), p. 26.

⁵⁴ The upper bound of an ordered subset corresponds to the element which is greater than or equal to all the elements of the ordered subset. The upper bound incremental contribution of the OAS program is found by subtracting individuals who receive the program’s benefits from those who do not receive any benefits. The approach is to pose the following counterfactual: What would the financial situation of Canada’s seniors look like if the OAS program was eliminated? The difference in income situations is then interpreted as the incremental effect of the OAS program.

⁵⁵ The MBM is the newest of the three measures of low income and was not widely available at the time of this evaluation.

- The LICO is based on average consumption patterns. It indicates the income below which a family is likely to spend significantly more of its income on food, shelter and clothing than the average family of similar size. LICO also adjusts for the geographical location in which the family resides.
- The LIM is defined as half the median family income, adjusted for family size. It therefore provides a measure of low-income based on the distribution of family income.
- The MBM is a measure of low income based on the cost of a specified basket of goods and services. It was designed to complement the LICO and the LIM. The advantage of the MBM compared to the other two measures is its greater sensitivity to geographical differences in living costs.⁵⁶

The following analysis of low-income incidence and low-income gap uses three data sources: the LAD, the LifePaths simulation model, and Census data.

3.2.1 Incidence of Low Income

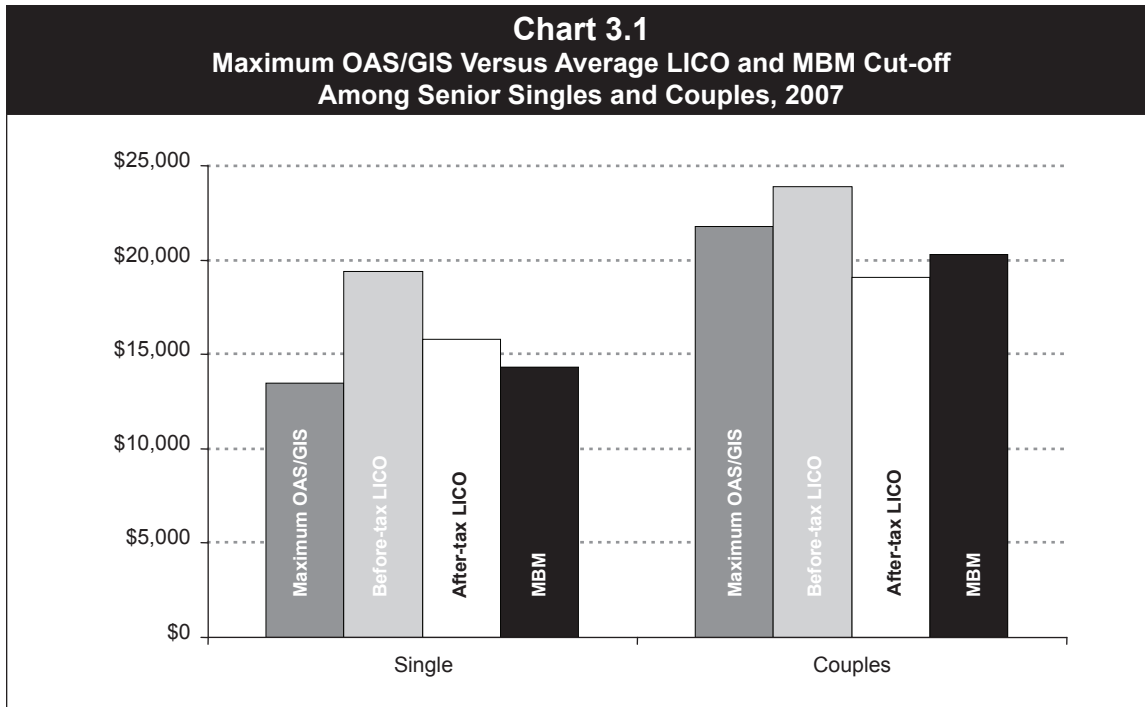
The incidence of low income among Canada's seniors is simply the percentage of seniors with incomes below the low-income line. It is, essentially, a "head count" measure. It gives no indication of the income shortfall of various individuals in low income (i.e., the extent to which their income falls short of the low-income benchmark). The shortfall may be a single dollar or thousands of dollars.

Chart 3.1⁵⁷ shows that OAS/GIS by itself cannot eliminate low income completely. This is to be expected as the goal of the program is poverty reduction not elimination. Chart 3.1 also shows that, in 2007, in general for couples rather than singles, OAS/GIS payments are higher relative to low income thresholds. Thus, combined with the increased probability that at least one member of the couple will have had participated in the paid labour market, we would expect there to be less low income among couples. As well, shared living arrangements can reduce key expenditure items, notably shelter costs. As such, the maximum combined OAS/GIS rate is above the after-tax LICO and MBM for couples but not for single persons (see Chart 3.1).⁵⁸

⁵⁶ Kapsalis (2009), p. 18.

⁵⁷ The Market Basket Measure (MBM) relates to the disposable income, which is even more restrictive than after-tax income. So, a family is considered low income if their total disposable income is below the MBM.

⁵⁸ Kapsalis (2009), p. 25.



The LAD provides both before and after-tax income information which can be easily used to create low-income measures (LIM).⁵⁹ As such, the LAD was used to calculate the upper bound incremental effect of the OAS program on the incidence of low income before-tax for the year 2006.

- When all OAS benefits are combined, the incidence of low income falls from 40.1 percent to 13.4 percent (before-tax LIM), for a drop of 26.7 percentage points⁶⁰ in the case of individual seniors.^{61,62}
- The drop in low income before-tax is virtually the same when comparisons are made on a household compared to an individual basis.⁶³ For example, there is an estimated incremental reduction of low income of 27.5 percentage points for households, lowering their incidence of low income to 18.4 percent (before-tax LIM).

The SLID study provided measures of both the LICO before-tax and the Market Basket Measure (MBM). When all OAS/GIS are combined, the incidence of low income falls by 24 percentage points for singles and by 28 percentage points for couples (LICO before-tax).⁶⁴

⁵⁹ Since the LAD does not create economic families, the use of LICOs to assess the reduction in low income due to OAS is not appropriate.

⁶⁰ Shillington (2009), p. 56.

⁶¹ The marginal impact of GIS should not be taken as 40-37 percent as it is an artefact of the order that the calculations are done.

⁶² Note that after-tax LIM provide lower incidence of low income than before-tax.

⁶³ Shillington (2009), p. 59.

⁶⁴ Kapsalis (2009), p. 53.

These results hold with other data sets as well. For instance, the LifePaths simulation model provides an estimate of the effectiveness of the OAS program in reducing the incidence of low income among seniors.⁶⁵ The model was conducted for the year 2007 using the after-tax LIM⁶⁶ as the low-income benchmark. Overall, results indicate that (at the margin) the OAS program has the effect of substantially lowering the incidence of low income.

Similar results were reported by another paper on the Social Policy Simulation Database and Model (SPSD/M) conducted for the year 2005 (with before-tax LIM). The SPSPD/M is a tool that is used to analyse the financial interactions between the government and individuals in Canada. Specifically, it is used to analyse various income redistributive effects that result from changes in personal taxation or the cash transfer system. It models a range of demographic and income variables to predict take-up outcomes for the GIS and Allowance components of the OAS program as well as the income effects associated with a change in Canada's fiscal policy.⁶⁷ The 2005 study found that if there was no OAS program, 45 percent of seniors would live on incomes that were lower than the LIM.⁶⁸

3.2.1.1 Subgroups

Variation in the above results was noted by subgroup and reported in this section. One study, using the LifePaths simulation model, reported marked differences in the incidence of low income (using after-tax LIM) among seniors according to socio-economic characteristics. That study found that individuals who are women, single, older, with fewer than ten years of residence in Canada, or who have low pre-retirement earnings were much more likely to have been living on low incomes in 2007 than other individuals.

- For all OAS program components, the incidence and reduction of the incidence of low income is significantly higher for women than for men. For instance, the OAS benefits reduce the incidence of low income from 36.4 percent to 17.2 percent (after-tax LIM) among senior women versus 24.7 percent to 11.7 percent (after-tax LIM) for men.⁶⁹ These results represent a 19.2 percentage point drop in low-income incidence among women and a 13 percentage point drop among men.

⁶⁵ Many studies can be conducted with survey or administrative data to evaluate the extent to which the OAS program reduces the incidence of low income. Most would rely on data from a single year or only for a short interval. An alternative is to use a model to simulate the lifetime trajectories of Canadians and examine how the OAS program alters their later life circumstance as seniors. Their income as seniors can be then compared in relation to some low-income benchmark. One such model is LifePaths, which applies the federal income and payroll tax rules, including various eligibility provisions relating particularly to OAS benefits, to project individual-level earnings, income, marital status, residence, and mortality, among other states. This is done in a manner that closely mirrors the historical evolution of the tax and OAS provisions.

⁶⁶ After-tax income was used as it is generally more closely connected to economic welfare than is before-tax income. Moore (2010), p. 8.

⁶⁷ The model assumes an OAS pension take-up rate of 100%.

⁶⁸ Lasota et al. (2009), p. 55.

⁶⁹ Moore (2010), p. 11.

The OAS program has substantially reduced the incidence of low income among subgroups by at least as much as it has for other seniors. However, some subgroups remain at greater risk for low income. These include unattached women and older seniors (particularly unattached women aged 75 years and older), immigrants,⁷⁰ Aboriginal seniors, as well as seniors with disabilities.⁷¹

Unattached women

- The OAS/GIS benefits reduce the incidence of low income among single women, aged 75 years and older, from 73 to 43 percent (before-tax LIM), representing a 30 percentage point reduction.⁷²

Older seniors

- As seniors age, the incidence of low income rises from about 12.8 percent (before-tax LIM) among OAS recipients ages 65 to 69 years, up to 17.4 percent among those 85 to 89 years and continues to rise to above 30 percent for those 95 years and older.⁷³ Noteworthy here is that the primary risk factor for low income among seniors is being unattached and a higher proportion of seniors are unattached at the oldest ages. Moreover, seniors hold fewer assets overall at older ages.

Immigrant seniors

- As expected, there is a reduction in low-income for immigrant seniors with at least 10 years of residence (the eligibility requirement), bringing their reduction close to that of Canadian-born persons.⁷⁴

Aboriginal seniors

- As for Aboriginal seniors, the OAS/GIS program has a similar absolute impact on the incidence of low income when compared to non-Aboriginal seniors.⁷⁵ For example, the OAS/GIS benefits reduce the incidence of low income for Aboriginal seniors by 29 percentage points (before-tax LIM) compared to 27 percentage points for non-Aboriginal

⁷⁰ According to the 2006 Census, immigrant seniors with less than 10 years of residence account for an estimated 2% of seniors. Most are *sponsored* (87 percent) and come from countries with which Canada does not have an International Social Security Agreement (ISSA). As such, their access to OAS benefits during their first 10 years in Canada is limited. Among the 13 percent who are not sponsored, a small percentage (less than 2% of recent senior immigrants) come from countries with which Canada has an ISSA. These seniors could qualify for a partial OAS pension and prorated GIS. Non-sponsored recent immigrant seniors who are not eligible for OAS benefits may qualify for social assistance if they meet eligibility requirements. Recent immigrant seniors tend to have limited income from other sources. Therefore, the minimum income guarantee provided by the OAS program typically plays a critical role in meeting their retirement income needs once they qualify for benefits.

⁷¹ Van Audenrode et al. (2009); Kapsalis (2009).

⁷² Van Audenrode et al. (2009), p. 38.

⁷³ Shillington (2009), p.56.

⁷⁴ Van Audenrode et al. (2009), p. 38.

⁷⁵ Van Audenrode et al. (2009), p. 38.; Kapsalis (2009), p. 32.

seniors. However, the incidence of low income (before-tax LIM) among Aboriginal seniors, at 55 percent (according to 1992-2001 LIM measures), remains considerably higher than it is for non-Aboriginal seniors at 26 percent.

- When the MBM is used as a measure of low income, the impact of the OAS benefits on reducing the incidence of low income is somewhat greater than when the LIM is used. For instance, the absolute impact of OAS benefits on the reduction of the incidence of low income is 11 percentage points greater for single Aboriginal seniors when compared to single non-Aboriginal seniors and is 7 percentage points greater among senior Aboriginal couples when compared to non-Aboriginal couples.⁷⁶

Seniors with disabilities

- OAS benefits reduced the incidence of low income among single seniors with disabilities by 7 percentage points more when compared to single seniors without a disability, lowering the incidence of low income to 51 percent. The reduction in the incidence of low income is not as significant among attached seniors with a disability.⁷⁷

3.2.2 Low-income Gap

The previous section focused on the impact of the OAS program on the proportion of seniors experiencing low income. In this section the focus is on the impact that the program has on closing the low-income gap. It looks at the amount of money necessary to eliminate low income.

The low-income gap is the sum of all the income shortfalls of seniors in low income. Consequently, it measures the aggregate dollar amount necessary to elevate all seniors up to the low-income benchmark. When examining the low-income gap, it is less important to separate benefits into the separate components (such as OAS or GIS) because a dollar benefit from either program component lowers the low-income gap equally.

Census data⁷⁸ was used for the low-income gap analysis. More specifically, beneficiaries with incomes under the before-tax LICO⁷⁹ were the sub-population of interest for the low-income gap analysis. The analysis estimated the extent to which the OAS program

⁷⁶ Kapsalis (2009), p. 32.

⁷⁷ Kapsalis (2009), p. 32.

⁷⁸ Census data have many advantages, such as its large number of respondents, and detail on a wide variety of socio-demographic characteristics. Its disadvantages with respect to examining the impact of the OAS program include its cross sectional nature, and the fact that the census family definition is not the same as the economic family. Additionally, it lacks the required information to calculate length of residence for immigrants, a key requirement for determining eligibility for benefits. It is not possible to separate OAS pension benefits from GIS benefits on the Census. However, in the context of examining the entire OAS program and its incremental impact on reducing poverty, this may not be problematic, especially if we interpret poverty in terms of the “income gap” rather than incidence. To be comparable across censuses, all income amounts and categories were converted to 2007 dollars.

⁷⁹ Van Audenrode et al. (2009), p. 29.

contributed to reducing the gap between LICO and the sub-populations income with and without the program benefits. An evaluation of the upper bound incremental effect of the OAS program on the low-income gap reveals the following:

- a 79 percent reduction of the low-income gap (before-tax) for single seniors in 2001⁸⁰ (varying from 99 percent to 79 percent through the years 1986 to 2001);⁸¹
- an 82 percent reduction of the low-income gap (before-tax) for families with one senior member in 2001; and
- a 96 percent reduction of the low-income gap (before-tax) for families with two senior members in 2001.⁸²

The above findings pertain to overall average results. The availability of socio-demographic information on the Census, and also for different census years, permits further econometric analysis beyond a basic description of the impact of the OAS program on low-income gap reduction.

Analysis of the low-income gap by subgroups does not show any substantial variation. For instance, the OAS program provides single females with an additional 4 percentage point increase in the reduction of the poverty gap (before-tax LICO) when compared to all OAS beneficiaries.⁸³ As well, there is virtually no additional incremental impact on low-income gap reduction due to OAS as beneficiaries age. Mathematically, this suggests that the profile of those living below the low income cut-offs is very similar across subgroups.

As for Aboriginals as a subgroup, a different study showed that the OAS/GIS program reduced the “income gap” (the gap between disposable income and the MBM threshold) by \$6,000 for Aboriginals compared to \$5,300 for non-Aboriginals.⁸⁴

3.2.3 *Trend Over the Last Decade*

The availability of the Census data for various years allows some indication of the trend in the OAS program’s impact on relative poverty over time. The analysis of these data showed a diminishing of the OAS program’s impact on relative poverty reduction, as measured by LICO, over time. Compared to 1991, the contribution to reducing low income in 1996 was about 5.6 percent lower, and five years later, the gap had widened to 11 percent, all things being equal.⁸⁵ One reason that helps explain this trend is that total income generally increases by both inflation and productivity whereas the OAS benefits increase by inflation only.

⁸⁰ In 2001, single seniors living below the LICO would need \$14,224 (2007 mean dollars) to rise above the LICO, with the combined OAS benefits these seniors would need \$3,447 (2007 mean dollars) to rise above the LICO representing a 78.6% reduction in how much money they would need to rise above the LICO (Van Audenrode et al. (2009), p. 31).

⁸¹ Van Audenrode et al. (2009), p. 31.

⁸² Van Audenrode et al. (2009), p. 32.

⁸³ Van Audenrode et al. (2009), p. 34.

⁸⁴ Kapsalis (2009), p. 32. Note that SLID does not cover reserves or the Territories. This study employs the MBM as a poverty threshold, and defines the income gap as the difference between disposable income and the MBM threshold. Despite the differences in definitions between this study and others, the broad results pertaining to Aboriginals are informative and helpful. Nonetheless, the small sample of Aboriginals in SLID must be kept in mind.

⁸⁵ Van Audenrode et al. (2009), p. 34.

3.2.4 International Perspective of Low-income Incidence

In order to obtain a broader perspective on how the incidence of low income among Canada's seniors compares to the rates of other international countries, a comparison was done using data from the 1994 to 1996 waves of the European Community Household Panel (ECHP), the Survey of Labour and Income Dynamics (SLID) and the Panel Study of Income Dynamics (PSID).⁸⁶ The incidence of low income was calculated as the percentage of seniors with incomes below the low income line in terms of the total population.⁸⁷ The results indicated that incidence of low income among seniors in Canada was substantially lower than that of other OECD countries included in the study, with the exception of the Netherlands.⁸⁸ Overall, the results suggest that the lower incidence of low income among Canada's seniors is due in part to the benefits generated from the OAS program.

3.3 Transition to Retirement

A second major objective of this evaluation which is addressed in this section was to examine seniors' transition to retirement. This section first examines seniors' transition to retirement by looking at the general financial well-being of seniors in Canada and whether the OAS contributes to the maintenance of pre-retirement living standards after retirement. It then examines the importance of OAS benefits in retirement income by exploring the income replacement rate. This section ends with details on the share of seniors' income represented by OAS benefits.

3.3.1 Maintaining a Standard of Living During Retirement

Two sources of evidence informed this section, the Survey of Financial Security (SFS) and the SPSD/M study. In order to examine the effect of the OAS program on a senior's transition into retirement, a comparative analysis was conducted by examining their financial circumstances both before and after OAS benefits were paid. Individuals aged 59 to 64 years represented the pre-retirement cohort and individuals aged 65 to 70 years represented the retirement cohort. Overall, evidence presented below suggests that seniors are able to maintain a standard of living in retirement similar to what they experienced in pre-retirement. While upper income groups tend to see a drop in their income, middle and low-income groups see an increase in real average family incomes at retirement.⁸⁹

⁸⁶ The countries included in this analysis included Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, the United Kingdom, the United States and Canada.

⁸⁷ The low-income rate was calculated as the number of individuals having disposable income below 50 percent of the median equivalent household disposable income (LIM). Low-income rates were calculated individually from 1993-2005 and then averaged.

⁸⁸ For more information, please go to <http://www.oecd.org/dataoecd/29/55/2079296.pdf> for more details.

⁸⁹ Latif (2010), p. 2.

One way to examine the transition to retirement is to use the two surveys of financial security (SFS) surveys to look at two different time periods five years apart. Given these data, one possibility is to use a comparative approach to measure the change in financial circumstances accompanying transition to retirement. To assess the role of OAS benefits in enabling seniors to maintain their living standards in retirement, a comparative analysis was conducted on two SFS cross-sections of family heads aged 59 to 64 years in 1999 and aged 65 to 70 years in 2005. The 59-to-64 age cohort of 1999 represents a pre-retirement group that was not in receipt of OAS benefits whose retirement outcomes are “suggested” by the 65-to-70 age cohort in 2005. It should be noted that this comparative approach does not involve comparing the income circumstances of the same individuals as they age over time.

In terms of transitioning to retirement, both the bottom third and the middle third income categories in the post-retirement 65-to-70 age category show an increase in their real average family income (compared to the corresponding groups in the 59-to-64 age category), with an increase of 49.4 percent for the bottom third of the income category and an increase of 4.2 percent for the middle-third income category (Table 3.2). The high income category, or the top third of the three levels of income, shows a small (1.2 percent) decline in real income (compared to the corresponding groups in the 59-to-64 age category).

Table 3.2				
Average After-Tax Family Income of Near Retirees and Retirees				
Income Category	Age 59-64 SFS 1999	Age 65-70 SFS 2005	% Change in average income	% Change in median income
Bottom third	\$11,634	\$17,409	+49.4	+49.3
Middle third	\$33,315	\$34,710	+4.2	+5.0
Top third	\$71,931	\$70,584	-1.2	+12.9
Source: Latif (2009) SFS report. p.21, 22.				
Note: Base year is 2002. Family definition relates to members in dwelling, and not Census definition. The income distribution was divided into three equal income categories. The low-income category (the bottom third of the income distribution) involves a larger portion of the population than those in “poverty.”				

The SFS study suggests that most income groups are able to maintain pre-retirement standards of living during their retirement.⁹⁰ Focusing on the pre-retirement age bracket (aged 59 to 64 years) immediately prior to eligibility for OAS, and individuals in the low-income group (in both 1999 and 2005); many pre-retirees have low family income and low wealth. Nonetheless, many in the bottom third of the income ranks are financially prepared for retirement at standards above the LICO⁹¹ and at income levels higher than that of pre-retirement.

A second line of evidence, the SPSPD/M study provides a similar way to examine the impact of the OAS program in the context of the transition to retirement. The SPSPD/M study compared

⁹⁰ Latif (2010), p. 2.

⁹¹ The LICO is based on average consumption patterns and indicates the income below which a family is likely to spend significantly more of its income on food, shelter and clothing than the average family, adjusted for the family size and geographical areas.

the financial circumstances of those recently retired (aged 65 years+) and receiving OAS vis-à-vis those who were near seniors (aged 60 to 64 years) and not yet eligible for OAS.⁹² Further, the SPSPD/M allowed the analysis to focus on the situation of the lower income segment and to calculate the change in the incidence of low income using the LIM as a benchmark both before and after-tax.⁹³

A main finding from the SPSPD/M data is that a much smaller proportion of seniors aged 65 years and older are below the after-tax LIM when compared to either near-seniors aged 60 to 64 years or those less than 60 years of age, with percentages of approximately 2.3, 17.9, and 17.4 percent, respectively. As well, while a greater proportion of seniors aged 75 years and older were below the before-tax LIM than younger seniors aged 65 to 74 years, this situation was reversed when using the after-tax LIM. Approximately 1.7 percent of seniors aged 75 years and older were below the after-tax LIM compared to 3.5 percent of seniors aged 65 to 69 years.

Table 3.3		
Percentage of Families Below LIM for 2005		
Age Category	% below LIM (before-tax)	% below LIM (after-tax)
	<i>Non-Seniors</i>	
Under 60	20.7	17.4
60 – 64	23.1	17.9
	<i>Seniors 65 years +</i>	
65 – 69	11.2	3.5
70 – 74	11.2	1.6
75 +	14.7	1.7

Source: HRSDC (2010b) p.14.

Overall, the findings in this section suggest the OAS program helps smooth seniors' transition to retirement. Findings indicate that those in the high and medium income groups maintain a standard of living similar to their pre-retirement standard and most low-income seniors reach a standard of living that is above the LIM.

3.3.2 OAS Income Replacement Rate

The income replacement rate is another indicator of financial well-being during retirement that is examined in this section. This measure is the ratio of income available after retirement as a percentage of pre-retirement income (after-tax income).⁹⁴ This analysis is done by following individuals over time as opposed to comparing different groups of individuals. The income replacement rate is meant to capture whether retirement income can maintain

⁹² HRSDC (2010b), p. 14.

⁹³ The difference in the percentage of seniors and non-seniors below the LIM is much more pronounced when the LIM (after tax) is used to measure poverty. If we adopt the view that considerations of poverty measurement with respect to the OAS program (and other tax/transfer programs) are better considered on an after-tax basis than on a before-tax basis, employing the LIM (after-tax) is the preferred approach.

⁹⁴ Moore (2010), p.18.

the standard of living enjoyed before retirement. While there is no generally-agreed optimum replacement rate for retirees, the most common figure suggested as an optimal income replacement rate is 70 percent.⁹⁵ However, a general range of 60 to 70 percent is commonly specified and a rate as low as 50 percent has been suggested.⁹⁶

It should be noted that the OAS program is only one component of retirement income for most seniors. As such, this section and other sections of the report, do not examine causalities directly. However, indirectly, it is understood that the OAS program contributes to replacing some of seniors' income during retirement. The OAS pension is a basic quasi-universal benefit that provides a minimum income level and many seniors will have income from other sources. Since seniors' incomes vary from low to high, there is no official target for an OAS-to-income ratio.

Although the OAS pension is primarily structured to provide a minimum level of income to seniors rather than to provide meaningful levels of earnings replacement for most working Canadians, analysis of the OAS income replacement rate shows that the program helps provide high levels of earnings replacement to individuals and families with very low pre-retirement earnings, plus a foundation for the replacement of the pre-retirement earnings of other Canadians.⁹⁷

- Roughly 97 percent of individuals over age 65 received net (after-tax) OAS benefits in 2007 and therefore had positive OAS replacement rates (i.e., their OAS benefits were replacing at least a part of their pre-retirement income). As such, OAS nearly always has some impact on income replacement.
- The median OAS replacement rate was 28 percent for women and 23 percent for men, reflecting the relatively lower earnings of women.⁹⁸
- Average OAS replacement rates declined as pre-retirement earnings increased. Average OAS replacement rates were well over 100 percent for individuals with pre-retirement earnings under \$10,000, declining to roughly 27 percent for individuals with pre-retirement earnings of \$30,000 to \$35,000, and declining further to less than 10 percent for individuals with pre-retirements earnings greater than \$80,000.⁹⁹

Another study that reported on replacement rates for 2007 used incomes at age 55 and age 60 as indicators of the level of pre-retirement incomes.

- The study found that the combined OAS benefits bring the retirement income of single pensioners aged 65 years close to their pre-retirement income, corresponding to 83 percent of their income at age 55 and 95 percent of their income at age 60.¹⁰⁰

⁹⁵ Gunderson (2010), p. 7.

⁹⁶ Gunderson (2010), p. 7-9.

⁹⁷ Moore (2010), p. 2.

⁹⁸ Moore (2010), p. 24.

⁹⁹ Moore (2010), p. 37.

¹⁰⁰ Kapsalis (2009), p. 43, 47.

- As for couples with at least one pensioner, retirement income falls short of pre-retirement income by a wider margin than is the case for single pensioners. Indeed, their income at retirement represents 67 percent of couples income at age 55 (of the oldest spouse) and 77 percent of their income at age 60.¹⁰¹ However, although couples have a lower replacement ratio than single pensioners, their average income at age 65 is twice as high.

3.3.2.1 Trends in Old Age Security Replacement Rates

Over time, the OAS program has continued to help seniors maintain their standard of living in retirement. There has been a slight decreasing trend in the replacement rate of OAS benefits over the last fifteen years (1992-2007).¹⁰² This decrease reflects the fact that standards of living have risen slightly, and that the benefits delivered by the OAS program have typically increased by the rate of inflation through indexation. In contrast, earnings have been increasing slightly faster, mainly reflecting the impact of wage growth and the increasing labour force participation of women during this period.

3.3.2.2 International Comparisons of Net Pension Replacement Rates

In terms of international comparisons, the net pension replacement rate of income security programs varies widely across OECD countries. Table 3.4 outlines the net pension benefits for 11 OECD countries as a percentage of pre-retirement net earnings. These countries were selected to highlight the significant cross-sectional variation in their replacement rates and to offer comparability with Canada's OAS since pension eligibility and program components are similar. For low earners in Canada, the replacement rate is 89.4 percent, which is somewhat higher than the average for all OECD countries for comparable low earners (84 percent).¹⁰³ The net pension replacement rate for low earners in Canada is also higher than the average for low earners for the OECD countries shown in Table 3.4 (81.5 percent).¹⁰⁴

Canada occupies a middle position among the OECD countries included in the international comparison. Countries that have a higher income replacement rate for low earners include France (98 percent), Austria (91.2 percent), and Denmark (95.6 percent). Countries that have a lower replacement rate include the USA (61.4 percent), the UK (78.4 percent), Germany (61.7 percent), and Australia (77 percent).¹⁰⁵

¹⁰¹ Kapsalis (2009), p. 49.

¹⁰² Moore (2010), p. 34.

¹⁰³ Roy (2010), p 43.

¹⁰⁴ Roy (2010), p 43.

¹⁰⁵ Roy (2010), p 43.

Table 3.4 Pension Benefits as a Percentage of Pre-Retirement Net Earnings – Men			
Comparison countries	Average earners	Low earners	High earners
1. United Kingdom	47.6	78.4	38.2
2. United States	51.0	61.4	44.9
3. Australia	52.4	77.0	43.1
4. Denmark	54.1	95.6	42.5
5. Canada	57.1	89.4	39.5
6. Switzerland	67.3	71.2	53.0
7. France	68.1	98.0	62.6
8. Sweden	68.2	90.2	70.1
9. Germany	71.8	61.7	79.2
10. Netherlands	84.1	82.5	85.8
11. Austria	93.2	91.2	93.5
Average of 11 countries	65.0	81.5	59.3
Source: OECD, Pensions At A Glance (2005); cited in Roy (2010), p. 43.			
Note: Low earners are defined as those earning one-half of average earnings of the country in question. High earners are defined as one-and-a-half times the average earners. LIM is the measure used here.			

Overall, Canada's OAS program compares well to similar programs in other OECD countries with institutional frameworks comparable to Canada. The OAS program is amongst the more generous in terms of net pension replacements for low earners that is balanced by lower income supplementation for average and high earners, as compared to the OECD replacement rate averages for those earner categories. Specifically, income replacement rates for high earners are substantially lower than for low-earners with rates of 39.5 percent and 89.4 percent, respectively.

3.3.3 Share of Seniors' Income Represented by Program Benefits

The above results can be understood by looking at the impact of OAS benefits on income for seniors. The final part of this transition to retirement section examines OAS program benefits as a share of seniors' income. For seniors in general, the income share ratio (e.g., the ratio of OAS payments to total income) indicates the importance of OAS program benefits to the recipient's total retirement income. For low-income Canadians, the ratio takes on added significance since it reflects the contribution of the OAS program towards reducing low income.

Ratios of benefits to income were examined across three different data sets. It should be noted that different recipient definitions are used depending on the data sets.

- The OAS pension for individual seniors yields a ratio of OAS plus GIS benefits to total income ranging from 34 percent in the case of Census data¹⁰⁶ to 36 percent in case of the LAD.¹⁰⁷
- The analysis also shows that the magnitude of the income share represented by OAS benefits rises as income decreases. For example, when the population is confined to those with incomes below or equal to the LIM, the estimated ratio of OAS plus GIS benefits to total income increases to 58 percent using LAD data.¹⁰⁸ When the LICO is used with Census data, the analysis estimated that the OAS program represents approximately 70 percent of the total income of households who live below the LICO.¹⁰⁹

The ratio of OAS to total income decreased slightly over the period from 1986 to 2001.

- According to the Census data, the ratio of OAS plus GIS benefits to total income decreased from 41.9 percent in 1986 to 33.6 percent by 2001, reflecting a small decline in the OAS component and a slightly larger decline in the GIS component (see Table 3.5).
- A similar decrease was noted using the Longitudinal Administrative Data (LAD) data. Between 1995 and 2006, the ratio of OAS benefits to total income declined from about 40 to 36 percent (as shown in Table 3.6). Over this same period, the ratio of the OAS pension to total income declined from about 29 percent to about 26 percent.¹¹⁰ In 2006, the combined share of OAS with benefits was 36.2 percent, with most of this combined share coming from the OAS pension (25.8 percent) and some coming from the GIS (for a combined OAS plus GIS share of 36.2 percent).¹¹¹

Table 3.5				
OAS Share of Total Income, Single Beneficiary – 1986 to 2001 (Census)				
Program	1986	1991	1996	2001
	%	%	%	%
OAS + GIS	41.9	29.2	35.7	33.6
OAS	25.3	20.7	23.3	22.3
GIS	29.9	20.5	24.7	23.1
Allowance*	N.A.	32.6	35.1	33.9
Source: Adapted from Table 6.2 the Census Report (Van Audenrode et al., 2009, p. 26).				
*Note: Ages 65 years and older for all programs except those 60 to 64 years for the regular Allowance.				

¹⁰⁶ Van Audenrode et al. (2009), p. 25.

¹⁰⁷ Shillington (2009), p. 35.

¹⁰⁸ Shillington (2009), p. 38.

¹⁰⁹ Van Audenrode et al. (2009), p. 28.

¹¹⁰ Shillington (2009), p. 38.

¹¹¹ Shillington (2009), p. 38.

Table 3.6 OAS Share of Total Income, Individual Income of Seniors 65 years and older – 1995-2006 (LAD)												
Program	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
	%	%	%	%	%	%	%	%	%	%	%	%
OAS + GIS	39.7	38.5	38.7	38.7	37.3	36.9	37.4	37.2	37.5	37.2	37.9	36.2
OAS	29.4	28.7	28.9	28.6	27.3	27.1	27.7	27.2	27.3	27.0	27.2	25.8
OAS + GIS + Allowance	39.7	38.5	38.7	38.7	37.3	36.9	37.4	37.2	37.5	37.2	37.9	36.2
Source: Adapted from LAD Report (Shillington, 2009, p 38).												
*The ratio of the benefit to income is determined and then this is averaged over individuals or families.												
Note: Ages 65 years and older for all programs.												

In addition to rising as income declines, the magnitude of the income share represented by OAS benefits varies with age, gender, marital status, and Aboriginal status.

- The income share represented by all OAS benefits combined increases gradually as seniors age, with an income share of 32 percent for seniors' age 65 to 69 years, 38 percent for seniors 80 to 84 years old, and up to 51 percent for the eldest seniors.¹¹²
- The OAS to income ratio is higher for females compared to males. Consistent results were obtained with all three lines of evidence. This is especially the case for women over 80 years of age. Females in this age cohort are less likely to have participated in the workforce, and consequently often lack income from other sources, such as CPP and personal savings.¹¹³
- Women receive more OAS (including GIS) benefits than men, with a 9 percentage-point gap according to Census data.¹¹⁴ This finding is consistent with much of the previous studies on age, women and their labour market attachments. In the past, women earned less than men, thereby accruing smaller CPP/QPP entitlements and other pensions than men. Women also have longer life expectancies than men; it is therefore not surprising that the data on today's seniors and women over 80 years of age reveal a greater reliance on OAS and GIS.
- Individuals benefit relatively more than families. Within families, two-senior households benefit more than one-senior households.¹¹⁵ Single females also have a higher OAS to income ratio than single men. According to the LAD data for individuals, the average OAS to income ratio is 26 percent for all single individuals and 30 percent for females. The ratio for single women aged 65 to 69 years is 29 percent and remains virtually unchanged with age.¹¹⁶

¹¹² Shillington (2009), p. 36.

¹¹³ Shillington (2009), p. 35.

¹¹⁴ Van Audenrode et al. (2009), p. 28.

¹¹⁵ Shillington (2009), p. 36-37; Latif (2010), p. 26.

¹¹⁶ Shillington (2009), p. 36.

- Single households with a total income of under \$20,000, and family households with a total income of under \$35,000, had the largest income shares represented by OAS program benefits.¹¹⁷
- The combined OAS and GIS income share ratio for Aboriginal seniors was 58 percent, which was 25 percent higher than that of non-Aboriginals.¹¹⁸
- In the case of immigrants, overall they received as much as other beneficiaries.¹¹⁹ Immigrants who have lived in Canada for less than 10 years have OAS to income ratios in the range of 2 to 5 percent because they are not generally eligible for OAS until age 65, unless they come from a country that has an International Social Security Agreement with Canada. Immigrants who have lived in Canada for more than 10 years, but fewer than 20 years, have a ratio of about 11 percent, because they are only eligible for a partial OAS pension. However, they have a benefit to income ratio of 64 percent when one considers both the OAS pension and GIS together since the GIS benefit is increased to offset any partial OAS for lower-income seniors.¹²⁰

Overall, the impact of the OAS program is distributed as expected given the program includes a full pension for seniors with forty years of residence, a partial pension for immigrants with ten years of residence in Canada, and income-tested supplements for those with incomes below a set threshold. OAS is an important part of the income of most seniors, but especially for seniors with lower income.

¹¹⁷ Van Audenrode et al. (2009), p. 28.

¹¹⁸ Van Audenrode et al. (2009), p. 28.

¹¹⁹ Van Audenrode et al. (2009), p. 28.

¹²⁰ Shillington (2009), p. 35.

4. *Effects of the Program*

This section examines program effects in terms of the importance of other income in the total income of GIS and Allowance recipients. It provides a profile of the composition of before-tax income for OAS pensioners. A second section examines the impact of other income on the determination of OAS program benefits.

4.1 Other Income of Old Age Security Recipients

A better sense of the possible effects of the OAS program can be seen when its relative contribution to seniors' incomes is examined in comparison with other sources of income. As such, this part of the report looks at the importance of other income in the total income of OAS recipients.

Table 4.1 uses the Survey of Labour and Income Dynamics (SLID) over the period of 2000 to 2007 to provide an overall picture of the composition of total before-tax income of all OAS pensioners, while Table 4.2 provides a picture of only those pensioners in receipt of GIS.

- In general, public pensions make up a greater proportion of GIS pensioners' income (81 percent for singles and 72 percent for couples)¹²¹ when compared to all OAS pensioners (53 percent for singles and 40 percent for couples) (Tables 4.1 and 4.2).¹²²
- Within the public pension system, the CPP/QPP portion of pensioners' income is similar for all OAS pensioners, both singles and couples (22 and 19 percent, respectively). As for GIS recipients, CPP/QPP accounted for about one-quarter of the total income of both singles and couples.
- OAS/GIS made a larger contribution than CPP/QPP to seniors' overall public pension incomes. Indeed, OAS and GIS alone account for about 20 to 30 percent of all OAS pensioners' income and about half of GIS pensioners' incomes.
- Private pensions and investment income were the second most significant source of income for single OAS pensioners (39 percent), and the most significant source of income for couples (44 percent). Among the rest of the income sources of GIS pensioners, private pensions plus investment income were the most significant.
- The average before-tax income of single OAS pensioners for 2000 to 2007 was \$26,100 (in 2007\$), while the average before-tax income of couples was \$52,500. As for single GIS pensioners, their average before-tax income was \$17,500 (in 2007\$), while the average before-tax income of couples with GIS was \$29,700.¹²³

¹²¹ Kapsalis (2009), p. 41.

¹²² Kapsalis (2009), p. 34.

¹²³ Estimates are based on all GIS recipients – including single and couples with total incomes above the OAS/GIS maxima and, therefore, receiving a partial GIS benefit.

Table 4.1
Composition of Before-Tax Income of OAS Pensioners, 2000-2007, Averages 2007\$

	OAS	GIS	CPP/ QPP	Total public pensions	Private pension	Invest- ment income	Total private retirement incomes	Earnings	Other transfers	Other income	Total income before taxes
Average income (including zeros)											
Single	\$5,600	\$2,400	\$5,800	\$13,800	\$7,700	\$2,500	\$10,200	\$700	\$1,000	\$400	\$26,100
Couple	\$9,400	\$1,700	\$10,000	\$21,100	\$17,800	\$5,100	\$22,900	\$6,200	\$1,300	\$1,000	\$52,500
Percentage composition											
Single	21%	9%	22%	53%	30%	10%	39%	3%	4%	2%	100%
Couple	18%	3%	19%	40%	34%	10%	44%	12%	2%	2%	100%
Source: SLID 2000-2007 cross-sectional data (Kapsalis, 2009, p.34).											
Note: Averages include zero incomes. Estimates may not add up to totals due to rounding.											

Table 4.2
Composition of Before-Tax Income of GIS Pensioners, 2000-2007, Averages 2007\$

	OAS	GIS	CPP/ QPP	Total public pensions	Private pension	Invest- ment income	Total private retirement incomes	Earnings	Other transfers	Other income	Total income before taxes
Average income (including zeros)											
Single	\$5,600	\$4,400	\$4,200	\$14,200	\$1,200	\$700	\$1,900	\$100	\$1,200	\$100	\$17,500
Couple	\$8,700	\$5,200	\$17,400	\$21,300	\$3,300	\$1,300	\$4,600	\$1,500	\$2,000	\$300	\$29,700
Percentage composition											
Single	32%	25%	24%	81%	7%	4%	11%	1%	7%	1%	100%
Couple	29%	18%	25%	72%	11%	4%	15%	5%	7%	1%	100%
Source: SLID 2000-2007 cross-sectional data (Kapsalis, 2009, p.41).											
Note: Averages include zero incomes. Estimates may not add up to totals due to rounding.											

4.2 Old Age Security and After-tax Income

This section explores the extent to which the existence of the OAS system affects the after-tax returns on employment. Specifically, this section quantifies the impact of the OAS program on an individual's marginal effective tax rate. The marginal effective tax rate is the percentage of taxes paid on an extra unit of income that the recipient receives after taking into account all statutory federal and provincial income taxes (including tax deductions and credits) as well as welfare entitlements. The OAS program therefore, can alter an individual's marginal effective tax rate in a number of ways:

- The GIS portion of OAS will be reduced for each dollar earned by low-income groups, thus constituting a form of tax on employment;
- The OAS pension itself is reduced gradually by 15 cents for every dollar of income over \$67,668 and is entirely recovered for net incomes above \$110,123 by means of the OAS Recovery Tax under the *Income Tax Act*; and
- OAS may push a working individual over the age of 65 into a higher tax bracket. In 2005, federal tax rates were 15 percent on the first \$35,595 of taxable income, 22 percent on the next \$35,595 of taxable income (on the portion of taxable income between \$35,595 and \$71,190), 26 percent on the next \$35,595 of taxable income (on the portion of taxable income between \$71,190 and \$115,739), and 29 percent of taxable income over \$115,739.¹²⁴ As such, according to the above tax rates, a near senior (under 65 years) with an employment income of \$35,000 in 2005 would have been taxed at a rate of 15%. In contrast, a senior who received the OAS pension in addition to an employment income of \$35,000, would not only have been pushed into a higher tax bracket (22 percent), but with the application of the marginal effective tax this individual could have paid approximately 38 percent taxes on each employment dollar earned.

Thus, OAS in conjunction with other social programs, creates a complex set of possible disincentives that are difficult to generalize across the entire population.¹²⁵ To demonstrate this, the SPSPD/M was used to examine the impact of certain types of income and benefits from other programs on OAS program benefits. This type of analysis can reveal the extent to which current programs are integrated to offer a coordinated set of benefits to seniors. The programs that the SPSPD/M can include in its calculation of the marginal effective tax rate are the GST credit, the Age Credit, federal and provincial income and payroll taxes, the OAS pension, the GIS and the Allowance. The SPSPD/M does not include provincial public drug plans, rent-geared-to-income housing, and fees for Meals on Wheels and home-care programs. As noted above, the marginal effective tax rate will also differ by income source because income definitions differ among programs. For example, the OAS and income taxes are generally assessed on individual taxable income. In contrast, the GST credit, GIS and the Allowance are administered based on the income of the couple in a household.

¹²⁴ http://www.taxtips.ca/priortaxrates/taxrates2006_2005.htm#FederalTaxRates

¹²⁵ Lasota et al. (2009), p. 5.

The analysis showed that the marginal effective tax rate by after-tax income groups for 2005 varies substantially with income bracket and defies any simple characterization (e.g., the pattern is not a straight-line relationship between the marginal effective tax rate and income level). As well, the analyses show that OAS pushes working individuals over the age of 65 into a higher tax bracket. It is estimated that an individual who is earning \$60,000 a year at 64 years old will face a marginal tax rate of 29 percent but on his 65th birthday, the OAS will reduce his after-tax return to work by 32 cents for every dollar earned.¹²⁶ A rough average suggests that the marginal effective tax rate goes up from 25 to 42 percent as a result of all pensions (Table 4.3).¹²⁷

This means that Census families headed by a person less than 65 years old pay 25 cents in taxes on any additional dollar earned, while families with a senior 65 years of age or older pay 42 cents in taxes on each additional dollar earned.¹²⁸

This can be seen in more detail in Table 4.3, where the average marginal effective tax rate is given by income for families with and without a member who collects OAS benefits. For every category, except the bottom level of income, the marginal effective tax rate is greater than if there were no member in the household over 65 years of age. What is also interesting is that for those families with no members over 65 years of age, the marginal effective tax rate gradually rises with income, as would be expected with a tax system that is progressive. Here, it appears that the marginal effective tax rate is highest for those in the \$13,001 to \$18,000 range due to the reduction of GIS for each dollar earned. For instance, a single pensioner receiving the maximum monthly GIS benefit would have his/her GIS reduced at a rate of 50 percent based on any additional income.

Table 4.3				
Census Family Marginal Effective Tax Rates by After-Tax Income Group, 2005				
Income range	Eldest person less than 65 years		Census family in receipt of OAS benefits	
	Percent of recipients	Marginal Effective Tax Rate	Percent of recipients	Marginal Effective Tax Rate
\$8,000 and less	6%	1%	0%	0%
\$8,001–\$13,000	8%	4%	0%	9%
\$13,001–\$18,000	7%	14%	24%	53%
\$18,001–\$25,000	10%	18%	22%	51%
\$25,001–\$60,000	42%	29%	45%	38%
Above \$60,000	28%	29%	9%	34%
Total	100%	25%	100%	42%
Source: SPSPD/M (Lasota et al., 2009, p. 58).				

It should be noted that the reduction in after-tax returns for each dollar earned can create an additional work disincentive.

¹²⁶ Lasota et al. (2009), p. 58.

¹²⁷ Lasota et al. (2009), p. 58.

¹²⁸ Lasota et al. (2009), p. 59.

5. *Cost Effectiveness*

This section examines the administrative and delivery costs of the OAS program and how cost-effective the program is. The analysis of cost effectiveness included a review of key documents such as the OAS Actuarial Report (2008). Subsection 5.1 of this report on program benefit and delivery cost trends provides a measure of cost-efficiency, while subsection 5.2 provides a measure of cost-effectiveness by providing a comparison with other income security programs in Canada and other countries.

5.1 **Cost of Program Benefits and Delivery**

OAS program expenditures have been increasing over time and are projected to continue to do so in future years due to the aging of the Canadian population (see page 15). In 2007, OAS program expenditures were about \$33 billion, rising from \$8.3 billion in 1981 to \$18.1 billion in 1991, and then rising further to \$25.1 billion by 2001.¹²⁹

There are a variety of ways to examine expenditure. One way to examine expenditure includes examining the evolution in administrative cost of delivery over time according to cost per beneficiary and the cost per \$100 of benefits paid. Another way is to examine the costs of program benefits by income group in relation to the program's two main objectives.

The analysis of 2008 Office of the Superintendent of Financial Institutions (OSFI) data seems to indicate that the OAS program has become more cost-effective between the years 1981 and 2006.¹³⁰ More specifically, the administrative costs per beneficiary have decreased over the long-term from \$27.66 in 1992 to \$24.06 in 2000 and to \$20.44 per beneficiary in 2006.¹³¹ An examination of the administrative cost per \$100 of benefits also shows a decline in costs over time. For example, the administrative cost of the OAS program has gradually declined from 50 cents per \$100 of benefits paid in 1981 to 34 cents in 1991, increased slightly to 37 cents in 2001, and declined to 31 cents in 2006. The data show a definite trend towards a decline over the years. However, an in-depth understanding of this trend does not exist at this point in time. Moreover, while administrative costs are an important measure, they do not reflect the change in service levels that may occur as a result of increasing number of beneficiaries.

The OAS program's two main objectives are to help smooth senior Canadians transitions to retirement and to redistribute income towards low-income pensioners to help reduce low income during retirement. An analysis of OAS program expenditures by income group in relation to the OAS program's two main objectives suggest that some income groups may not need OAS to smooth their transition to retirement or to avoid low income during retirement. For instance, there seems to be a gap between the beneficiaries of the

¹²⁹ Roy (2010), p. 73.

¹³⁰ Roy (2010), p. 65.

¹³¹ Cost adjusted for inflation according to 2002 Consumer Price Index – Costs were derived from information in tables 2.1 and 2.4 of this report.

program who required assistance to avoid low income or difficult transitions between work and retirement and those who are paying the OAS recovery tax.¹³² For example, based on historical savings, those with family incomes between \$40,000 and \$60,000,¹³³ who benefited from \$6.1 billion of OAS expenditures in 2006, may not need OAS to help smooth their transition to retirement and are likely not at risk for sliding into low income during retirement.¹³⁴ However, it should be kept in mind that due to falling household savings,¹³⁵ this income group may have fewer assets to fall back on in the future.

5.2 Cost Comparisons

The analysis conducted for this evaluation also examined how the administrative delivery cost of the OAS program compares with other large income security programs (CPP, Employment Insurance [EI]) and similar programs in other countries. Administrative costs of large programs like the OAS program are difficult to measure, especially in the case of a program financed out of general revenue. However, the analysis suggests that the program delivery cost of the OAS is relatively low.

Below, administrative costs are compared across various income security programs according to cost per beneficiary and cost per \$100 of benefits paid.

- As noted in the previous section, the OAS program administrative cost per beneficiary was \$20.44 in 2006.¹³⁶ The OAS administrative cost per beneficiary is considered low when compared to \$42.42 for CPP and \$838.66 for employment insurance (EI) in 2006.¹³⁷
- The OAS program continues to fare well in contrast to CPP and EI, when administrative cost is compared according to \$100 of benefits paid. For example, in 2006-2007, the administrative cost of the OAS was 31 cents per \$100 of benefits paid, compared with \$2.20 for CPP and \$11.62 for the EI program.¹³⁸
- Administrative cost comparisons across programs are, however, limited due to the different program characteristics, such as the degree of program labour intensity, as well as the average level of benefits. For instance, the OAS program issues a payment to eligible Canadian seniors once a month and is therefore not considered a labour intensive program. The EI program, on the other hand, provides temporary income support to unemployed individuals, subject to specific rules and regulations, when earnings are interrupted. The EI program covers not only processing of claims for benefit payments but also many other follow ups. For example, EI includes regular bi-weekly follow-ups with clients to track their employment situation and their job search efforts, EI Part II

¹³² In 2011 the OAS Recovery Tax applies at an income level of \$67,668.

¹³³ Expenditure derived from total value of OAS and GIS benefits paid in 2006 (p.1 of Shillington's report) multiplied by the percent distribution of OAS benefits for the \$40,000 to 50,000 income groups (p.48 of Shillington's report).

¹³⁴ Shillington (2009), p.1, 48.

¹³⁵ Chawla and Wannell (2005).

¹³⁶ Cost adjusted for inflation according to 2002 Consumer Price Index – Costs were derived from information in tables 2.1 and 2.4 of this report.

¹³⁷ Roy (2011) and adjusted to 2002 Consumer Price Index.

¹³⁸ OSFI (2008) cited in Roy (2010), p.66, 68, 69.

(EI Benefit and Support Measures), training, and work sharing. Moreover, EI field offices are located in many provinces and territories and their operations are multi-faceted. By contrast, OAS and CPP administrative offices are centralized and their operations are much simpler. It is therefore not surprising that EI administrative cost per beneficiary is larger and not easily comparable with the other two programs. Furthermore, the difference in the cost per \$100 of benefits paid across the three programs may be a reflection of the differences in the average benefits paid rather than the efficiency of the program.

5.2.1 International Cost Comparisons

In terms of an international comparison of costs, the administrative costs of social security programs in Canada were compared to similar costs from other OECD countries (Table 5.1). A precise interpretation of the figures in the table is difficult as the scope and composition of social security benefits likely varies significantly, but would include the administrative costs of pension programs.^{139,140}

- Table 5.1 shows that the administrative costs as a percentage of social security benefits in Canada (2.8 percent) are below the average for the examined OECD countries (3.0 percent). The available evidence suggests that the administrative costs of Canada's public pension programs are comparable to other OCED countries such as the USA, the UK and several other countries.

Table 5.1 Administrative Costs as a Percentage of Social Security Benefit Expenditures in Canada and Other Selected OECD Countries	
Comparison Country	Percentage of Social Security Benefit expenditures
Australia	1.22
Austria	2.48
Canada	2.80
Germany	2.86
Denmark	2.98
Switzerland	3.04
Netherlands	3.10
United Kingdom	3.10
United States	3.28
France	4.18
Sweden	4.24
Mean	3.02
Source: Mitchell (1998); cited in Roy (2010), p. 70.	

¹³⁹ Roy (2010), p.66.

¹⁴⁰ Depending on the country, social security benefits could include EI, OAS, CPP, CPPD.

6. Conclusions and Recommendations

This chapter presents overall conclusions and recommendations arising from the evaluation of the OAS program. The evaluation examined program relevance, achievement of program objectives and cost effectiveness.

6.1 Conclusions

The OAS program was founded on a strong rationale and continues to be relevant. Overall, the role of the federal government in providing a minimum income guarantee to seniors, along with equity considerations and contributions to the public good, support the continued relevance of the OAS program. In addition, the program's concurrence with meeting international standards for seniors' benefits supports the continued relevance of the OAS program.

Overall, the operational objectives of the OAS program are being achieved. Take-up rates for the OAS pension and the GIS suggest that delivery of these two program components is very efficient. Specifically, overall OAS pension take-up has been stable around 97 percent over the ten-year period from 1996 to 2006. Take-up rates for the Allowance benefits either increased or remained stable for this period, but remain considerably lower than the rates for the OAS pension or the GIS.

The program has played a significant role in helping to reduce low income among seniors. Moreover, OAS program benefits have enabled both immigrant (with more than 10 years of residence) and Aboriginal seniors to improve their economic situation at least as much as others. Still, some groups, namely unattached seniors, most of whom are women, have higher rates of low income even with the help of OAS.

Evidence presented in this report indicates that most seniors experience a smooth transition to retirement in terms of maintaining pre-retirement income levels. This smooth transition is, in a large part, achieved through the OAS program's provision of high levels of earnings replacement to individuals and families with low pre-retirement earnings, plus a foundation for the replacement of pre-retirement earnings for other Canadians. In line with this, the evaluation found that the magnitude of the income share represented by OAS plus GIS benefits rises as income decreases, increases as seniors grow older, is higher for females compared to males (especially for women over 80 years of age), and is considerably higher among Aboriginal seniors than non-Aboriginal seniors.

Overall, findings suggest that the OAS program, with the GIS and Allowance components, makes a significant contribution towards the income security for Canada's seniors and takes on added emphasis as a policy approach towards reducing low income among Canada's seniors.

In terms of cost effectiveness, the analysis of administrative data conducted for this evaluation seems to indicate that the OAS program has become more cost effective over time. The OAS program delivery cost is relatively low and the program is cost effective when compared to other large income security programs such as CPP/QPP and EI. As well, the administrative cost of Canada's public pension programs is comparable to the cost of similar programs in other countries such as the USA, the UK, France, Sweden and Switzerland.

6.2 Recommendations

The analysis presented in this evaluation report suggests several areas for further analysis and policy research.

Areas of low take-up

Further investigation should be conducted on areas of low take-up, such as take-up of the Allowances benefits and GIS among subgroups. Some examples of subgroups with low take-up include those who live in the Territories, women, and non-recent immigrants. Operational policies might be considered to implement special tracking and to continue targeted outreach for groups below the general take-up rate, as well as to address any barriers, such as language or literacy difficulties. This recommendation is in line with some of the conclusions presented in the Evaluation of the Guaranteed Income Supplement Take-up Measures and Outreach evaluation.¹⁴¹

Low income among seniors

While OAS benefits significantly reduce the incidence of low income among seniors, some subgroups such as unattached seniors, older seniors (especially unattached women over 75 years of age), and Aboriginal seniors, remain at risk for low income even with OAS benefits. As such, further study of the income and overall financial situation of these subgroups is warranted.

Behaviour impacts

The work conducted for this evaluation did not include an analysis of behavioural responses such as those linked to labour force participation. However, with an aging population and the possibility of more seniors continuing to work into their retirement years, the Department may want to consider exploring the impacts of the OAS program on labour force participation.

Cost effectiveness

It is recommended that the program continue to explore approaches to improve the administrative effectiveness of the OAS program in light of the Canada's aging population.

¹⁴¹ HRSDC (2010a). Evaluation of the Guaranteed Income Supplement Take-up Measures and Outreach. p.47.

Annex I – Glossary of Selected Terms

Census Family: Consists of a person, their spouse (legal or common-law) and any unmarried children (including guardians and adoptees) less than 25 years of age living in the same dwelling.

Economic Family: Consists of census family and any person related by blood and living in the same dwelling. This may include children 25 years of age and older as well as married children.

General Social Survey (GSS) Cycle 16: The GSS program gathers data on social trends in order to monitor changes in the living conditions and well-being of Canadians over time. It also provides immediate information on specific social issues of current or emerging interest. Cycle 16 of the GSS addresses social support for older Canadians, as well as their preparations for retirement and retirement experiences. The 2002 GSS Cycle 16 is the last GSS cycle to ask detailed questions on retirement.

Income Replacement Rate: The amount of total pre-retirement income provided by retirement income sources, usually expressed as a percentage. The replacement rate can be calculated either for all retirement income sources, or alternatively, for a specific program such as the OAS.

LifePaths Model: A computer micro-simulation model that generates individual life histories, from birth to death, of a sample of realistic synthetic individuals and their families. These individuals and families are representative of actual Canadians, and the model ensures that distributions and aggregate results are consistent with available data on the actual Canadian population. Numerous aspects of the life-course are modeled for these individuals and families, including interactions with the tax and transfer system, and retirement saving. In particular, LifePaths can support the modeling of all major sources of income that Canadians receive in retirement, including OAS, GIS, Allowance benefits and C/QPP,

Longitudinal Administrative Data (LAD): A longitudinal database of personal income tax returns developed and maintained by Statistics Canada. It covers the years from 1982 to the present. The LAD database includes all the information provided on an income tax return plus some information available from immigration databases, such as country of birth and age at entry into Canada. The LAD population and family counts are about 96 percent of the Census total.

Low Income Cut Off (LICO): Income thresholds determined by analysing family expenditure data. The LICOs are income thresholds below which families will spend 20 percent more than the average family on the necessities of food, shelter and clothing. To reflect differences in the costs of necessities among different community and family sizes, LICOs are calculated for five categories of community size and seven categories of family size.

Low Income Measure (LIM): Is frequently used as a relative measure of poverty. It is calculated as half the median of family incomes after adjusting for family size. Median-adjusted income is the 50th percentile of adjusted family income.

Marginal Effective Tax Rate (METR): The proportion of an extra dollar of income that ends up going to government in the form of higher federal and provincial income taxes or in the form of lower transfers such as the OAS program benefits (e.g. due to “claw-backs” or income tests that are applied to these benefits). This conceptual measure is used to capture the impacts of other income on an individual’s OAS program benefit.

Near-Senior: Someone aged 60 to 64. Family concepts are based on the eldest person in the family.

Senior: Someone aged 65 or older. Family concepts are based on the eldest person in the family.

Social Policy Simulation Database/Model (SPSD/M): Comprises a database and a tax/transfer micro-simulation model. The database is reliant primarily on the Survey of Labour and Income Dynamics (SLID), but is supplemented by variables from other surveys, including income tax data and household spending surveys. The tax/transfer micro-simulation model can emulate eligibility for government transfers, including each of the OAS program benefits (i.e., the OAS pension, GIS, the Allowance [Spousal and Survivor]).

Survey of Financial Security (SFS) 1999 and 2005: Provides a comprehensive picture of the net worth of Canadians. Information is collected on the value of all major financial and non-financial assets, as well as liabilities associated with mortgages, vehicles, loans, and credit cards. The SFS covers residents in all ten provinces, but not residents of the territories or reserves.

Survey of Labour and Income Dynamics (SLID): Provides information on the labour market activity and income of Canadians, and the changes experienced by individuals and families through time. Starting with reference year 1998, SLID officially replaced the annual Survey of Consumer Finances (SCF) as the main source of information on family income. SLID is a longitudinal survey, interviewing the same people from one year to the next for a period of six years. SLID also provides information on a broad selection of human capital variables, labour force experiences and demographic characteristics such as education, family relationships and household composition.

Take-up Rate: The proportion of those entitled to benefits (e.g., OAS/GIS/ALW) who actually claim it.

Annex II – Evaluation Questions

The following table lists the questions that resulted from a consultation process conducted in 2007. The second column of the table identifies the section of the summary report where the question is dealt with. If the question is not dealt with in the summary report, the reference in the technical report is provided. The technical reports are available upon request.

Annex II. Evaluation Questions for the OAS Evaluation	Section in this report or in technical report	Source documents
Program Rationale		
Q1. Rationale of the OAS		
<i>-history and context of the OAS program</i>		
Q1: What is the context of the OAS program?	2.3	Gunderson (2009)
Q1.1: What are the stated program objectives?	2.4	Gunderson (2009)
Q1.2: What is the socio-economic context within which the program operates?	2.3.2.1	Latif (2010) Gunderson (2009)
Q2. Program Design		
<i>- rationale for the parameters of the OAS program</i>		
Q2: Is the current design of the OAS program consistent with its legislative mandate (structure and level of benefits, adjustments over time, eligibility rules)?		Gunderson (2009)
Q2.1: Is the structure of OAS benefits (the OAS basic pension, the GIS and the Allowances) consistent with the objectives of the program?	2.5	Gunderson (2009)
Q2.2: Is the level of OAS benefits consistent with the objectives of the program?		Gunderson (2009)
Q2.3: Are the adjustments made to benefits levels over time consistent with the objectives of the program?		Gunderson (2009)
Q2.4: Are the eligibility rules for OAS benefits consistent with the objectives of the program?		Gunderson (2009)
Q3. International Comparisons		
<i>- design of other countries senior's benefits as compared to Canada</i>		
Q3: How does the OAS program compare with similar systems in other industrialized countries?	2.2.4, 3.2.5, 3.3.2.2	Roy (2010)
Q3.1: How do Canada's eligibility criteria for OAS benefits (the OAS basic pension, the GIS and the Allowances) compare to those of other countries with similar programs?	2.2.4	Roy (2010)
Q3.2: How do the levels of OAS benefits compare to those of other countries?	2.2.4	Roy (2010)
Q3.3: What other countries provide income tested-benefits similar to the GIS and the Allowances, and what are the take-up rates for those benefits?	2.2.4	Roy (2010) No take-up rate
Q3.4: How does Canada's eligibility criteria and coverage for retirement benefits for senior immigrants compare to those of other countries?	2.2.4	Roy (2010)

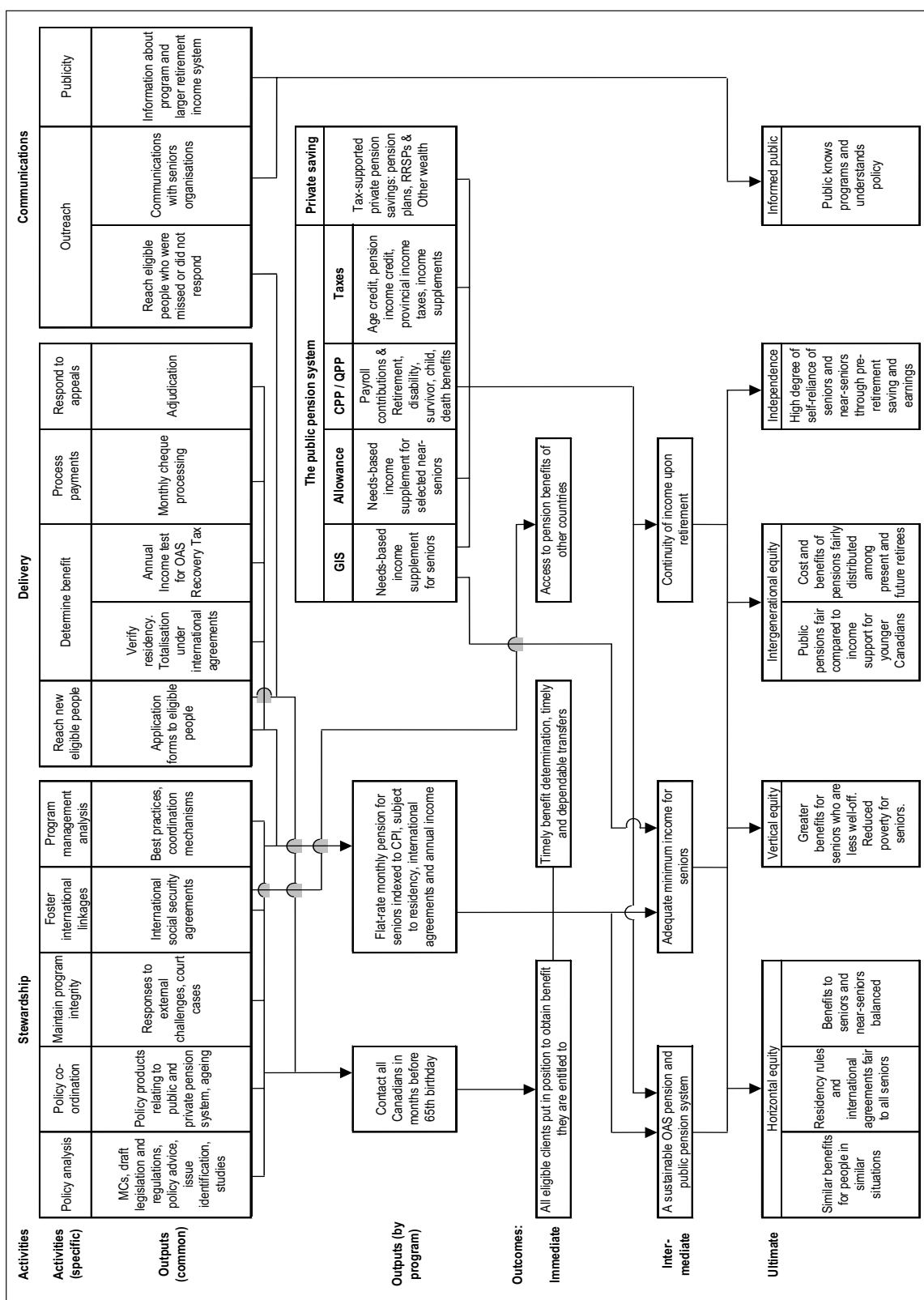
Annex II. Evaluation Questions for the OAS Evaluation	Section in this report or in technical report	Source documents
Objectives Achievement		
Q1: OAS Program and the Transition to Retirement		
<i>- maintaining standard of living into retirement</i>		
Q1.1: How does the OAS program contribute to the maintenance of standard of living in retirement?	3.3, 3.3.1, 3.3.2	Gunderson (2009) Shillington (2009) Latif (2010) Moore (2010) Kapsalis (2009)
Q1.2: What is the level of retirement income that would maintain a pre-retirement standard of living?	3.3.1	Gunderson (2009) Shillington (2009)
Q2: OAS Program and Income Share		
<i>-importance of the OAS program in retirement income</i>		
Q2.1: What is the share of total individual and couple retirement income represented by the OAS pension?	3.3.3	Shillington (2009) Latif (2010) Van Audenrode et al. (2009)
Q2.1.1: How does this vary between low, middle and high income individuals and couples?	3.3.3	Shillington (2009) Latif (2010) Van Audenrode et al. (2009)
Q2.2: What is the share of total individual and couple retirement income represented by the GIS?	3.3.3	Latif (2010) Van Audenrode et al. (2009)
Q2.3: What is the share of total survivor and eligible couple retirement income represented by the Allowances?	3.3.3	Latif (2010) Van Audenrode et al. (2009)
Q2.4: What is the share of total individual and couple retirement income represented by the sum of all benefits received from OAS programs?	3.3.3	Latif (2010) Van Audenrode et al. (2009) Data Probe - SLID
Q2.4.1: How does this vary between low, middle and high income individuals and couples?	3.3.3	Latif (2010) Van Audenrode et al. (2009)
Q2.4.2: What is the share of income represented by the OAS program benefits for eligible immigrants, aboriginals and the disabled?	3.3.3	Latif (2010) Van Audenrode et al. (2009)
Q2.5: How does the share of individual and couple income for seniors represented by the OAS pension change as seniors' age?	3.3.3	Latif (2010) Van Audenrode et al. (2009)
Q2.6: How does the share of individual and couple income for seniors represented by the GIS change as seniors' age?	3.3.3	Latif (2010) Van Audenrode et al. (2009)
Q2.7: How does the share of individual and couple income represented by the Allowances change as recipients' age?	3.3.3	Latif (2010) Van Audenrode et al. (2009)
Q2.8: How does the share of individual and couple income for seniors represented by the sum of all benefits received from OAS programs change as seniors' age?	3.3.3	Latif (2010) Van Audenrode et al. (2009)

Annex II. Evaluation Questions for the OAS Evaluation	Section in this report or in technical report	Source documents
Q3: Incremental Contribution of the OAS Program		
<i>- average dollar amount of OAS program benefits</i>		
Q3.1: What is the incremental contribution of the OAS pension to the financial well-being of seniors (assuming no behavioural impact)?	3.2.1	Shillington (2009) Gomez (2009)
Q3.2: What is the incremental contribution of the GIS to the financial well-being of seniors (assuming no behavioural impact)?	3.2.1	Shillington (2009) Gomez (2009)
Q3.2.1: What is the incremental contribution of the GIS to the financial well-being of eligible senior immigrants (assuming no behavioural impact)?	3.2.1.1	Shillington (2009) Gomez (2009)
Q3.3: What is the incremental contribution of the Allowances to the financial well-being of seniors (assuming no behavioural impact)?	3.2.1	Shillington (2009) Gomez (2009)
Q3.4: What is the incremental contribution of the sum of all benefits received from OAS programs to the financial well-being of seniors (assuming no behavioural impact)?	3.2.1	Shillington (2009) Gomez (2009)
Q4: OAS and Low Income		
<i>- numbers below low income measures</i>		
Q4.1: What would be the incidence of low income among seniors if the OAS pension was not available?	3.2	Moore (2010) Van Audenrode et al. (2009) Kapsalis (2009)
Q4.2: To what extent does the GIS reduce the number of seniors with low income?	3.2.1, 3.2.2	Gunderson (2009) Van Audenrode et al. (2009) Kapsalis (2009)
Q4.2.1: How does the reduction of low income by GIS vary among different groups of seniors, including eligible immigrants, aboriginals and the disabled?	3.2.1.1	Gunderson (2009) Van Audenrode et al. (2009) Kapsalis (2009)
Q4.3: To what extent do the Allowances reduce the number of near seniors and seniors with low income?	3.2.2, 3.2.1	Van Audenrode et al. (2009) Kapsalis (2009)
Q4.4: What would be the incidence of low income among seniors if the sum of all benefits from the OAS program was not available?	3.2.1, 3.2.2	Gunderson (2009) Van Audenrode et al. (2009) Kapsalis (2009)
Q5: Impact of Other Income		
<i>- GIS recipients with other income</i>		
Q5.1: What is the importance of other income in the total income of a GIS recipient?	4.0, 4.1	Gunderson (2009) Shillington (2009) Van Audenrode et al. (2009) Kapsalis (2009)

Annex II. Evaluation Questions for the OAS Evaluation	Section in this report or in technical report	Source documents
Q5.1.1: What is the impact of GIS at different levels of other income?	4.2	Gunderson (2009) Shillington (2009) Van Audenrode et al. (2009) Kapsalis (2009)
Q5.2: What is the importance of other income in the total income of Allowance recipients?	4.1	Gunderson (2009) Shillington (2009) Van Audenrode et al. (2009) Kapsalis (2009)
Q6: Program Delivery Issues		
- <i>administration of the program</i>		
Q6.1: What is the take-up of the OAS program?	3.1	Shillington (2009) Van Audenrode et al. (2009)
Q6.2: What is the take-up of the OAS pension?	3.1	Shillington (2009) Van Audenrode et al. (2009)
Q6.3: How many seniors apply for the OAS pension after their 65th birthday?	3.1	Shillington (2009) Van Audenrode et al. (2009)
Q6.4: What is the take-up of the Allowances?	3.1	Shillington (2009) Van Audenrode et al. (2009)
Q6.5: What is take-up of the OAS pension by eligible immigrants?	3.1	Shillington (2009) Van Audenrode et al. (2009)
Q7. OAS and Immigration		
- <i>OAS and new Canadians</i>		
Q7.1: How do Canada's eligibility criteria for retirement benefits for senior immigrants similar to those provided by the OAS program compare to those of other countries?		Gunderson (2009)
Q7.2: How do Canada's benefit levels for retirement benefits for senior immigrants similar to those provided by the OAS program compare to those of other countries?		Gunderson (2009)
Q7.3: How does Canada's coverage for retirement benefits for senior immigrants similar to those provided by the OAS program compare to those of other countries?		Gunderson (2009)
Cost Effectiveness		
Q1. Cost Effectiveness of the OAS Administration		
- <i>administrative costs per recipient</i>		
Q1: What is the administrative/delivery cost of the OAS program per recipient and per dollar of benefits delivered?	5.0	Roy (2010)
Q1.1: How has the cost per recipient changed over time?	5.0	Roy (2010)
Q1.2: How do the costs per recipient vary between basic OAS, GIS and the Allowances?	N/A	
Q1.3: Has service quality changed over time?	N/A	

Annex II. Evaluation Questions for the OAS Evaluation	Section in this report or in technical report	Source documents
Q1.4: Have quality adjusted administrative/delivery cost of the OAS program per recipient and per dollar of benefit changed over time?	N/A	
Q2. Cost Comparisons		
<i>- cost effectiveness of OAS as compared to other programs</i>		
Q2: How do the costs of administering/delivering the OAS program compare to the administrative/delivery costs of other income security programs?	5.2	Roy (2010)
Q2.1: How do the costs of administering/delivering the OAS program compare to other similar Government of Canada programs (e.g., CPP, EI)?	5.2	Roy (2010)
Q2.2: How do the costs of administering/delivering the OAS program compare to the administrative/delivery costs of similar programs internationally?	5.2	Roy (2010)

Annex III – Old Age Security Program Logic Model



Annex IV - Key Legislative Changes

Date	Major Event or Legislative Change
1951	The <i>British North America Act (now the Constitution Act)</i> . The Constitution was amended to give Parliament the power to enact laws on old age pensions.
1952	The <i>Old Age Security Act</i> came into force, establishing the OAS pension. The flat-rate pension was paid persons aged 70 years or older who lived in Canada for 20 years immediately preceding approval of the application.
1957	The residence requirements for the OAS pension were lowered to 10 years of residence in Canada immediately preceding approval of the application. The duration of pensions paid to pensioners absent from Canada was increased from three to six months.
1965	The <i>Old Age Security Act</i> was amended to lower the age of eligibility, one year at a time, starting in 1966, from 70 to 65 years. The residence requirements were amended to extend the residence requirement to 40 years after the age of 18, without requiring residence in Canada during the year immediately preceding the approval of the application.
1966	The <i>Canada Pension Plan and Quebec Pension Plan</i> came into effect.
1967	The income-tested Guaranteed Income Supplement (GIS) was established as a temporary benefit for pensioners born before December 31, 1970, payable until 1976 when the first full retirement pension from the Canada and Quebec Pension Plans would be paid.
1970	The GIS became a permanent feature of the OAS program. To qualify, a low-income pensioner was no longer required to be born prior to December 31, 1970.
1972	Full annual cost-of-living indexation of the OAS pension and GIS was introduced.
1973	Quarterly indexation of the OAS pension and GIS was introduced.
1975	The income-tested Spouse's Allowance (SPA) was established for spouses aged 60-64 years of OAS pensioners who qualified for the GIS.
1977	The <i>OAS Act</i> was amended to allow for the payment of partial pensions, calculated at a rate of 1/40th of the full OAS pension, and to permit international social security agreements to be concluded.
1978	The <i>Old Age Security Act</i> was amended to allow the Spouse's Allowance to be paid for six months following the death of a pensioner.
1979	The payment of the Allowance to surviving spouses of deceased OAS pensioners was extended until they reached age 65 (or remarried, or died).
1980	The maximum monthly rates for GIS and SPA were increased by \$35 per pensioners' household, i.e., \$35 for single pensioners and \$17.50 for each member of a couple.
1984	The maximum monthly GIS rate for single persons and the Spouse's Allowance for widowed persons were increased by a lump sum of \$25 in July 1984 and by a supplementary amount of \$25 in December of the same year. The Act was amended to provide the same minimum income to partial OAS pensioners as full OAS pensioners. The <i>Old Age Security Act</i> was amended to stipulate the OAS benefits could be paid retroactively over a maximum of five years with regard to applications received on or after June 28, 1984.

1985	<p>The Spouse's Allowance was extended to all low-income widows and widowers aged 60 to 64 years (i.e., establishment of the Survivor Allowance).</p> <p>The definition of "spouse" for the purposes of the <i>Old Age Security Act</i> was amended to include opposite sex couples, who had lived together for at least a year and who represented themselves in public as husband and wife.</p>
1989	<p>The amendments to the <i>Income Tax Act</i> enacted into law the recovery of OAS benefits at a rate of 15% when the net personal income of a pension recipient exceeded \$50,000 a year.</p>
1995	<p>The period for retroactive OAS benefits was changed from five years to one year.</p> <p>The Act was amended to allow an OAS pensioner to request that their pension be cancelled and to subsequently request in writing that their pension be reinstated.</p>
1996	<p>The eligibility requirements were changed to: 1) disallow sponsored immigrants from qualifying for GIS or the Spouse's Allowance during the sponsorship period (10 years maximum); and 2) require at least 10 years of residence in Canada for non-sponsored immigrants to qualify for a full GIS or Spouse's Allowance and prorate these benefits for those with less than 10 years of residence, at the rate of 1/10 of the total benefit for each year of residence.</p>
2000	<p>Benefits were extended to same-sex common-law partners.</p>
2006	<p>The GIS was increased, on January 1, 2006 and on January 1, 2007, by \$36 for single pensioners and by \$29 for couple pensioners.</p> <p>The GIS portion of the Allowance for the Survivor was increased by \$36 and the GIS portion of the Allowance was increased by \$29.</p>
2007	<p>Bill C-36, <i>An Act to Amend the Canada Pension Plan and the Old Age Security Act</i>, allows individuals to make a one-time application for the GIS and have their benefit automatically renewed as long as they remain eligible and file an annual income tax return.</p>
2010	<p>Bill C-31, <i>Eliminating Entitlements for Prisoners Act</i>, ended the payment of OAS benefits to persons incarcerated in federal institutions for two years or more. Once information sharing agreements are negotiated with the provinces and territories, OAS benefits will also be suspended for persons incarcerated in provincial and territorial institutions on a sentence exceeding 90 days.</p>
2011	<p>On July 1, 2011, the Government of Canada increased the GIS for the lowest income seniors. With the "GIS Top-Up", seniors with little or no income other than the Old Age Security (OAS) pension and GIS now receive additional benefits of up to \$600 for single seniors and \$840 for couples — the most significant increase for the lowest-income seniors in over 25 years.</p>

Annex V – Main Features of the Old Age Security Program

Quasi-Universal: The OAS program provides benefits to all persons who meet the age, legal and residence requirements.

Non-contributory: To qualify for OAS benefits, individuals must meet age, residence and legal requirements. Income is considered for income-tested benefits.

Indexation: To ensure they retain their value over time, OAS benefits are adjusted in January, April, July and October in accordance with the Consumer Price Index.

Taxable: The basic OAS pension is taxable, whereas the GIS and the Allowance are non-taxable. The OAS pension of a non-resident of Canada may be subject to non-resident tax up to a maximum of 25 percent of the gross benefit amount. The tax rate depends on the country where they live.

Retroactive: Late applicants of the OAS pension, as well as the GIS and Allowance may receive retroactive payments. OAS, GIS and Allowance payments may be made for up to 11 months plus the month in which the application is received, provided all conditions of eligibility are met. OAS pensioners can also request that their OAS benefits be cancelled. They can have them reinstated at a later date. However, in such cases, no retroactive payments will be permitted. There are, however, two provisions that may permit additional payments beyond the 11-month period. In situations where an OAS client was unable to apply on time for reasons of incapacity or due to administrative error/erroneous advice, they may have their applications deemed to have been submitted at an earlier date.

Reconsideration and Appeal: OAS clients may request an explanation or a reconsideration of any decision that affects their eligibility or the amount of their OAS pension. If not satisfied with the decision of the Regional Director, the client may appeal to the Office of the Commissioner of Review Tribunals. If the grounds of appeal are income related, the appeal will be referred to the Tax Court of Canada for a decision. Decisions made by a Review Tribunal or the Tax Court are final. However, if either party thinks there is an error in the decision, they may apply for a Judicial Review in the Federal Court or Federal Court of Appeal.

Payment outside Canada: Once a full or partial OAS pension has been approved, it may be paid indefinitely outside Canada, if the pensioner has lived in Canada for at least 20 years after reaching 18 years of age. The GIS and the Allowance may be paid outside Canada for only six months following the month of departure from Canada regardless of the length of time lived in Canada.

Federal Old Age Security (OAS) Program Components, October-December 2007

Federal Retirement Income Support Programs¹				
	OAS Pension	GIS	Allowance (ALW)	Allowance for the Survivor (ALWS)
Purpose	Provides a basic pension to eligible Canadians	Guarantees OAS pensioners a minimum level of income	Income assistance for a spouse or common law partner of a GIS client	Income assistance to low-income survivors
Eligibility	Seniors, aged 65 or older, with a minimum of 10 years of residence in Canada or its equivalent	Low-income, full or partial OAS pensioner	Spouse or common law partner of an OAS/GIS pensioner aged 60-64 with little to no income who meets OAS residence requirements	Survivors with little to no income, aged 60-64 who meets OAS residence requirements and have not remarried or entered into a common-law relationship
Maximum Monthly Benefit Amount (October 2007)	Full Pensions: \$502.31	Single: \$634.02 Spouse/Common-law partner of: A Pensioner: \$418.69 A Non-Pensioner: \$634.02 An Allowance Recipient: \$418.69	ALW: \$921.00	ALWS : \$1,020.91
Maximum Annual Income Cut-offs (October 2007)	N/A	Single: \$15,240 Spouse/Common-law partner of: A Pensioner: \$20,122 A Non-Pensioner: \$36,528 An Allowance Recipient: \$36,528	ALW: \$28,176	ALWS: \$20,520
Reduction / Repayment Rate ²	Basic OAS benefits are taxed back at a rate of 15 percent of personal net – income in excess of \$63,511 the OAS pension is completely recovered at an income of \$103,191	Maximum monthly supplement is reduced by \$1 for every \$2 of income received in the previous year	OAS equivalent is reduced by \$3 for every \$4 additional monthly income; when the OAS equivalent is reduced to zero, the GIS equivalent is reduced by \$1 for every \$2 of additional monthly income	OAS equivalent is reduced by \$3 for every \$4 additional monthly income; when the OAS equivalent is reduced to zero, the GIS equivalent is reduced by \$1 for every \$2 of additional monthly income
Payment Abroad	Indefinitely after 20 years of residence	For up to six months after departure	For up to six months after departure	For up to six months after departure
Number of Beneficiaries	4.4 million beneficiaries ³	1.6 million beneficiaries	63,592 beneficiaries	28,952 beneficiaries
2007-2008 Forecasted Expenditures	\$25 billion	\$7.4 billion	\$546 million	
¹ Service Canada. <i>Income Security Program Information Card (Rate Card): October – December 2007 and January – March 2008</i> , rates remained unchanged in the two quarters, number of beneficiaries are as reported in last quarter of 2007. ² The GIS/ALW/ALWS reduction rate is based on individual (for singles) or combined income (for Couples) of the previous year with some exclusions (OAS pension, provincial supplements, Child Tax Benefits, C/QPP death benefits, Social Assistance, are not considered income). ³ Of these, 352,500 (8 percent) received partial benefits and 4,065,651 (92 percent) received full benefits (HRSDC, 2007, Table 33).				

Annex VI – Technical Reports

Report	Description	Period covered	Considerations
Gunderson (2009). Literature Review for the Evaluation of the Old Age Security Program.	Review of existing research on contribution of OAS to income, income replacement rate, transitions to retirement, and reduction of low income incidence among seniors	1981-2007	
Van Audenrode et al. (2009). Series of Three Census Studies of Old Age Security (OAS) Program Benefit Adequacy.	Analysis of the income of OAS pensioners through Public-Use Microdata Files (1991, 1996, 2001)	1991-2001	Self-reported income, combines all OAS income sources, 10-year age categories
Kapsalis (2009). Evaluation of the Old Age Security Program Using the Survey of Labour and Income Dynamics	Examination of the impact of OAS/GIS on seniors' income and importance to retirement income	2000-2007	SLID incorporates Allowance benefit income into GIS
Gomez (2009). The Impact of OAS and GIS Benefits on the Social and Financial Well-Being of Retirees: An Empirical Analysis Using the 2002 General Social Survey	Assessment of perceptions of financial and social well-being among OAS pensioners	2002	Self-reported perceptions rather than measurement of well-being
Shillington (2009). Evaluation of the Old Age Security Program Summary Report based on the LAD.	Analysis of OAS contribution to transition to retirement, pre-retirement income replacement rates, income share, economic well being, reduction of low income incidence among seniors, and program take-up	1993-2006	Excludes capital gains income, use of LIM in measuring low income, and exclusion of lowest income Canadians in assessment of replacement rate
Lasota, McCracken, and Shillington (2009). The Social Policy Simulation Database and Model Analyses of the Old Age Security Program's Benefit Adequacy	Analysis of OAS contribution to retirement income, reduction of low income incidence among seniors, and the interaction of other income	2005	SPSAD/M incorporates Allowance benefit income into GIS

Report	Description	Period covered	Considerations
Evaluation Directorate, HRSDC (2010a). OAS, GIS, Allowances Supplement Report (SPSD/M version 16).	Analysis of the impact of the OAS program on the poverty level. Analysis of the OAS benefits level adequacy	2005	
Latif (2010). An analysis of the Survey of Financial Security to address a number of evaluation questions of the Old Age Security (OAS) Program	Examines retirement savings and net worth of OAS beneficiaries	1999-2005	Averages LICO for a family of two over all centres
Moore (2010). Evaluation of the Old Age Security Program Using Statistics Canada's LifePaths Microsimulation Model	Analysis of pre-retirement earnings replacement provided by OAS and its impact on reducing the incidence of low income	2007	Uses a single LICO measure and excludes international social security agreements
Roy (2010). An International Comparison of Public Income Security Programs with a Focus on Senior Immigrants	An international comparison of public income security programs with focus on senior immigrants and program administrative costs	1998, 2005, 2007, and 2008	Access to program administration costs and their comparability

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