NATIONAL INSTITUTE ON AGEING

The First 100 Years of Old Age Security

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About the National Institute on Ageing

Founded in 2016, the National Institute on Ageing (NIA) is celebrating a decade of impact in our mission to improve the lives of older adults and the systems that support them. Over the past 10 years, the NIA has become a leading voice on ageing policy — convening stakeholders, conducting research, advancing policy solutions and practice innovations, sharing information and shifting attitudes. Our vision remains clear: a Canada where older adults feel valued, included, supported and better prepared to age with confidence.



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Executive Summary

Canada's Old Age Security and Guaranteed Income Supplement (OAS/GIS) system provides a retirement income foundation for Canadians and is the largest program expenditure in the federal budget. In its current form, it has two main components: the Guaranteed Income Supplement (GIS), aimed at poverty reduction, and the Old Age Security (OAS) pension, aimed at providing a basic retirement income foundation for all Canadians.

From time to time, there are calls for the OAS/GIS system to be expanded, curtailed, or reformed. Proposals for change often fail to take account of the complexity of the system or the context in which it operates. This is an attempt to provide that context, in the hope that any decisions about prospective reforms to OAS/GIS will be grounded in an understanding of the history and current structures of these systems and ultimately work to strengthen and improve Canada's social benefit infrastructure as a whole.

One Hundred Years

The Old Age Pension Act became law in 1927, after being publicly debated in the general election of 1926. That first system of old age pensions evolved into a guaranteed basic income for older Canadians during its first half-century and has remained largely intact throughout its second half-century.

Many of today's features arose out of criticisms and failings of earlier versions. OAS and GIS have survived because of those adaptations. Key among the adaptations is universality: everyone can accept and support OAS because everyone stands to benefit. The importance of universality has only grown over time as access to workplace defined benefit pension plans has shrunk. GIS garners its public support from its design as a national, income-tested poverty alleviation program.

However, even after a hundred years, the sustainability of the OAS/GIS system cannot be taken for granted. Unlike workplace pension plans and other elements of Canada's retirement income system, there are no investments dedicated to pre-funding OAS. It depends exclusively on the general revenues of the federal government and the ongoing support of the electorate. Calls for change must be considered in the context of the unwritten intergenerational covenant underpinning the program, which has survived for generations. OAS must continuously be shown to be financially and politically sustainable for generations into the future.

A Demographic Anomaly

The baby boom that emerged in the years after World War II and ended abruptly in the 1960s means that an unusually large number of Canadians are turning 65 and claiming OAS during the 2020s. OAS/GIS expenditures as a percentage of Gross Domestic Product (GDP) will be high in the 2030s and then decline. This temporary bulge in expenditures is sustainable in isolation but might be contentious in the context of shifting values and other government spending priorities. Past attempts to limit OAS expenditures by reducing benefits were met with stiff opposition and may have undermined confidence in the system, had they been adopted.

Net Transfers from Government

Together, OAS and GIS currently provide a guaranteed basic monthly income of $1,901 for a single person and $1,448 (each) for a couple. Almost every permanent resident over age 65 is eligible for at least a partial OAS pension. In addition to OAS and GIS, federal and provincial government support is available to low-income residents for specific needs such as housing, dental care and assisted living. Income from private sources, such as employment and retirement savings reduce the government share of the guaranteed basic income provided by OAS/GIS and those other supports.

The impact of OAS/GIS on reducing poverty has been profound. By most income-based measures of poverty, OAS/GIS has drastically reduced the incidence of poverty among older adults. Remaining pockets of poverty among older adults are in parts of the country with higher costs of living, and among those facing specific disadvantages, such as poor health.

To understand how the OAS/GIS system affects older Canadians, we must look beyond the legislated benefit formulas and see how benefits are being translated into lifetime spendable income in the context of the complete retirement income and taxation systems. Canada has a progressive income tax structure, meaning that higher tax rates apply at higher income levels. However, the structure of OAS/GIS and other income-tested benefits can result in erratic marginal effective tax rates. When a government program is targeted at individuals at particular income levels, its benefits are phased out over a specific income band. This kind of income test, or "clawback," has the same effect as an extra layer of income tax: it produces a higher marginal effective tax rate in the applicable income band. For Canadian residents over age 65, the income test applied to GIS benefits and the OAS Pension Recovery Tax are the two most important additions to basic income tax rates.

In some instances, the combined effect of overlapping tax bands and income tests can be so onerous that it discourages individuals from seeking extra income in specific bands. High marginal effective tax rate bands can also encourage strategies to "manage" the income that taxpayers report. For example, taxpayers might try to improve their spendable income by shifting reported income between spouses or from one tax year to another. These strategies are particularly relevant for older Canadians with moderate wealth because they have so many more ways to shift taxable income than working-age Canadians. Income-shifting opportunities for older Canadians include pension income splitting, pension claiming age, and the pace of RRIF withdrawals. However, these strategies can be risky, complicated and short-sighted. Moreover, they can weaken the effectiveness of targeting benefits intended for poverty-reduction because they allow older Canadians with adequate financial resources to claim benefits by artificially suppressing income in some years.

This paper describes the complex ecosystem in which OAS/GIS operates in order to raise awareness about the design of these foundational programs, how they interact with the broader tax system, their impacts, and their histories. **The intent of this paper is not to propose or oppose specific reforms to OAS/GIS.** Rather, the intent is to ensure that learnings from the past are not overlooked and to ensure that any potential adjustments in response to perceived inequities do not undermine the long-term financial and political sustainability of these programs. Discussions about reform to the OAS/GIS system need to be placed in the context of their purpose and history and their role in the broader Canadian system of taxes and government transfers.

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Introduction



In virtually all industrialized nations, ensuring the financial security of older adults, typically through the direct provision of public pensions and often also through other policy instruments, is one of the core functions of governments. In Canada, there is a mixed system of public and private sector provision of retirement income. The primary public pension benefits are delivered by the Old Age Security and Guaranteed Income Supplement system (OAS/GIS) and the Canada and Quebec Pension Plans (C/QPP). The federal and provincial governments also have measures in place to support the creation of retirement income through employer-sponsored pension plans and various forms of personal savings.

There are two main components of the OAS/GIS system:

i. the **OAS pension** intended to provide a basic income foundation

ii. the **Guaranteed Income Supplement** (GIS) intended, in conjunction with the OAS pension, to alleviate poverty

Together, OAS and GIS provide a guaranteed basic monthly income of $1,901 for a single person and $1,448 (each) for a couple.[1] Almost all Canadian residents over 65 are eligible. This benefit is fully indexed to the Consumer Price Index (CPI). As discussed below, a larger guaranteed basic income is payable after age 75 and to those who choose to claim OAS later than age 65. Spendable income from these benefits is reduced by a fraction of net income from other sources, through a combination of the GIS benefit formula, the OAS Pension Recovery Tax (paid by OAS recipients when income exceeds $95,323), and income taxes.

Table 1: Monthly OAS and GIS Amounts

OAS	Up to $762 at 65 *OAS is reduced if individual annual income exceeds $95,323*
OAS + GIS	Single up to $1,901 Couple up to $2,896 *GIS is reduced by 50% of family income*

[1] Except as otherwise noted, figures in this report are for the fourth quarter of 2026. See canada.ca/en/services/benefits/publicpensions/old-age-security/payments.html for current rates.

The Role of OAS/GIS

Retirement income policy in Canada encompasses two (relatively) distinct policy goals.[2]

- Canadians should be able to avoid a substantial decline in their standard of living upon retirement (earnings replacement).
- Older adults should not live in poverty (poverty reduction).

It can sometimes be difficult to disentangle these two policy goals, especially for Canadians with low pre-retirement incomes, since the level of retirement income sufficient to avoid poverty will simultaneously provide a high level of replacement income when compared to their pre-retirement earnings.

Over time, the Canadian government has implemented anti-poverty measures and a range of public programs and tax advantages for private programs to help older adults maintain their pre-retirement standard of living:

- Some of these programs provide lifelong monthly pension income
- Some of these programs provide reimbursements, tax credits, or direct payments to service providers to help with the costs of supplemental health care, housing, or other specific needs
- Some privately funded programs provide retirement savings that can be used to address non-routine spending needs that arise over the course of retirement

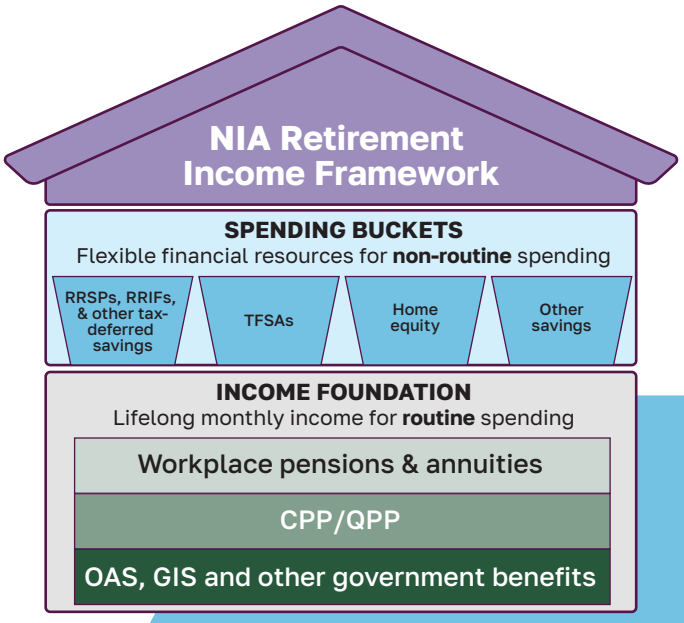
OAS and GIS operate within this overall retirement income policy framework. GIS is the federal government's primary poverty reduction measure for older adults, while OAS pensions provide a foundation of lifelong retirement income for Canadians seeking to preserve their standard of living after exiting the workforce.

OAS Pensions in the Canadian Retirement Income Framework

As illustrated in the NIA Retirement Income Framework, OAS, GIS and other transfers from the government (such as the Canada Groceries and Essentials Benefit and provincial rent and property tax subsidies for older adults) provide a floor of retirement income that contributes towards meeting both goals of Canadian retirement income policy.

While other income-tested benefits complete the government system of poverty reduction, the Canada/Quebec Pension Plan and tax advantages for privately funded retirement plans complete the government contribution to maintaining pre-retirement living standards.

Figure 1: NIA's Retirement Framework



[2] This is not the only way to frame the policy goals for income support. For example, a 1982 report of a parliamentary committee (Frith et al., 1983) included a dissenting opinion that named three objectives:

- to ensure that Canadians are able to avoid serious disruptions in their standards of living upon retirement or upon the death of a retired spouse;
- to provide elderly Canadians with a reasonable, guaranteed minimum income; and
- to provide Canadians with pension opportunities and arrangements that are fair.

Tax expenditures to create opportunities for private retirement savings are outside the scope of this paper, except to the extent they contribute to problems with marginal effective tax rates.

The NIA retirement income framework contemplates two different kinds of retirement resources (pensions and spending buckets) for two different kinds of retirement spending (routine and non-routine).

1. C/QPP and private workplace pensions are linked to earnings histories. They work alongside OAS pensions to increase the size of the income foundation to meet the routine retirement spending objectives of workers with higher incomes.
2. Registered Retirement Savings Plans (RRSPs) and other capital accumulation plans provide an avenue for accumulation of spending buckets.

The government contributes to these retirement resources through tax advantages. Together, they create opportunities to preserve pre-retirement living standards — including both routine and non-routine spending for older adults whose incomes preclude access to income-tested benefits like GIS. Of course, there is a degree of interchangeability. It is possible to use pension income for non-routine expenses or use investments to pay for routine expenses. But there are inefficiencies in these adaptations.

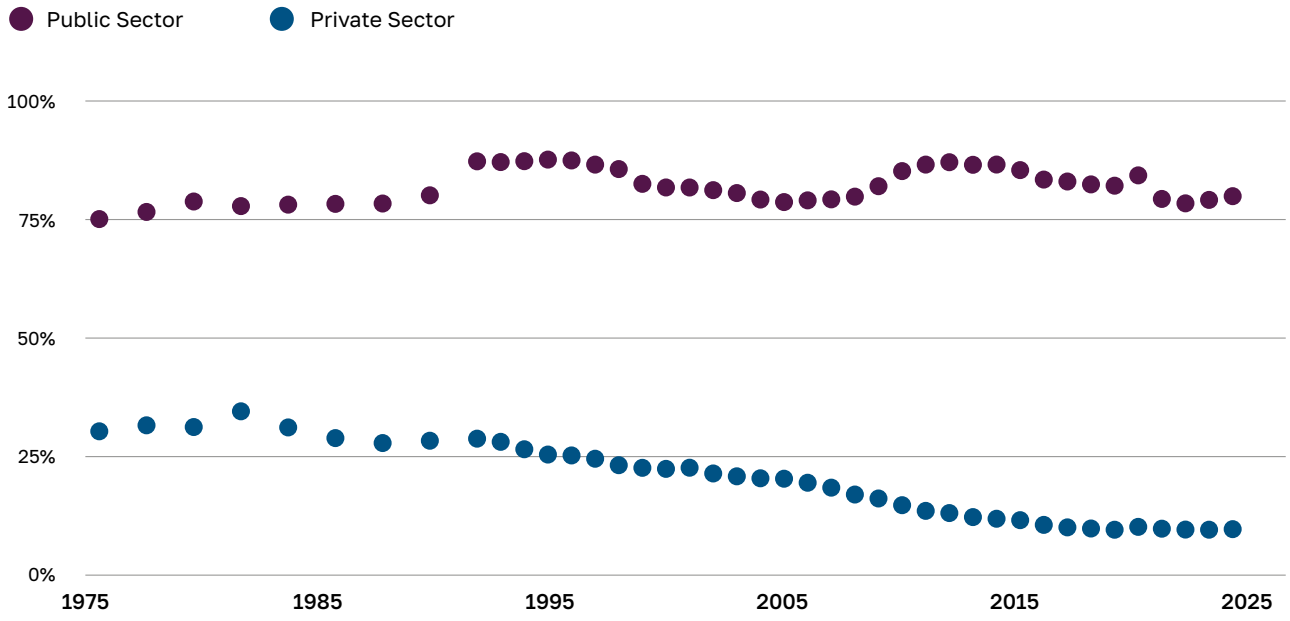
1. A secure lifelong income foundation can support borrowing for non-routine spending, such as major purchases and home renovations, uninsured health care expenses or assistance to relatives. However, banks and some other lenders might not regard pensions as highly as employment income (because pensions cannot be garnished) and so older adults at all income levels would want to have other, more flexible financial resources and collateral as well.
2. Older adults with pensions that are more than sufficient for their routine spending needs will have the opportunity to save for major purchases. However, the tax-saving opportunities that were available during their working years will not all be available.
3. RRSP and other savings can be drawn down gradually during retirement. But a secure lifetime income foundation has five important advantages over asset drawdown strategies when it comes to providing for routine expenses (MacDonald B.-J. et al., 2026). It:
   - shields individuals from longevity and investment risks
   - allows retirees to spend more comfortably, knowing their future needs are covered
   - provides peace of mind and better health
   - reduces the burden on adult children or other family members as responsibility for managing finances and care shifts to them over time
   - offers protection against financial exploitation

   Evidence of these advantages is included in the NIA's 7 Steps Toward Better CPP/QPP Claiming Decisions paper series (MacDonald B.-J., 2024).

The Role of OAS as Earnings Replacement

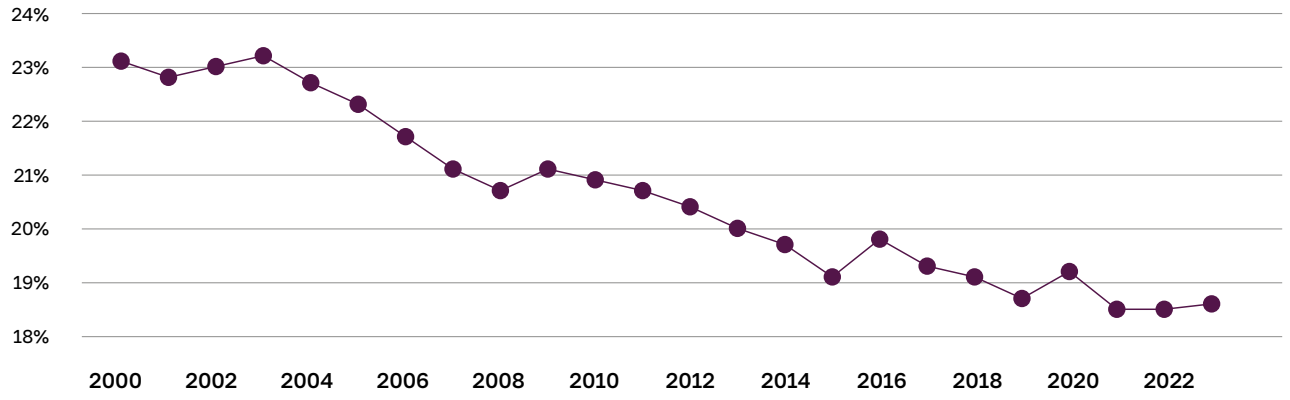
With the decline in popularity of workplace defined benefit pension plans in the private sector, as shown in the figure below, OAS and other government benefits have become a bigger part of the income foundation for many Canadians.

Figure 2: Percentage of Employed Workers Covered by a Defined Benefit Pension Plan[3]



However, overall, OAS benefits (the OAS pension and GIS, including the Supplement) have also declined as a component of total income of older adults, as shown below.

Figure 3: OAS/GIS as a Component of Total Income of Canadians 65+[4]



[3] Calculations based on *Statistics Canada Table 11-10-0121-01 and Table 14-10-0027-01*. The decline in private sector defined benefit pension coverage from 30% in the 1980s to 10% now is at least partly attributable to workers whose pension coverage has been shifted to registered pension plans that include both defined benefit and defined contribution provisions. The defined benefit provisions of these hybrid plans may be closed to new entrants (meaning some long-tenure plan members may still be accruing defined benefits) or frozen (meaning long-tenure plan members have defined benefit accruals for past service and are accruing defined contributions now). The private sector shift from defined benefit pension plans to defined contribution arrangements (including Group RRSPs and other capital accumulation plans) that began in the 1980s will take a generation to complete.

[4] Based on (Hajizadeh et al., 2024) with updated data from Statistics Canada. *Table 11-10-0039-01 Tax filers and dependants, seniors with income by source of income and age.*

Part of the reason for the decline in the share of OAS pensions in total retirement income is the Pension Recovery Tax; it has doubled in impact since it was first introduced in 1989, both in terms of the dollar amount recovered and the number of Canadians affected.

Table 2 below shows statistics on OAS pensions paid in 2022 to Canadians in different bands of total income. Only individuals who were 70 years or older by the end of that year are included in these statistics, since some 65 to 69-year-olds have chosen to delay their OAS pension. Amounts are after deduction of the Pension Recovery Tax but before deduction of other income taxes.

In 2022, the Pension Recovery Tax applied to individuals with income of more than $81,762. It would not typically affect individuals in the first two income bands of Table 2. About a quarter of the recipients in these income bands are receiving less than the full amount, presumably because they had less than 40 years of residency when their OAS pension started. The small percentage who received zero OAS payments includes individuals who did not apply and recent immigrants who had not yet met any of the shorter residency requirements for partial benefits.

The individuals in the third income band of Table 2 would be subject to a partial reduction in their OAS pension due to the Pension Recovery Tax. None of the individuals in the top two income bands would be eligible for any OAS, if it were not for special circumstances. These could include pension income splitting, amounts that are included in total income but not in taxable income, and fluctuations in income from 2021 to 2022.

Table 2: OAS of those 70 year and Older by Band of Total Income[5]

Income Range	$0 - $40,000	$40,000 - $80,000	$80,000 – 120,000	$120,000 - $160,000	$160,000+	Aggregate
Size of population	2,948,400	1,413,139	354,719	88,672	102,512	4,907,443
Total expenditures (in millions)	$21,307	$11,263	$2,221	$233	$67	$35,091
% who received zero OAS payments	4.4%	0.9%	7.7%	48.2%	85.7%	6.2%
Average annual OAS pension (excluding those receiving zero)	$7,562	$8,046	$6,785	$5,070	$4,620	$7,620
OAS as a % of Income	29.3%	14.3%	6.6%	1.9%	0.2%	15.6%

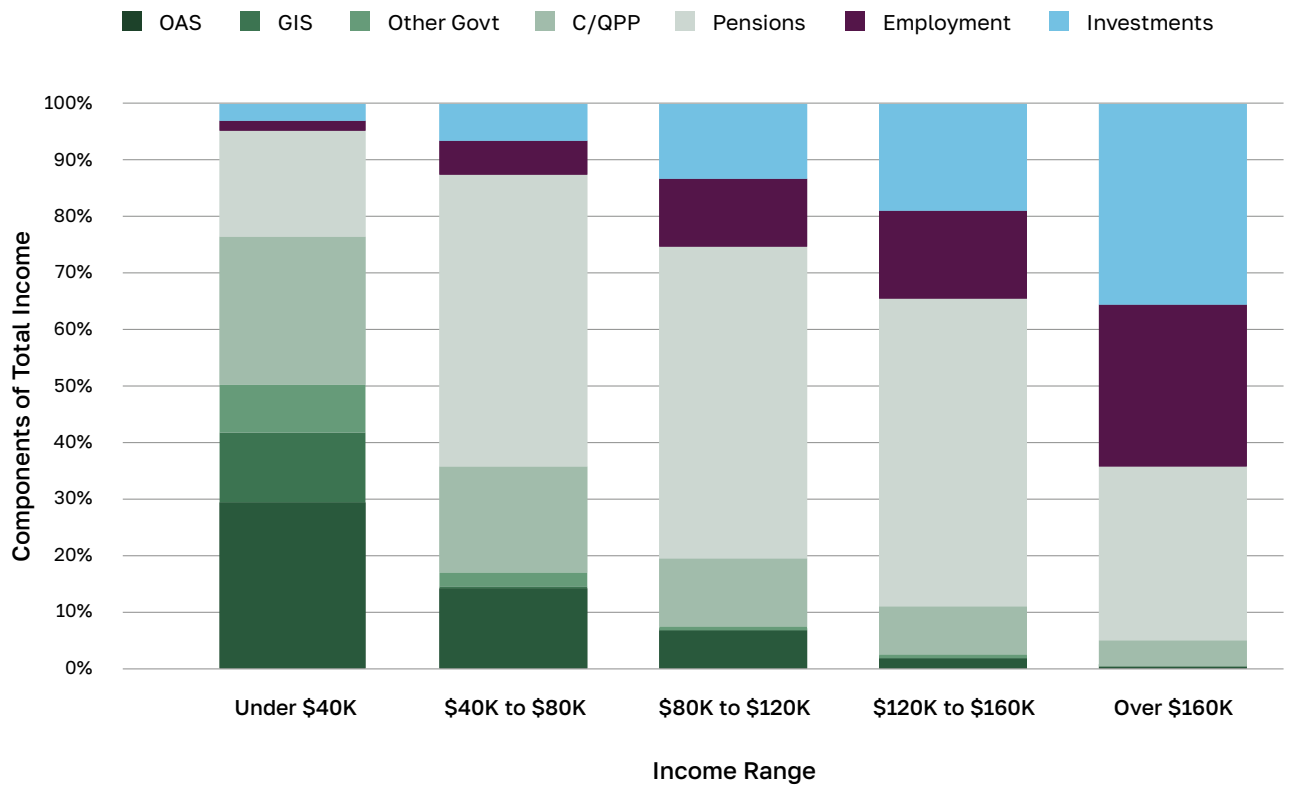
[5] Tabulations were derived from the *Statistics Canada 2022 Canadian Income Survey Public Use Metadata File.*

Analysis using the Statistics Canada Longitudinal Administrative Databank (Boisclair et al., 2025) provides several key insights:

- The most important recent change in the composition of income to offset the declining value of pensions over the past two decades has been the increased employment earnings among older adults.
- By comparing after-tax income at age 70 to after-tax income at ages 50 to 54, it found that Canadians in the lowest income decile have twice as much after-tax income at age 70 as they had before retirement (because of GIS, as discussed below).
- Replacement rates were progressively lower for each higher decile. For the top decile, an average after-tax replacement rate was in the 60% to 65% range.
- A comparison of post-retirement income sources of 70-year-olds in 2022, broken into income deciles according to the individuals' pre-retirement incomes at ages 50 to 54 showed that (with the exception of the top decile) employment pensions of these baby boomers were increasingly important as pre-retirement income rose.

Figure 4 below illustrates how the components of income vary by income level. This analysis is a snapshot of incomes in 2022 but the results are similar to the longitudinal comparison of post-retirement income to pre-retirement income discussed above.

Figure 4: Composition of Income of those 70 and Older by Band of Total Income[6]



[6] Tabulations were derived from the Statistics Canada 2022 Canadian Income Survey Public Use Metadata File. "Other Govt" sources of income are mostly provincial supplements to GIS. Pensions include RRIF withdrawals, annuities and supplementary pensions as well as income from registered pension plans. In accordance with the Canadian Income Survey methodology, capital gains and other non-recurring sources of income are excluded from total income.

Future generations of middle- and high-income workers will find it more challenging to strike the right balance between their income foundation and their spending buckets, as set out in NIA's Retirement Income Framework. While they might enter retirement with substantial home equity and other investments, this is no substitute for the regular monthly income provided to previous generations by workplace pension plans, insulated from investment market fluctuations and the risk of outliving one's savings. The phased-in C/QPP enhancements will eventually help middle-income workers, but it will be decades before additional benefits fully mature. Annuities are also an option, but inflation protection is generally unavailable and pricing is unattractive.[7] OAS pensions, while small relative to their pre-retirement income, will become more important to middle-income and high-income workers lacking an adequate retirement income foundation.

In summary, OAS pensions are making an important contribution to earnings replacement in general and the income foundation in particular. The notable exception is for those with the highest incomes, where the Pension Recovery Tax has the greatest impact and replacement ratios are the lowest. This is the group with the greatest challenge in building an income foundation that will be adequate to maintain their pre-retirement standard of living.

The Role of GIS as a Poverty Reduction Measure

Poverty can be broadly understood as, "the condition of a person who is deprived of the resources, means, choices and power necessary to acquire and maintain a basic level of living standards and to facilitate integration and participation in society," (ESDC 2018). In its 2018 poverty reduction strategy, entitled *Opportunity for All – Canada's First Poverty Reduction Strategy*, the Government of Canada set its focus on poverty reduction in terms of (i) dignity, (ii) opportunity and inclusion, and (iii) resilience and security (ESDC, 2018). That strategy included the establishment of an official poverty line, the Market Basket Measure, based primarily on income but with adjustments for home ownership, location and family size.

[7] Annuity pricing reflects low-risk investing by insurance companies. This prudent investing approach and the absence of true inflation protection are largely driven by regulatory standards aimed at protecting policyholders from insurance company failures and accounting standards aimed at properly disclosing risk to shareholders and other stakeholders.

Table 3: Summary of Poverty Measures

	LICO	LIM	MBM	MDI
	Low-Income Cut Off	**Low-Income Measure**	**Market-Basket Measure**	**Material Deprivation**
Tells us:	Is a household spending a disproportionate share of their income on basic necessities?	Is household income far below average?	Can a household afford a basic standard of living?	Is a household going without the essentials of everyday life?
What it measures:	Income (either before or after taxes)	Income (either before or after taxes)	Disposable income, adjusted for housing tenure	Self-reported inability to afford essentials
Benchmark:	1992 cost of necessities for an average family plus 20% and CPI increases. Adjusted by community size.	50% of the national median income.	Cost of a "basket" of essentials for a modest standard of living. Adjusted based on location and housing tenure.	Inability to afford two or more of 11 necessary goods, services and activities.
Equivalization (Couple:Single)	1.24:1	1.44:1	1.44:1	Not applicable

This is just one of several ways of defining poverty by comparing the needs of individuals or families to their resources (Aldridge, 2017). However, poverty is about more than monthly income and home ownership. Savings, family and community support, and the ability to do things for oneself all have a role to play in balancing needs and resources.

A comparison of definitions of poverty can provide insight into how GIS has performed as the predominant anti-poverty measure for older adults. While most of the measures considered here are based on current income, a few reflect wealth and other resources. The primary distinction between the measures is in their attempts to factor in variations in costs and needs.

Low Income Cut-Off (LICO)

While LICO is no longer commonly used as a poverty measure in Canada, it is a useful starting point because LICO was established in 1968, at the same time as the discussions that led to the permanent adoption of GIS. Additionally, longitudinal statistics on the evolution of poverty according to this measure

are relatively accessible. LICO was set in 1992 as the point where a household would devote a much larger share of their income to necessities than the average and is updated regularly for increases in the aggregate CPI. It reflects community size and family size, but not other indicators of living costs. On an after-tax basis, LICO for a couple in 2023 varied from $20,141 in rural areas to $30,788 in large cities.

Over the past two decades, only about 4% of households headed by a 70-year-old have had income below the LICO (Boisclair et al., 2025).

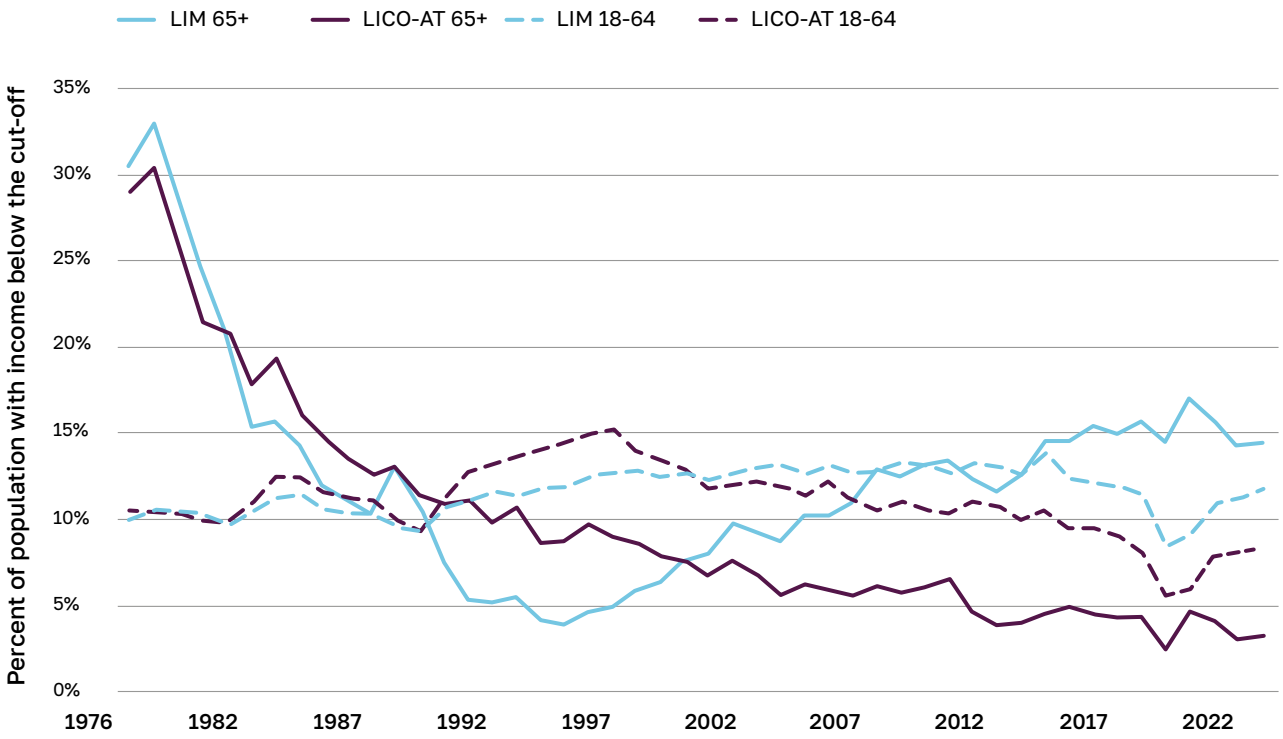
Low Income Measure (LIM)

LIM is a relative measure of poverty used across the Organisation for Economic Co-operation and Development (OECD) since the early 1990s. It is set at 50% of the national household median income, with adjustments for household size but no adjustments for location. On an after-tax basis, Canada's LIM for a couple in 2023 was $42,787.

The figure below illustrates the prevalence of poverty as measured by the LIM and LICO (after tax). The proportion of those aged 65 and older considered living in poverty according to the LIM declined from 33.1% in 1977 to a low of 3.1% in 1995, but has been increasing since then (Jackson, 2019). The maturation of the C/QPP program (for Canadians born after 1901) was the dominant force reducing poverty relative to LIM during the period from 1977 to 1995.

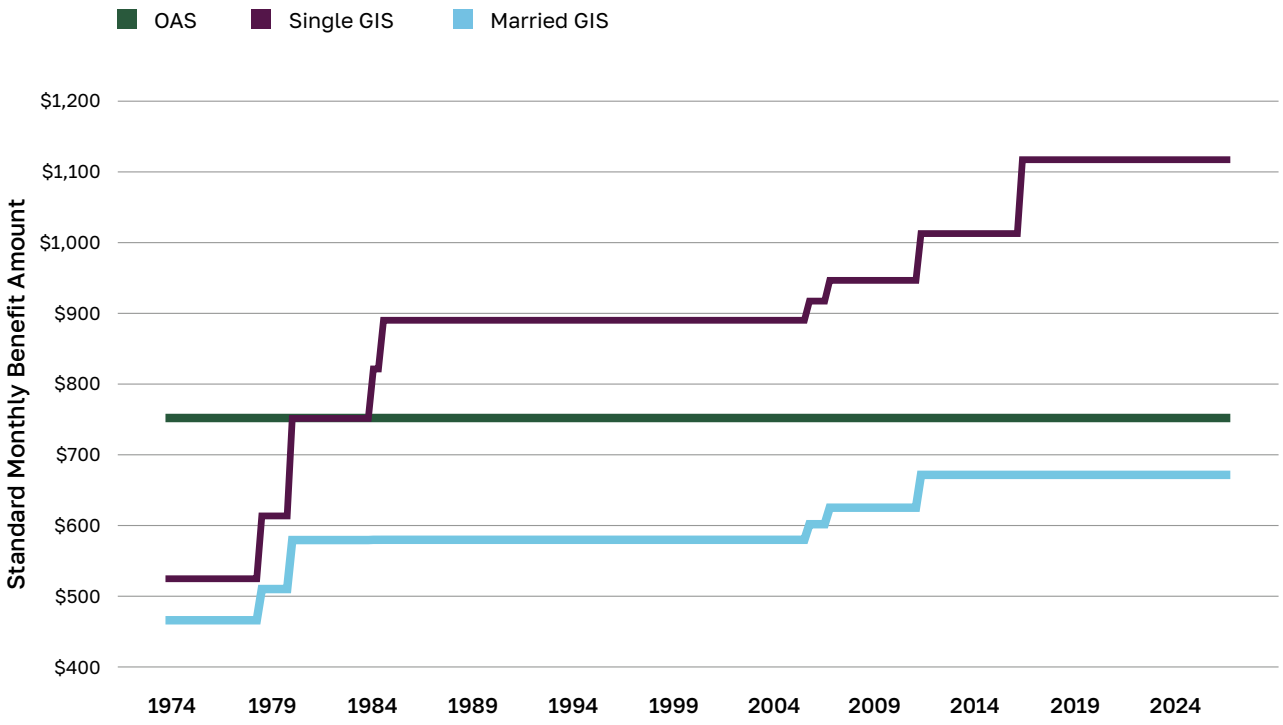
GIS has failed to allow low-income seniors to keep pace with growth in median incomes over the three decades since then.

Figure 5: Incidence of Low Income as Measured by LIM (after tax) and LICO[8]



[8] Source: *Statistics Canada Table 11-10-0135-01 Low income statistics by age, gender and economic family type*

Figure 6: Historical Growth of OAS Pension and GIS Maximum Benefits[9] in 2026 Dollars



This recent increase in LIM-based poverty for older adults in Canada occurred despite ad hoc adjustments to GIS. These adjustments (in addition to automatic CPI increases) are illustrated in Figure 6. Merely keeping pace with price inflation did not allow GIS beneficiaries to keep pace with the increasing median living standard of working Canadians, even with ad hoc adjustments.

In contrast, the incidence of incomes below the LICO has been declining steadily amongst Canadians 65 and older. Both LICO and GIS are linked to CPI so the ad hoc adjustments to OAS/GIS directly affected the incidence of incomes below the LICO.

"Simulations show that combined federal and provincial supports are enough to escape poverty in some parts of Canada, but not others"

(White & Gill, 2025)

[9] Historical monthly amounts from Seniors and Pension Policy Secretariat (2025). Benefit amounts are adjusted to 2026 price levels using the same 3-month average of CPI as is used to index OAS (without the floor on decreases). Temporary increases in purchasing power due to the floor on benefits (no reduction when CPI declines) are excluded.

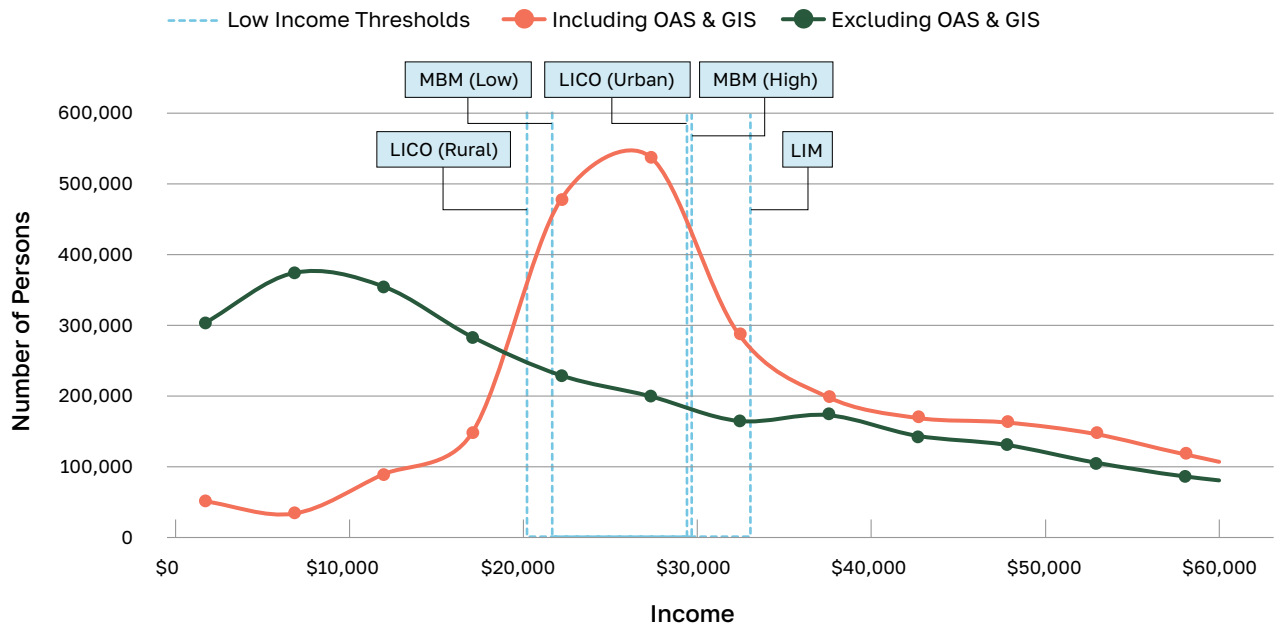
Market Basket Measure (MBM)

MBM was established as Canada's official poverty measure in 2018. It is the amount required to buy a basket of goods and services representing a basic standard of living. It reflects province, community size and family size. MBM is compared to disposable income after deducting tax and work-related expenses and adding "tenure type adjustments" to reflect imputed rent for homeowners. These adjustments vary by age, mortgage-free status and geography (Devin et al., 2025). For a couple in 2023, MBM ranged from $32,070 when renting in Quebec towns to $43,573 when renting in Vancouver and to as much as $72,376 when renting in northern Canada.[10] The effect of tenure type adjustments is to bring the income threshold (excluding imputed rent) for a couple with clear title to a home in either Vancouver or rural Quebec to approximately $32,000.

OAS and GIS make up most of the income of seniors whose income falls below the MBM.

As with LICO, the prevalence of low income relative to the MBM amongst older adults (65+) is lower than that for younger adults. This is because GIS is included in the definition of "household income" and causes incomes after age 65 to cluster at levels just above the income level guaranteed by GIS. The figures below[11] illustrate how OAS and GIS change the shape of the income distribution for Canadian residents over age 65 (separately for single persons and couples).

Figure 7: 2022 Distribution of Income, Single Persons Over 65



[10] Details by geographical location retrieved from *Statistics Canada Table 11-10-0104-01 Market Basket Measure thresholds by Market Basket Measure region and family size, in current dollars.*

[11] Developed from income data in the *Statistics Canada 2022 Canadian Income Survey Public Use Metadata File and low income measures for 2022 in Statistics Canada Table 11-10-0135-01 Low income statistics by age, gender and economic family type.* LICO (Rural) and LICO (Urban) refer to the Low Income Cut-Off (before tax). MBM (Low) and MBM (High) refer to the range of the Market Basket Measure for renters. The low value is for Quebec municipalities with populations of 30,000 to 99,999 and the high value is for Vancouver (although the MBM for renters in northern Canada is much higher). LIM refers to the Low Income Measure.

The combined OAS and GIS benefit for a single person provided a guaranteed basic income of about $20,000 in 2022. The effect of GIS was to increase incomes that would otherwise have been $20,000 or less to at least $20,000 and as much as $28,000. For those with more than about $20,000 of income from other sources (i.e. excluding OAS and GIS), GIS was not payable but OAS increased income by about $8,000 (up to the level where the Pension Recovery Tax takes effect).

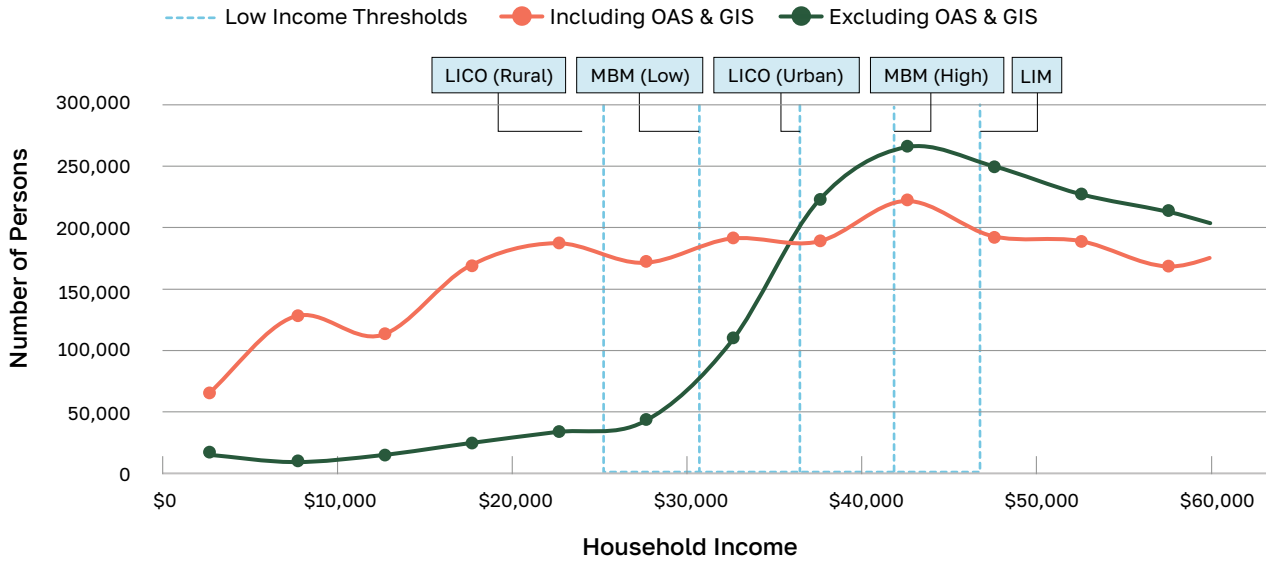
The GIS benefit dramatically reduced the number of single Canadians with poverty-level incomes by pushing low incomes closer to meeting or surpassing the various poverty lines. The percentage who are just above or just below the poverty line is highly dependent on where the line is set within the $20,000 to $30,000 range.

Couples in which both partners were receiving OAS with 2022 combined income (excluding OAS) under $26,000 would be eligible for GIS that pushes their combined income (including GIS and OAS) up to between $30,000 and $42,000. In comparison, the 2022 LIM for couples was $46,809, while the LICO (before tax) ranged from $29,000 to $37,000 based on community size.

Deep Income Poverty (DIP)

If a family does not have sufficient disposable income to afford more than 75% of its MBM, all members of the family[12] are considered to be living in deep income poverty. In 2022, the DIP rate for individuals aged 65 to 74 was 1.8%. Because of GIS, the incidence of DIP, as a percentage of all persons living below the MBM of poverty, is much lower for older adults in Canada than for children and working-age Canadians (Dionne & Raymond-Brousseau, 2025).

Figure 8: 2022 Distribution of Household Income, Non-Single Persons Over 65



[12] This discussion of the role of GIS in eliminating poverty does not address diversity in family living arrangements. The incidence of low incomes has always been much lower for couples than for singles. In 2022, 3.6% of couples and 14.4% of singles age 65 or over had incomes below Canada's official poverty line (the Market Basket Measure). This is in part because OAS/GIS provides a guaranteed basic income for a couple that is a higher multiple of the single benefit than the low income threshold. Specifically, the OAS/GIS benefit level for couples is 152% of the benefit level for singles, whereas the low-income threshold for couples is 144% of the benefit for singles (using MBM or LIM; 124% for LICO).

Some older Canadians live neither as single nor as couples. Some reside in "collective dwellings" such as nursing homes, in which case they are excluded from poverty statistics altogether. Others are part of multi-generational households or home-sharing arrangements, in which case the income measures used in poverty statistics might not reflect their actual circumstances.

Even when extended families do not share a common residence, they may feel a responsibility to support each other. Financial payments or other assistance to or from close family members are often mentioned as a burden or support in discussions of the financial affairs of older Canadians (NIA 2026).

Material Deprivation Index (MDI)

MDI is a common measure of poverty in Europe but relatively new in Canada. This measure defines material deprivation as the inability to afford specific goods and services widely considered to be essential (Aldridge, 2017). Since the questionnaires used to assess the level of material deprivation focus on outcomes, MDI is sensitive to all of the personal circumstances that affect poverty. It also has an element of personal subjectivity, since different individuals facing the same financial challenges may make different choices as to which expenses to forego. Using the 2023 MDI instrument developed by Food Banks Canada, the Maple Leaf Centre for Food Security, Maytree, Environics and research at the University of Ottawa (Notten et al., 2024), the 2025 NIA Ageing in Canada Survey found that 13% of Canadians at ages 65 to 79 were experiencing material deprivation (NIA 2025). As shown in the figure below, it also found a drastic difference in the incidence of material deprivation between survey respondents of different ages, with much lower incidence at ages 80+ and much higher incidence at ages 50 to 64 (prior to eligibility for GIS).

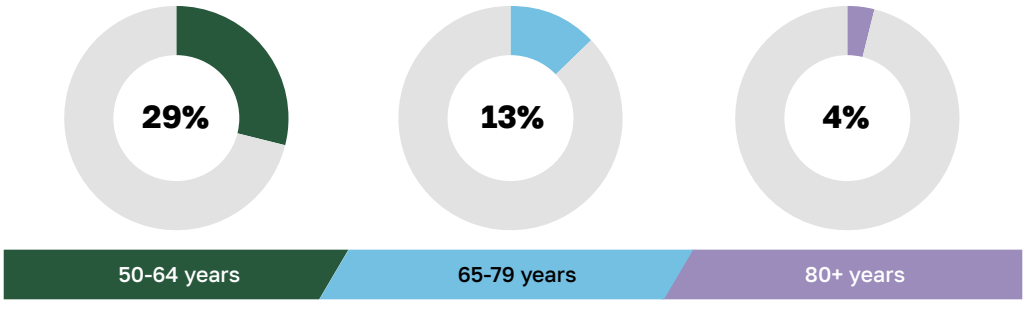
The differences between the 65-79 group and the 80+ group may be in part due to the NIA sampling frame, which excludes older adults living in institutional settings.

Cost of Ageing (COA) Calculator

In February 2026, the National Institute on Ageing launched the online Cost of Ageing Calculator. This tool is designed to help Canadians better understand and prepare for ageing-related costs that vary based on region, health status, living arrangements, homecare needs and living standards. Costs for a modest living arrangement (the lowest level in the calculator) range from $23,453 per year for a couple with no care needs who own their home in Halifax, to $75,390 per year[13] for a couple living in a Calgary retirement home with five hours per week of personal care. The Cost of Ageing Calculator captures variations in the cost of food, shelter and other expenses, and also variations in the level of provincial government support.

Figure 9: Material Deprivation Rates by Age, 2025

Percentage with two or more deprivation items



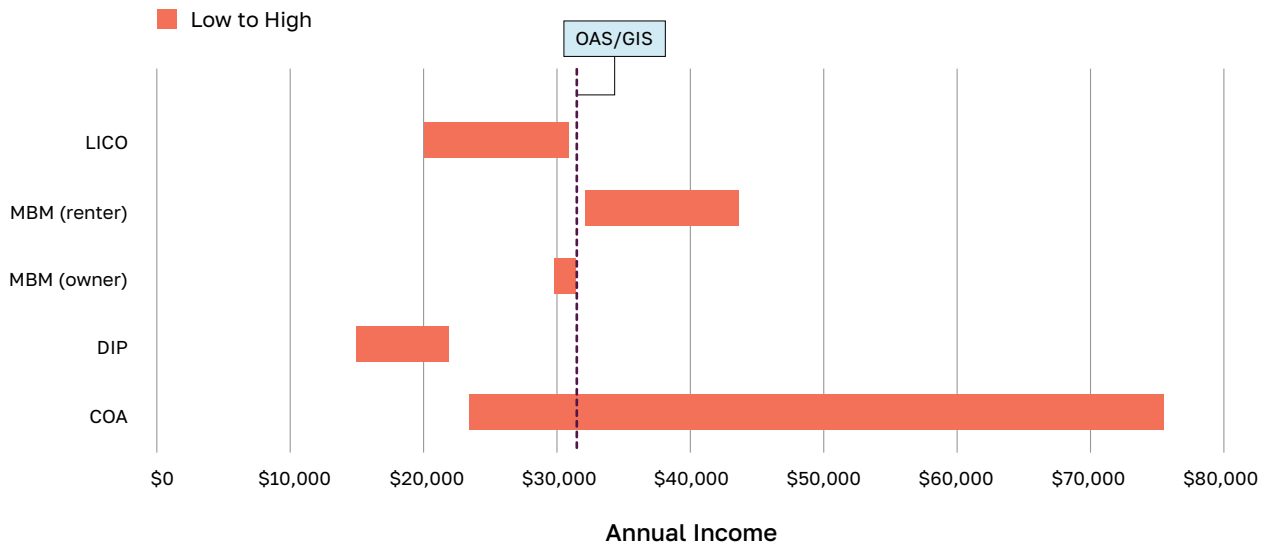
[13] Alberta has a unique funding model and private sector delivery model for assisted living. Accommodation costs are borne by residents. The Alberta Seniors Benefit provides up to $5,918 per year for senior couples with incomes under $56,820 (excluding OAS) and a supplement to seniors living in continuing care homes. Couples with one partner living in long-term care are eligible for a supplementary accommodation benefit of up to $10,494 per year. See https://www.alberta.ca/seniors-financial-assistance for details.

The Cost of Ageing Calculator was not intended specifically as a measure of poverty. Rather, it was intended as a planning tool for individuals and as a basis to evaluate our retirement income systems. However, it is based on research that did address this question and, after accounting for an individual's unique life circumstances, "found that the maximum Guaranteed Income Supplement and Old Age Security benefit did not meet the cost of basic needs for an elder living in poor circumstances." (MacDonald B.-J. et al., 2010). It offers a useful alternative measure of the cost of a basic standard of living, sensitive not only to geographical differences but also to differences in health needs and types of accommodation. The modest living standard is described as follows in the calculator:

> *Designed to meet essential daily living costs and support independence, this living standard reflects living arrangements and services attainable within constrained financial resources. It includes affordable and appropriate housing and care and is generally associated with lower-income households.*



Figure 10: OAS/GIS Income Compared to Various Poverty Measures, 2023 Data



Summary

Figure 10 illustrates how these various measures of the poverty line for a couple compares to the $31,523 guaranteed basic income provided by OAS/GIS in 2023. Ranges are provided for poverty measures that vary by geography, household composition and needs, but exclude adjustments for northern communities in Canada.

When poverty is defined using LICO, GIS is successful at eliminating poverty amongst older adults. When using the LIM, the combination of OAS/GIS leaves a higher proportion of those 65+ in a state of relative poverty, compared to younger demographics whose incomes are outpacing older adults. When poverty is defined using Canada's official poverty line (MBM), GIS is successful at eliminating poverty for older adults with substantial tax-exempt wealth in the form of home ownership but not for renters in expensive cities. GIS recipients might still have a poverty-level lifestyle in other circumstances, such as:

- residing in northern Canada (excluded from the ranges shown in Figure 10)
- being individuals who are receiving assistance with daily living (at home or in a retirement community) at their own expense

In addition to those situations where GIS is insufficient, there are Canadian residents 65 and older who live in poverty because they do not receive GIS, despite its intended universality (White & Gill, 2025). This can be because:

- they have not met the residency requirement for OAS
- they are sponsored immigrants
- they do not file tax returns
- they mistakenly indicated they were not eligible for GIS when they were enrolled in OAS
- they have not provided the government with banking information or other administrative data required for paying OAS and GIS

It would appear from this analysis that there are gaps in the effectiveness of GIS as an anti-poverty measure related to wealth (e.g., home tenure), regional differences in costs, and care needs in some circumstances.

The OAS/GIS System Today



OAS is a demogrant – a monthly cash payment to older adults over 65. GIS is simply guaranteed basic income – an unconditional safety net that ensures older adults residing in Canada can pay for essential needs. But details matter:

- not all recipients are entitled to the same OAS pension
- OAS and GIS impact a web of taxes and other social programs
- individuals make choices about when to claim their benefits and arrange their affairs so that they get the most value from all government programs in aggregate over their entire lifetime

Once this context is recognized, the spendable value of OAS and GIS is different from the gross benefit rates.

The OAS Pension

For the fourth quarter of 2026, the base OAS pension is $762 per month. As explained below, individuals who had less than 40 years of Canadian residency between age 18 and the age they began receiving their benefit, receive partial benefits. No benefits at all are payable to emigrants unless they met Canadian residency requirements before they left Canada. The breakdown of OAS recipients is shown in Table 4 (based on Seniors and Pension Policy Secretariat, 2025).

Table 4: Number of OAS Recipients in 2024

	Partial	Full
Residents	885,000	6,313,000
Emigrants	138,000	18,000

Individuals who started their OAS pension later than age 65 receive an extra 0.6% for each month of delay (to a maximum of 36% with delay to age 70 or later). The OAS pension is increased by 10% at age 75. It is included in taxable income and is also subject to a Pension Recovery Tax. In July 2026, OAS monthly payments will be reduced for recipients whose 2025 income exceeded $93,454.

The Pension Recovery Tax (widely known as the OAS clawback) is loosely described as a reduction in the OAS pension by 15% of income in excess of this minimum threshold, with full elimination of the monthly OAS pension when income exceeds a maximum threshold of $152,062. This high-level description of the Pension Recovery Tax obscures pertinent details:

- These reductions in monthly payments are merely withholding taxes. They do not alter the OAS pension entitlement. The 15% withholding rate is much less than the full rate of income tax that will ultimately be payable by an OAS recipient with net income in excess of the threshold. The final Pension Recovery Tax calculation is applied in the annual tax return.[14]

[14] In addition to the estimated Pension Recovery Tax withheld from monthly OAS pension payments, older Canadian taxpayers with substantial retirement income from other sources will be required to pay quarterly income tax installments, since their taxes based on the aggregate of all sources are typically at a higher rate than the withholding taxes computed as if each individual source were their only income. When they file their annual tax return, they receive a refund or pay an additional net amount equal to the net difference between income tax, Pension Recovery Tax, and other amounts payable to the government and the amounts previously withheld or paid in installments.

- OAS is taxable income. The Pension Recovery Tax is a provision found in section 180.2 of the Income Tax Act and not a reduction in the OAS pension. The income tax payable under this provision is levied on "adjusted net income" (including the full OAS pension). The resulting Pension Recovery Tax is then deducted to arrive at "net income" for other income tax purposes. As a consequence, only the difference between the OAS pension and Pension Recovery Tax is included in net income and the effective clawback (the loss of spendable income due to each extra dollar of income from other sources within the clawback range) is reduced by federal and provincial marginal tax rates. Since the combined federal and provincial marginal tax rate at the relevant income levels is typically around 33%, the marginal effective tax rate attributable to the clawback is closer to 10% than 15%.
- The thresholds and income used for July 2026 to June 2027 withholding taxes are from the 2025 tax year. The Pension Recovery Tax applies to 2026 income in excess of $95,323.
- The maximum tax is the full amount of an individual's OAS pension:
  - The maximum threshold of $152,062 for 2025 is applicable to Canadians who are under age 75 and met the 40-year residency requirement when they claimed their OAS pension at age 65.
  - A 2026 maximum income recovery threshold of $157,923 is also noted on the Government of Canada website[15] for Canadians who are 75 and older, but this figure is only applicable beginning in the first full calendar year after attaining age 75 and only to Canadians who met the 40-year residency requirement and claimed at age 65.
  - The upper bound on income subject to the Pension Recovery Tax for Canadians in other circumstances is $95,323 plus the individual's actual OAS pension divided by 15%. This can be substantially more than $157,923 for individuals who start their OAS pension after 65 and substantially less for individuals with less than 40 years of residency.

The Guaranteed Income Supplement

GIS, including the Allowance for spouses of GIS recipients, is aimed specifically at alleviating poverty for OAS pensioners with modest retirement income. The Allowance is payable to spouses and surviving spouses of GIS recipients who are over age 60 and not eligible for an OAS pension of their own.

GIS is not subject to income tax. Rather, it is reduced based on family income. The reduction is 50% of family income (25% each for a couple). In addition, there is a 25% reduction to phase out a supplement introduced in 2011 and expanded (for single GIS recipients) in 2016. The phase-out of the supplement begins when income exceeds $2,000 per month ($4,000 of combined income for couples) and ends when the top-up benefit is reduced to zero (approximately $10,300 for single GIS recipients and $8,800 for couples).

As shown in Table 5 (based on Seniors and Pension Policy Secretariat, 2025), the vast majority (93%) of GIS beneficiaries receive partial benefits. In total, more than a third of the 7 million Canadians receiving OAS pensions also receive GIS.

[15] How much you could receive https://www.canada.ca/en/services/benefits/publicpensions/old-age-security/recovery-tax.html. However, the Canadian Retirement Income Calculator does show larger OAS pension and recovery tax amounts with income in excess of this upper bound https://www.canada.ca/en/services/benefits/publicpensions/cpp/retirement-income-calculator.html.

Table 5: Number of GIS Beneficiaries in 2024

	Partial	Full
Single	1,353,000	118,000
Married	996,000	49,000
Allowance	64,000	4,000

The definition of family income used to determine GIS benefits is not the same as "net income" or "taxable income" as determined for income tax purposes. The most important differences are:

- the exclusion of the OAS pension
- the exclusion of the first $5,000 of employment income
- the exclusion of 50% of the next $10,000 of employment income

The size of the GIS and Allowance and the high clawback rates target these benefits to older adults presumed to be in poverty (considering their income but not their other financial resources or circumstances, as discussed earlier in this report).

The GIS benefit is redetermined every year in July, once prior years' income tax returns have been filed. Unlike the OAS Pension, the July adjustment is not merely a change in withholding tax. GIS for July to December depends on income in the prior year, while GIS in January to June depends on income in the second prior year. Individuals can apply for an off-cycle increase in GIS if they have experienced a drop in employment income or pension income.

For the fourth quarter of 2026, the maximum monthly combined total of GIS and the base OAS pension is $1,901 for a single person and $1,448 (each) for a couple. The maximum monthly Allowance is $1,448 for a spouse and $1,726 for a survivor. After deducting the base OAS pension of $762, the GIS benefit for a single person would be $1,139 minus reductions based on 2025 income. This leads to the complete elimination of GIS for single beneficiaries with annual income greater than $22,800 and for couples with combined annual income greater than $30,096. The point where GIS reaches zero is higher for couples when only one person is receiving an OAS pension, for Allowance recipients and for immigrants.[16] The 10% incremental OAS pension paid after age 75 and the 0.6% per month adjustment for OAS pensions commencing after age 65 do not affect GIS. In these situations, the total of the OAS pension and the GIS supplement for a single person will exceed $1,978 before reductions based on income but the income ceiling will remain $22,800.

Eligibility for Migrants

Eligibility for OAS benefits is based on Canadian residency, not citizenship or work history. Specifically, OAS benefits depend on years of residency in Canada between age 18 and the age when benefits are claimed:

- The OAS pension is pro-rated based on years and months of Canadian residency for applicants with less than 40 years of residency.
- The pro-rated OAS pension is payable to immigrants from countries that have a social security agreement with Canada[17] after one year of residency and to immigrants from other countries after ten years of residency.
- Immigrants can delay claiming past age 65 to

[16] See https://www.canada.ca/en/services/benefits/publicpensions/old-age-security/payments.html for up-to-date values for some of these income limits.

[17] Canada has international social security agreements with dozens of other countries with pension programs comparable to OAS. While details vary, the intent is to deliver coordinated benefits, based on residency in both countries.

increase their years of residency, but they will receive the better of the 0.6% per month age adjustment and the credit for an extra month of residency (not both).

- An OAS pension will only be paid to emigrants if they have accumulated at least 20 years of residency in Canada or countries that have a social security agreement with Canada between age 18 and the date they began to receive OAS.
- The Pension Recovery Tax and regular withholding taxes (of up to 25%) may or may not apply to emigrants depending on the applicable tax treaties and social security agreements and whether they elect to file Canadian tax returns (Canada Revenue Agency, 2025).

Eligibility for GIS benefits is also based on years and months of Canadian residency but the rules are somewhat different:

- GIS will only be paid to OAS pensioners who reside in Canada.
- Sponsored immigrants are not eligible for GIS benefits until after their sponsorship agreement has expired (up to 20 years after arriving in Canada) or broken down.
- Non-sponsored immigrants from countries with social security agreements grow into full GIS benefits over their first ten years of residency in Canada.
- Non-sponsored immigrants from countries without social security agreements become eligible for full GIS after ten years of residency in Canada.

GIS eligibility is not quite universal but, in total, fewer than 20,000 low income residents are disqualified from GIS due to residency requirements (White & Gill, 2025).

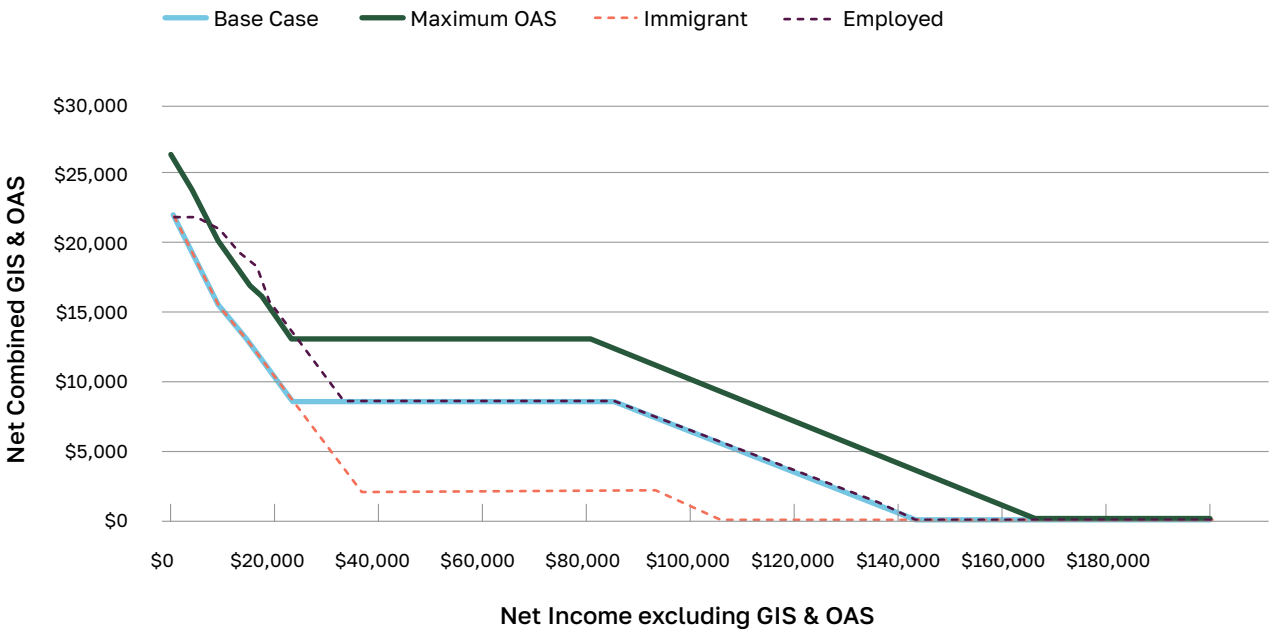
GIS wraps around the reduced OAS pension for immigrants so that the combined total of $1,901 (before reductions based on income) is the same as for non-immigrants. Thus, immigrants may receive partial GIS with annual income substantially higher than $22,800. In the extreme, a non-sponsored immigrant from a country with a social security agreement with Canada can receive partial GIS benefits in combination with an OAS pension as small as 1/40 of the base amount and with other income nearly double the $22,800 ceiling applicable in the base case.

Illustration of Variations in OAS/GIS Annual Amounts

Figure 11 illustrates how income affects the combination of an OAS pension and GIS in four different situations:

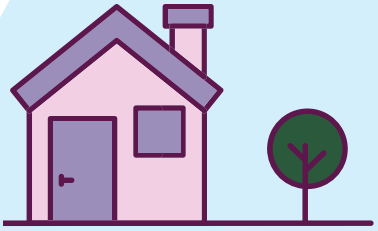
- The **Base Case** line illustrates the benefit payable from age 65 to 74 for a single beneficiary who claimed their OAS pension at age 65 with 40 years of residency in Canada.
- The **Maximum OAS** line illustrates the benefit payable after age 75 for a beneficiary who claimed OAS at age 70 after 45 years of residency in Canada.
- The **Immigrant** line illustrates the benefit payable at ages 65 to 74 to a single immigrant who claimed OAS at age 65 with ten years of residency in Canada.
- The **Employed** line illustrates the benefit payable in the Base Case when at least the first $15,000 of income is from employment.

Figure 11: Illustration of Variations in 2025 OAS/GIS Annual Amounts



While the Base Case is relatively common, the other cases are atypical and intended to illustrate the range of possible outcomes.

The Household Perspective



Because there are so many interconnected pieces in Canada's system of taxes and income-tested benefits, OAS/GIS can be more complicated at the kitchen table than at the cabinet table (Jessome, 2025). Getting the most from the system as a whole requires knowledge and foresight. Understanding the individual-level decisions that Canadians can make regarding the OAS/GIS is an important element to the policy discussion surrounding OAS/GIS. This section aims to move beyond OAS/GIS design on paper, to understand how individuals and households may engage with their benefits in the real world.

Looking at the OAS pension in isolation, the primary choice is when to claim benefits, based on the adjustments for age and years of residence. But this choice, alongside other financial and life choices will determine income taxes and eligibility for a variety of government benefits. Making the right combination of choices can materially increase the spendable income an individual or couple can expect over a lifetime.

Some government benefit programs count OAS/GIS as part of income. As a result, the benefits one can receive from those programs are reduced. In effect, this acts as a tax on OAS/GIS. However, the extent of government benefit reductions depends on the way individuals and households manage their financial affairs.

Aside from strategies for maximizing spendable lifetime income, delaying OAS from age 65 to age 70 (by drawing down savings or refraining from new savings) has the effect of transferring retirement financial resources from spending buckets to the lifetime income foundation in the NIA's Retirement Income Framework. As discussed earlier, this choice has intangible benefits in the form of reduced risk and simplified financial management. In fact, the beneficial effects of delaying OAS may outweigh the importance of maximizing expected lifetime spendable income. It could be argued that the complexity of Canada's system of taxes and income tests has distracted older adults who can afford to delay from a key opportunity to improve their financial security in retirement.

While this section looks at OAS/GIS from the perspective of an individual or household at their kitchen table, it is relevant to policy makers who are concerned with the design of OAS/GIS and the retirement income system as a whole. Understanding the costs and benefits of a proposed change requires consideration of the interconnected pieces and the choices Canadians are making to optimize outcomes.

Choices

Older adults have a variety of choices:

- deciding when to start receiving their OAS pension, C/QPP and workplace pensions
- choosing lump sum settlements from defined benefit pension plans or using capital accumulation plans (like RRSPs) to purchase annuities
- adjusting the draw on their tax-deferred retirement savings (RRIF) year by year
- transferring funds in and out of a Tax-Free Savings Account (TFSA) to meet fluctuating spending needs independently of their taxable income
- continuing to work past age 65 and receive compensation in the form of employment earnings, self-employment income, business income or casual unearned income (honorariums and gratuities)

- choosing when and how to access their home equity

The option to delay the OAS pension to age 70 was introduced to improve flexibility. It accommodates older adults who continue to work past age 65 or who would prefer to use some of their retirement savings to create additional guaranteed lifetime income. Along with deciding when to claim a C/QPP retirement pension, it is one of the most important retirement financial decisions Canadians will make. Delaying represents an opportunity to increase secure, lifetime income at a relatively attractive price. The advantages of this opportunity are discussed in depth in **7 Steps Towards Better CPP/QPP Claiming Decisions** (MacDonald B.-J., 2024).[18] The advantages of delaying OAS are discussed in a Globe & Mail article (MacDonald & Chandler, 2022). As with C/QPP and in spite of the advantages, claiming at the earliest opportunity is common.[19] About 80% of Canadians are expected to begin receiving their OAS pension at the default age of 65 (Billig, 2023).

Rather than making choices that reflect their actual spending and income security needs in the context of the NIA Retirement Income Framework, individuals may be tempted to make choices based on tax optimization, with unintended consequences for both themselves and governments:

- Those who have minimal retirement savings and anticipate receiving GIS will be discouraged from using tax-deferred savings in preparation for retirement, since their withdrawals will reduce GIS payments. This ultimately reduces their spendable income.
- Once GIS is payable, returning to the workforce can be ineffective in increasing spendable income, given the narrow and modest exemptions for employment earnings in the income-testing of the GIS.
- Choosing between tax-deferred retirement saving and a TFSA or non-registered investment account usually comes down to a comparison of taxes on contribution to taxes on withdrawals. But there is a conundrum: favourable or unfavourable investment returns can push an individual's effective marginal tax rate on RRIF withdrawals to a higher or lower level than the rate that was applicable to their RRSP contributions.
- Interactions between social benefits lead to unexpected and unintended consequences. For example, the Canada Emergency Response Benefit (CERB) implemented in 2020 to assist workers who lost income due to COVID-19 caused GIS recipients with modest income to lose their benefits beginning in July 2021.[20] In that instance, the government intervened with a legislative change to prevent the unintended consequence.
- The most tax-effective age for higher-income Canadians to claim OAS cannot always be predicted in advance.

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[18] The age adjustment factors applied to delayed OAS pensions are not as generous as the CPP factors: 0.6% rather than 0.7% for each month of deferral. This means that an OAS pension commencing at age 70 (60 months of deferral) is 36% more than the age 65 amount, whereas a CPP pension commencing at age 70 is 42% more than the age 65 amount. While the principle of actuarial neutrality behind these factors might be the same, expected returns on invested CPP assets, interaction of OAS adjustments with pro-rating of benefits for immigrants, and other considerations have led to different adjustment factors.

[19] Individuals claim OAS at a different age than they claim CPP for a variety of reasons:
- Automatic OAS enrolment occurs at 65.
- GIS eligibility is dependent on receipt of an OAS pension.
- Opportunities for optimization of after-tax benefits change once OAS starts.

[20] CERB was paid between March and October of 2020 to Canadians who lost income due to COVID-19. It was taxable income and not eligible for the employment income exemption in the GIS formula. Consequently, individuals with modest employment income suffered a reduction in GIS when their benefits were redetermined in July 2021 based on their 2020 tax return.

Effective Taxes

Income-tested benefits allow legislators to control program costs by targeting the subgroup of the population perceived as needing support:

- Programs like the Canada Groceries and Essentials Benefit (formerly the GST credit) and the Canada Dental Care Plan support low-income Canadians but are phased out once income thresholds are reached.
- Older adults with enough income to pay income tax get non-refundable tax credits such as the age amount, Medical Expense Tax Credit, Disability Tax Credit, and Canada Caregiver Credit. However, these credits are similarly reduced or eliminated at higher income levels.
- Provinces, municipalities, and even utility companies sponsor dozens of targeted anti-poverty measures. A study of the feasibility of guaranteed income in British Columbia identified 192 distinct income and social support programs (Petit & Tedds, 2020). Of course, many of these are boutique programs reserved for specific demographic groups or situations.

Income tests on these benefits and credits add layers of marginal income taxes on top of basic federal income taxes. They vary by province and, in some cases, by factors such as home ownership status, prescription drug costs, and region.

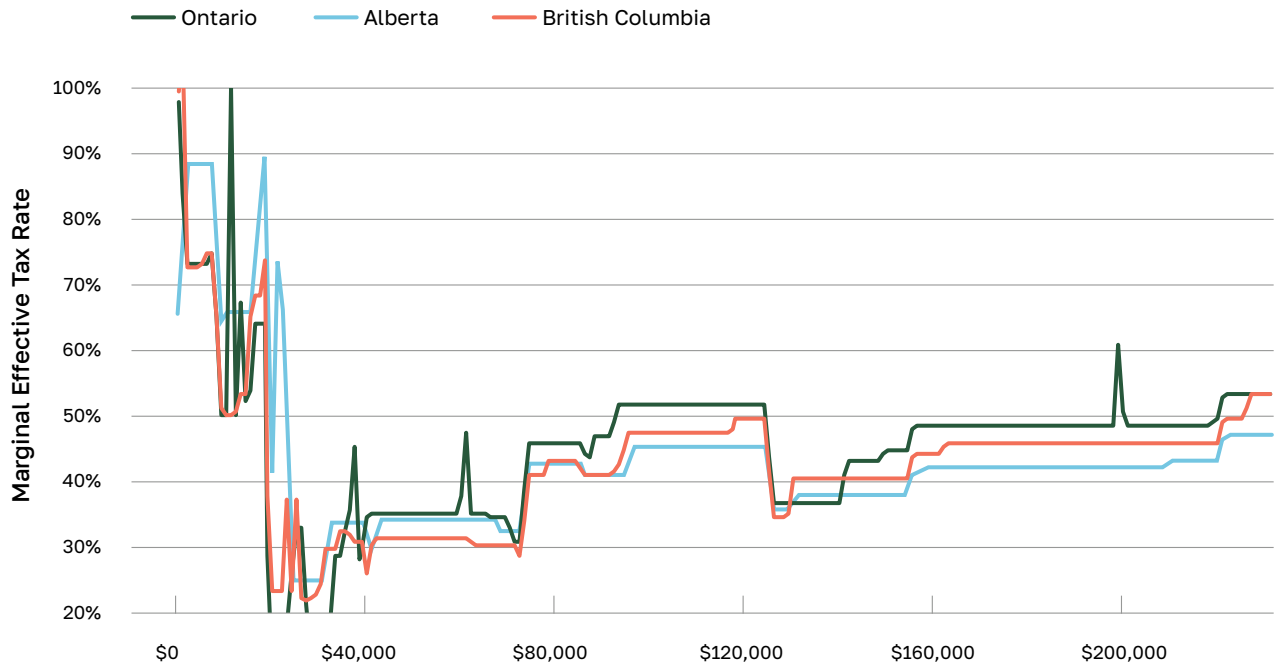
Because so many income-tested benefits target older adults, the combined marginal effective tax rates that apply to OAS recipients are generally higher than those applied to working-age Canadians. Moreover, the proportion of older adults facing very high marginal effective tax rates has increased dramatically since 2010 (Laurin & Dahir, 2025)

On the other hand, the ability to split tax-deferred retirement income with a spouse and to manage the timing of income recognition can have significant advantages. Figure 12, based on a 2022 investigation of retirement drawdown choices sponsored by the FP Canada Research Foundation (Chandler, 2022), shows marginal effective tax rates in 2022 for residents of three different provinces who are over age 65 and eligible for full OAS/GIS benefits.

Illustration

Howard has $80,000 in CPP and minimum RRIF income in 2026. In addition, he receives an OAS benefit of $9,000 per year. He is buying a new car, but he would have to draw an extra $20,000 from his RRIF to pay cash and avoid getting a car loan. The withholding tax on this extra RRIF withdrawal would be $4,000 but when he files his income taxes, the Pension Recovery Tax and increase in federal and Ontario income taxes payable would add up to $7,700. Barring any other changes in his tax situation, he will be able to avoid $1,500 in taxes by taking the car loan and spreading the excess withdrawal over two or three years.

Figure 12: 2022 Marginal Effective Tax Rates



While basic income tax rates (a major component of the marginal effective tax rates shown) and average effective tax rates (the total of taxes and benefit clawbacks as a percentage of income) are progressive (with higher rates applying to higher income), the marginal effective tax rates (after factoring in the effects of income-tested social benefits) are not consistent. Rates on low-income Canadians are excessive – sometimes over 100%. Much of the blame for the erratic pattern falls to the design of the OAS/GIS system. This erratic pattern can distort decisions and outcomes around OAS claiming age, RRIF drawdown strategies, and employment.

An additional complexity arises from variations in the definition of earnings. For example, GIS recipients with the opportunity to earn small amounts of money through casual work will find that the way they are paid can be important, and the following must be considered:

- Although earned income will be included in the definition of earnings for the purpose of calculating income tax, regardless of how it is paid, most GIS recipients do not pay any income tax because of the personal amount and age amount tax credits.
- The phase-out of GIS benefits uses a different definition of earnings from the definition of taxable income for income tax purposes. The first $5,000 and half of the next $10,000 of "employment income" is excluded. However, the definition of employment income for this purpose does not include honoraria. There are other unique features of the definition of earnings for the purpose of determining GIS benefits. For example, workers' compensation pensions are included and OAS pensions are excluded.
- The Canada Workers Benefit provides 27% of "working income" in excess of $3,000, up to a maximum benefit of $1,633 when working income reaches $9,048.[21] The definition of

[21] Full details of the Canada Worker Benefit calculation are specified in Schedule 6 of the federal tax return. https://www.canada.ca/content/dam/cra-arc/formspubs/pbg/5000-s6/5000-s6-25e.pdf

working income for this purpose includes honoraria and other forms of casual earnings. This is, effectively, a negative tax since every dollar of working income in this band attracts a benefit of $0.27.

- Income from employment is subject to Employment Insurance (EI) contributions, even though casual older workers may have difficulty claiming EI benefits. EI is optional for self-employment earnings.
- C/QPP contributory earnings include most types of working income, except that contributory earnings and contributions are nil if total working income is under $3,500. Contributions on gratuities are optional and it is possible to opt out of contributions after age 65 if a C/QPP retirement pension has already started. Contributions on modest earnings prior to starting a retirement pension can have a negligible effect on the retirement pension (because of drop-out provisions) and contributions on modest earnings can sometimes have a leveraged effect on post-retirement benefits from CPP (but not QPP because of different treatment of the $3,500 Minimum Basic Exemption).

In aggregate, the marginal effective federal tax rate on casual work will be somewhere between negative 27% and positive 75% on different bands of income of different types in the range of $3,000 to $10,000. Provincial supplements to GIS (such as GAINS in Ontario) may use the same definition of income as GIS or a different definition and may push the combined marginal tax rate over 100%.

While it might be tempting to think that complications like this are isolated to specific income groups, they have the potential to impact almost all Canadians. It is a question of if/when people are dealing with them at the margin as their income changes over the course of their retirement. Individuals and couples might begin retirement with moderate savings and income, but if their savings run out, they will face low income and high marginal effective tax rates late in life. On the other hand, if they are prudent in limiting their spending to their pension, interest and dividend income, then their investment balance can grow to the point where they face the high effective marginal tax rates associated with the Pension Recovery Tax or top income tax brackets.

The opportunities and pitfalls for maximizing spendable income in retirement through tax deferral are even more challenging for couples. While income splitting means couples pay less tax than they would if all or most of the income is in one person's name, it also means the death of a spouse leads to higher taxes and less spendable income (even before taking account of the reduction in C/QPP benefits and, typically, a reduction in workplace pension benefits).

Illustration: The Price of Widowhood

Bill has a $2 million RRIF and draws $150,000/yr from it (the minimum at age 82). He and his wife Elaine have both been receiving CPP and OAS pensions since age 65 (a total of $40,000/yr). Before income splitting, Bill's federal and Ontario income tax and Pension Recovery Tax would be $50,000 at 2026 rates. But, because Bill splits his RRIF income with Elaine for tax purposes, he pays no Pension Recovery Tax and their combined income tax is only $32,000 per year. This leaves them with $158,000 of spendable income.

After one of them dies, the reduction in CPP and OAS pensions and the increase in taxes that results from being unable to income split will leave the survivor with $122,000 in spendable income.

Responses by Individuals

As noted above, erratic marginal effective tax rates have created incentives and disincentives for different approaches to work, saving and claiming OAS. Some were fully intended by the legislators in their design of OAS while others are accidental. The following describes some of the conundrums and opportunities faced by older adults. It reflects how OAS is used, in contrast to how it was designed.

Limited Financial Resources

Canadians with limited financial resources are usually advised to claim their OAS pension at age 65, to access GIS (Stapleton, 2025). Further, they are advised to claim their C/QPP retirement pension at age 60 (to reduce the benefit amount and increase the GIS that will be payable after age 65). The rationale for this advice is sound when applied to individuals who will have a very low income throughout retirement, even though it does lead to a smaller spendable monthly income than could be achieved by delaying C/QPP and OAS to age 70. Canada has no guaranteed basic income at ages 18 through 64 and so it is possible these individuals will have more spendable income from government sources after age 70 or 75 than they have from all sources at ages 60 to 64. If so, extra income from C/QPP at age 60 and from OAS at 65 will make a meaningful difference to their quality of life, nutrition and health, and even allow for a modest TFSA – a spending bucket in the context of the NIA Retirement Income Framework – that will serve them well throughout their retirement.

However, this strategy is not universally beneficial. Pressure for early claiming of OAS and C/QPP may come from disability case managers or provincial governments, who will directly reduce disability insurance benefits or social assistance by the amount of monthly C/QPP retirement benefits. Pressure to claim OAS and GIS may also come from lenders, relatives, or others with motivation to take advantage of individuals with limited financial resources. In these situations, extra short-term income will not be beneficial. For individuals with higher income who receive modest GIS benefits, the financial argument for claiming at 65 is not as strong (see illustration).

Illustration: Delaying OAS/GIS

Margaret is 65 with no retirement savings and still working, earning $27,000 a year. In addition, she has been receiving $3,000 a year from CPP since she turned 60. After taxes, CPP contributions, EI premiums and the Canada Workers Benefit, she has annual spendable income of $27,000. She could apply for OAS and GIS and, after the employment income exclusion, the government benefits estimator shows she could receive $9,000 per year from OAS plus $1,700 per year from GIS. After taxes, that would give her an extra $9,000 that she could put in a TFSA or RRSP for retirement. Using an RRSP would increase her GIS benefit now but reduce her GIS when she starts to draw her RRSP down.

When she stops working, her GIS will increase to $12,000 per year, so she'll have annual spendable income of $24,000. When she turns 75, her OAS will increase by 10%, giving her $25,000 per year (plus inflation) to live on.

If she waits until 70 to claim OAS, she will receive annual OAS, GIS and CPP totalling $27,000, after a small Ontario tax, with an increase to $28,000 at age 75. Whether she can do better by claiming now and saving depends on how her investments perform and how long she lives.

Modest Taxable Retirement Income

For workers with sufficient income to meet their current needs but insufficient income to save for retirement, the choice to claim government benefits at the earliest opportunity is not quite so clear. It depends on what they intend to do with the money:

- If they intend to make tax-exempt investments in home equity or a TFSA, then the most important considerations may be intangible – how much will they benefit from the security of owning their home or having a small nest-egg they can draw on in emergencies? How does that compare to secure, inflation-protected lifetime income?
- If they intend to use their C/QPP retirement pension and OAS pension to build up or preserve modest savings in an RRSP or a similar tax-deferred retirement savings plan, then they will be shifting retirement finances from their income foundation to their spending buckets. Aside from the intangible factors, they are making an investment decision with important tax consequences. The high marginal effective tax rates that will apply after they begin to draw down their tax-deferred savings can produce a lower after-tax rate of return than the rate of return on investing in delayed government benefits.
- If they intend to pay down high-interest consumer debt, then investing in delayed government benefits is likely not an attractive option.
- If projected retirement income is low enough to lead to a partial GIS when C/QPP and OAS are claimed early but not low enough for any supplement if C/QPP and OAS are delayed, then the decision may rest on how confident they are that they will be able and willing to continue to work until age 70 and build their private retirement income.
- A small segment of low-income Canadians suffers from health conditions that are associated with a severely shortened life expectancy. In these instances, there is little justification for foregoing the improved spendable income they could attain through early claiming of C/QPP and OAS.
- Some individuals suffer from degenerative health conditions that will eventually require extensive personal care services. If access to government-financed care once their health deteriorates is subject to a means test or income test, then this will influence their financial plans.
- A choice between claiming government pensions and drawing down a TFSA balance during the first few years of retirement will depend in part on a comparison of the marginal effective tax rates across the retirement years.

In the extreme, it is possible to imagine individuals with significant pre-retirement income and wealth in the form of real estate. A principal residence will not give rise to any income tax, while a cottage will not give rise to any income tax until it is sold or the owner dies. In addition, once the TFSA system is mature, a lifetime of contributions could produce a balance of a million dollars.[22] With no other retirement savings, C/QPP and OAS pensions will be the only taxable source of retirement income. Other spendable income will come from TFSA withdrawals and GIS.

This strategy of building retirement wealth while preserving GIS entitlements is a consequence of reliance on income alone to target benefits, without factoring in wealth or any other indicators of economic well-being. There is evidence that this strategy is already taking hold. Research (Boisclair et al., 2025) found that "20% of the taxpayers that have a positive balance in their TFSA and receive a full GIS pension have over $75,000 in their account"

[22] Contributions of $7,500 per year, an average 4% rate of return (after taxes, fees and inflation) for 47 years from age 18 to age 65

(as compared to a maximum cumulative contribution room of $81,500 at the end of 2022). Among taxpayers who turned 70 in 2022, more than 30% of those receiving full GIS and more than 40% of those receiving partial GIS had a TFSA.

Note that an OAS pension is not included in net income for the purpose of determining the phase-out of GIS and so claiming later than age 65 increases the combined OAS/GIS benefit.

Individual circumstances can lead to other strategies. Prior to age 71, individuals can make RRSP contributions and claim deductions from net income (even if no longer employed, as long as they have unused contribution room). If an OAS pension is claimed at 65, this can give rise to GIS benefits from age 65 to 71, even though those supplements will disappear at age 72 after the RRSP balance has been converted to a RRIF and C/QPP retirement benefits start. The ability to manage the timing of RRSP contributions, RRIF withdrawals, and C/QPP claiming age provides a number of strategies for older adults with modest taxable retirement income to access GIS in some years but not others.

Immigrants

GIS wraps around the pro-rated OAS pension for immigrants with less than 40 years of Canadian residency. Therefore, immigrants with low income and at least 10 years of Canadian residency are generally well-advised to claim OAS benefits as soon as possible and not wait to increase their years of residency.

Immigrants with higher income will not be eligible for GIS and so waiting to claim their OAS pension will increase the lifetime benefit. If they arrived in Canada after age 50, the increase due to additional years of residency will be higher than the 0.6% per month increase based on age, up to age 70. Waiting beyond age 70 to increase years of residency is permitted.

For immigrants with modest income that will vary over the course of their retirement, assessing the effects of alternative OAS claiming ages on GIS will be even more challenging than those born in Canada.

Emigrants

Emigrants are not eligible for GIS. If they live in a country with a social security agreement with Canada, their years of Canadian residency will be included in determining eligibility for benefits in that country.

As noted above, OAS pensions are payable to non-residents with 20 years of past Canadian residency after age 18. The Pension Recovery Tax does not apply if it is precluded by the applicable social security agreement. For high-income emigrants, OAS might actually be larger after leaving Canada.

While GIS and OAS are not the most important factors in deciding where to live, they are certainly part of the calculation.

High Income

The Pension Recovery Tax contributes to a marginal effective tax rate for older adults that exceeds the marginal tax rate applicable to higher income brackets. For example, in 2026 the combined effect of federal and provincial income taxes and the Pension Recovery Tax means an Ontario taxpayer who is receiving OAS will only keep about 47% of their income in the range from $117,000 to $150,000 but will keep 55% of their income in the range from $150,000 to $181,000. There are at least three strategies for shifting income from one tax bracket to another in order to maximize lifetime spendable income (Yih, 2024):

1. Just as for GIS, high-income individuals who have no hope of being able to keep any of their OAS pension once their private pension and RRIF payments start might choose to delay RRIF payments and claim their OAS pension at 65. That way they can receive the

full monthly amount until age 72 (Schirle, 2024).

2. Individuals with income from private pensions and other sources (excluding OAS) that will result in a partial clawback throughout their retirement will find delay of OAS claiming age very attractive. For illustration, assume an individual with 40 years of Canadian residency has C/QPP and guaranteed private pension income of $143,000 per year (excluding OAS), fully indexed to inflation. If they claim their OAS pension at 65, the clawback offsets almost their entire pension. When they reach age 75, the 10% increase in pre-tax OAS leads to an OAS pension (net of clawback) of about $800 per year. On the other hand, if they claim at age 70, they will be entitled to a net OAS pension of $2,700 per year, increasing to $3,700 at age 75. Their net income would have to rise to $180,000 per year before they reach the maximum clawback amount.

3. Couples can share registered pension plan income and RRIF income for income tax purposes. The extent and direction of sharing is determined when they file their income tax returns, after the year is over and all of the facts are known. For example, two people who both have $150,000 of pension income can split this with $75,000 taxed in the first person's tax return and $225,000 in the second person's return or with the opposite split or anywhere in between. Tax software packages include a feature that optimizes this choice. If both are eligible for the base amount of OAS pension, they might find the optimal split is $95,323 (the bottom of the clawback range) for one person and $204,677 for the other person (still below the top federal tax bracket).

These implications of the design of the OAS/GIS system, in conjunction with Canada's entire tax and social benefit structure, have the potential to change the choices Canadians make between secure lifetime income and extra cash in the short term. However, individuals often make choices based on psychological biases rather than what they say are their retirement financial security concerns (MacDonald B.-J., 2024) or what a financial advisor would say is the optimal way to maximize after-tax net worth. In our byzantine system of interconnected taxes and social benefits and unpredictable marginal effective tax rates, individual decisions do not categorically increase the cost to the government or improve the financial outcomes for the individuals themselves.

In any event, complexity distracts from the government's intended purposes of poverty reduction and income security. Any government decisions regarding the OAS/GIS design must be grounded in a thorough understanding of how individuals and households interact with these benefits, taking into account the broader retirement income and taxation systems.

OAS Timeline – How did We Get Here?

The first half century

1926-27

The first resolution proposing old age pensions was introduced to the Canadian Parliament in the 1906/07 session. It was inspired by parallel efforts that led to an old age pension in Great Britain in 1910 but was not adopted. The 1908 Government Annuities Act, allowing individuals or employers to purchase annuities from the government was adopted instead. Some hoped this would evolve into a broad social insurance scheme. Old age pensions were a plank in the Liberal Party's 1919 campaign platform, but it was not until 1924 that a special parliamentary committee developed recommendations for old age pensions. By then, women had the vote, the influenza pandemic had ended, and revenue was available from income tax and excise taxes on alcohol (after the repeal of prohibition).

The proposed legislation provided reimbursements to provinces for 50% of means-tested pension payments to British subjects 70 and over who had resided in Canada for at least 20 years and in their province for at least five years. The benefit rate was $20 per month. The first $125 per year of income did not attract any reduction in payments – providing a combined total of $365 per year, or a "dollar a day" (Williams, 1984).

Old age pensions were a key element in maintaining the support of the Progressive Party in the minority Liberal parliament after the 1925 election. The old age pension legislation was passed unanimously by the House of Commons in 1926 but defeated in the Senate. Old age pensions were widely discussed in the ensuing 1926 general election. After the election, the ruling Liberal Party was still dependent on the support of the Progressive Party and two spin-off parties (Liberal-Progressive and United Farmers of Alberta). The proposal for old age pensions was reintroduced and passed into law as the *Old Age Pensions Act (1927)*.

Not all provinces immediately adopted old age pensions. Some did so but included a means test in addition to the income test imposed by the federal legislation. Claimants were required

Different Way to Target Social Benefits to Those in Need

To make efficient use of public funds, governments have found different ways of determining eligibility.

An **income test** uses the income of the individual or the nuclear family to determine eligibility. This is how GIS works.

A **wealth test** uses the value of some or all of the assets of the household to determine eligibility. For example, the BC Home Owner Grant is restricted based on the value of the home.

A **means test** considers all of the economic resources available to the individual to determine eligibility. This encompasses the income and wealth of all members of the household and even extended family members who live elsewhere. This is normal for provincial social assistance.

to prove their children could not support them and, in some cases, parents were encouraged to sue their children for support or pension payments were recovered from the estate of recipients after they died (NUPGE, 2024). Some older adults who might have been eligible chose not to apply because of the demeaning nature of the means test.

A bibliography of publications on this stage of the development of Canada's old age pensions can be found in (Thompson, 1929).

1931

The federal reimbursement for provincially managed old age pensions was increased from 50% to 75% and the provincial residency requirement was dropped. With the increased federal cost-sharing, Quebec finally took steps to join the federal program.

1946

The Beveridge report in 1942 made a strong case for universal social security and outlined the future British welfare state. Beveridge saw old age pensions as recognition of past contributions to society from citizens who could no longer contribute. He favoured flat-rate contributions and benefits, with no income testing or means testing. His report was followed by the Marsh Report on Social Security (1943), a comprehensive report to the Canadian parliament on the existing state of social security legislation and "the need to provide for organized and collective provision against individual risks—such as unemployment, sickness, old age, and premature death" (Wild, 2005). "The objective of the OAS pension was to recognize the merit of seniors participating in Canada: the distribution of a flat-rate benefit to anyone aged older than 70 years, independent of past contribution or current income, subject only to residence conditions (having contributed to Canadian society)" (Hajizadeh et al., 2024). Support for the means test in old age pensions waned in the years that followed (Dewetering, 1990) and differences between provincial programs led to proposals for a universal national plan. The 1946 Dominion Green Books outlined a plan for the federal government to take over all income security but negotiations with provinces collapsed. An agreement was reached on federal responsibility for seniors' benefits, funded through payroll taxes, but did not proceed over disputes on the use of general revenues. Provincial jurisdiction over seniors' benefits had proven to be an insurmountable obstacle.

1951

Section 94A was added to Canada's constitution (the British North America Act of 1867 as it was known at the time) to allow the federal government to provide old age pensions. It did not override provincial jurisdiction: in the case of conflict between federal and provincial legislation, the provincial legislation prevails (contrary to the normal rule). The federal government proceeded to enact the Old Age Security Act, providing a universal flat-rate pension of $40 per month at age 70 and the Old Age Assistance Act, providing an income-tested pension at ages 65-69. However, the Old Age Assistance Act continued to be administered by provincial governments on a cost-sharing basis and they continued to apply various means tests and wealth tests to the pension at ages 65-69.

Starting in 1952, an earmarked old age security tax was levied: 2% on sales, 2% on personal income and 2% on corporate income. The 2-2-2 formula was increased to 3% on each source in 1959. The personal income tax component was increased to 4% in 1963. Revenue was tracked in the Old Age Security Fund within the Consolidated Revenue Fund. Deficits were financed by temporary loans from general revenue.

1965

Concurrent with adoption of the Canada Pension Plan in 1965, the minimum age for universal old age benefits was gradually reduced from 70 to 65. Benefits under the Old Age

Assistance Act were incorporated into OAS as a temporary income-tested "Guaranteed Income Supplement" administered by the federal government (without a means test). It was scheduled to expire when the Canada Pension Plan matured in 1976. In 1965, the Liberal minority government was dependent on the NDP for support.

1971

The Royal Commission on Taxation (the Carter Commission) was appointed in 1962 and completed its work in 1966. It found "the existing system was not only too complicated and inefficient, but under it the poor paid more than their fair share while the wealthy avoided taxes through various loopholes" (MacDonald L., 2013). This led to a white paper on tax reforms and legislation in the 1971 federal budget that came into force in 1972. The reforms included:

- introduction of a capital gains tax
- changes to the RRSP and registered pension plan rules
- automatic indexing of OAS and GIS benefits to CPI
- elimination of the Old Age Security tax
- an overhaul of GIS, introducing the features it has today

Although there was a major reform to Canada's tax-deferred retirement income system in 1992, the implementation of the Carter Commission recommendations was the last successful attempt to comprehensively streamline and rationalize Canada's entire system of taxation and social benefits.

1974

Provinces began to re-enter the field of seniors' benefits, with supplements to GIS such as Guaranteed Annual Income system for the aged and disabled (GAINS) in Ontario and Shelter Aid for Elderly Renters (SAFER) in British Columbia in 1977.

1975

The Allowance was introduced for low-income spouses of OAS recipients at ages 60-64.

The second half century

The second half century of evolution of OAS, including the new GIS, has been characterized by minor adjustments and failed attempts at more significant adjustments – both upward and downward. Throughout this period, the ageing of the baby boom generation caused some policymakers to be concerned over the sustainability of the OAS/GIS system. Three separate and failed attempts were made to reduce benefits. An in-depth analysis of the first two unsuccessful attempts in 1985 and 1996-97, along with the successful introduction of the OAS clawback in 1989 raised many of the same issues as this paper: the universality of the program, erratic marginal effective tax rates and gaps in poverty prevention, and challenges of integration with the entire social benefit and retirement income system (Battle, 2003).

1977

Effective July 1, 1977, provision was made for international social security agreements and partial OAS benefits so that individuals with some years of residency in Canada along with years of residency in other countries would be able to receive a combination of OAS and similar benefits from other countries. This closed the last major gap in universality of OAS coverage.

1982

The 1982 federal budget introduced measures to control double-digit inflation (MacEachen, 1982). The "6 & 5" program limited the increases in public sector wages and social benefits, including OAS pensions, to 6% in 1983 and 5% in 1984. GIS beneficiaries were unaffected as the combined total of OAS and GIS continued to be fully indexed. The partial de-indexing of OAS pensions stands in contrast to the 1975 wage

and price controls that affected both public sector and private sector workers and businesses but did not affect OAS. Inflation rates dropped quickly in the months after the 1982 measures were announced and so in retrospect the effect on OAS pensions was modest.

1983

Public debate of pension issues culminated in a 1982 green paper on pension reform from the Liberal government entitled Better Pensions for Canadians (Social Security Administration, 1983) and a subsequent Parliamentary Task Force on Pensions (Frith, et al., 1983). While the mandate of the task force highlighted mandatory inflation protection in private sector pensions, CPP survivor benefits, expansion of CPP or private pensions, financing of CPP, and women's issues, the OAS/GIS system also came under scrutiny. The task force heard from the public and considered the implications of changing family composition, the decline in career employment and other social changes.

- They acknowledged the problem with the 50% tax-back rate on GIS "is that lower income workers who participate in a pension plan or contribute to an RRSP can expect to see the tax deduction for these contributions more than offset by reduced GIS benefits once the pension starts" and considered either raising the OAS pension or lowering the tax-back rate but concluded the cost was not justified when their primary concern was with targeting low-income older adults. Mandatory retirement at age 65 was still permitted and so work incentives were less of a consideration.
- They also considered extending the Allowance to all widows and widowers at ages 60 to 64, but rejected it on the basis of cost. Instead, they recommended this benefit be extended only to widows and widowers who were already eligible for the Allowance. This change was adopted in **1985**.
- They recommended a top-up for single GIS recipients so that the single benefit would be 67% of the couple benefit. It was believed this reflected the differential in living expenses between singles and couples. They recommended that it be adopted immediately, even though some provincial supplements would be directly reduced until provincial programs were harmonized with the new GIS amount. This change was finally accomplished in **2016**.
- They noted that the ratio of OAS pensions to average wages had fallen with the passage of time and agreed an objective for future action would be to restore the relationship.

1985

The 1985 Conservative government budget proposed partial de-indexing of OAS pensions (to CPI minus 3%). This proposal was abandoned because of negative public reaction – even though it succeeded for family allowances. (Guest, 2006)

1989

As part of its ongoing policy of controlling the growth of public debt, the 1989 Conservative government budget introduced the OAS Pension Recovery Tax (clawback), to be phased in over three years. It was estimated that 54,000 high-income OAS recipients would repay all of their benefit and 74,000 would repay part of it. While only 4% of OAS recipients were expected to be affected, this change was the first crack in the universality principle first adopted in 1951. For a variety of reasons, the crack has widened over time: the percentage of recipients affected by the clawback has since doubled to more than 8%. (Carrick, 2024)

1996

The Liberal government budget in 1996 proposed rolling OAS into a new tax-free Seniors Benefit at age 60, with increased benefits at low incomes and more aggressive clawbacks, based on household income rather than

individual income. (Government of Canada, 1996) This would have been the most significant restructuring of the OAS/GIS system since 1951.

- It would have replaced the entire OAS/GIS system for Canadians who had not reached age 60 in 1996 with a new, combined benefit. Canadians born before 1936 would have had the option of retaining their existing benefits.
- The pension and age amount tax credits would have been eliminated.
- The benefit would have been tax-free, but phased out at marginal effective tax rates comparable to the existing rates (50% on low income, 0% on modest income and 20% on high income) with no benefit payable with 2001 incomes above $52,000 (for singles) or $75,000 (for couples).
- Benefits for couples would have been determined based on combined income. This was a major sticking point for some women with high-income spouses, since it would have eliminated their OAS pensions - the only retirement income they could call their own.
- It was projected that cost savings would reach 10.7% of program costs by 2030, when costs from baby boomers reached their peak.

In the face of widespread opposition, the proposal was scaled back in the 1997 budget to better protect Canadians just under age 60 and then abandoned altogether in 1998. At the time, the Finance Minister said the economy was stronger, and the government was in a position to cancel the planned program and maintain the existing OAS/GIS system.

2011

The GIS top-up benefit was introduced. It was accompanied by a separate layer of reductions based on income, bringing the GIS component of the marginal effective tax rate for that layer of income to 75%. This was done to restrict the supplement to those with the lowest incomes while keeping the maximum income level for partial benefits unchanged.

2012

The Conservative government budget of 2012 included three changes to OAS:

- In response to concerns that eligible older adults were missing out (Luong, 2009), it adopted auto-enrolment, to be implemented gradually from 2013 to 2016. Auto-enrolment means that taxpayers will be automatically enrolled and begin receiving an OAS pension and GIS at age 65 if they are eligible based on information the government has on file. If the government has insufficient information, for example because a low-income individual does not owe any tax and does not file a tax return, the process is not automatic: an application is still required. There is evidence that, even after this change, a significant number of seniors – especially those in disadvantaged groups – are unaware of their entitlement to OAS and GIS and have failed to apply or file a tax return (Knowledge Bureau, 2019) (Evaluations Directorate - Strategic and Service Policy Branch, 2019).
- It introduced voluntary delay of OAS to age 70. To access this opportunity, individuals must proactively opt out of automatic enrolment.
- It increased the minimum age of eligibility from 65 to 67. The change was to be phased in, beginning with a one-month delay for individuals turning 65 in April 2023 and progressing to a 24-month delay for individuals turning 65 after January 2027. For individuals who turned 67 before 2023, the voluntary delay option provided a 14.4% increase in the pension if it was delayed to age 67, so this proposal can be understood as a 14.4% reduction in the benefit otherwise payable. This was positioned as a change that would make OAS sustainable in the face of rising life expectancies and a declining age dependency ratio. Opponents argued that the change was not needed (Young, 2012) and, during the election campaign of 2015, the Liberal party ran ads promising to reverse

the cuts (O'Toole, 2024). As noted below, the Liberal government followed through on that promise in their 2016 budget. The fact that current seniors would not be affected did not garner attention.

2016

In its first budget after the election, the Liberal government brought in three changes to OAS:

- The increase in eligibility age from 65 to 67 was reversed before it took effect.
- GIS benefits for couples who had been forced into "involuntary separation" (for example because one was resident in a care facility) were increased from the rate for couples to the rate for singles.
- As noted above, the GIS single top-up was increased so that the benefit for singles would be 2/3 of the benefit for couples. This was accompanied by a broadening of the range where the 75% phase-out rate was applied.

2019

Effective in July 2020, the deductible for earned income used in the calculation of GIS benefits was increased from $3,500 to $5,000 and a 50% inclusion rate applied to the next $10,000 of earned income.

2021

The 2021 federal budget provided two additional benefits for OAS pensioners 75 and over:

- a one-time $500 payment in August 2021 because "During the pandemic, many seniors have faced economic challenges as they took on extra costs to stay safe"; and
- a 10% increase in OAS pensions beginning in July 2022. The rationale provided was "This would give seniors more financial security later in life, particularly at the time when they face increased care expenses and greater risk of running out of savings". (Government of Canada, 2021)

The one-time payment was in addition to one-time COVID-19 relief payments in July 2020 of $300 to OAS pensioners and an additional $200 to GIS recipients. Canadians over 65 who had not yet claimed their OAS pension did not receive the payment.

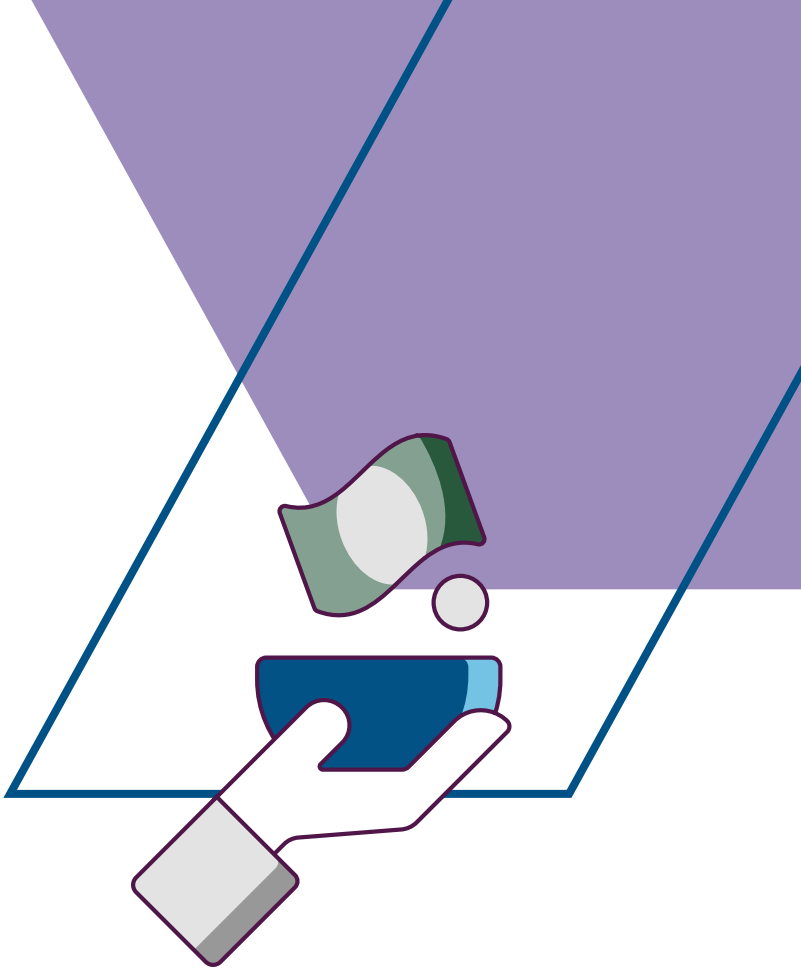
2022

Many GIS recipients experienced a reduction in benefits in July 2021 because they had claimed Canada Emergency Response Benefits (CERB) due to a loss of employment income related to COVID-19 in 2020. An amendment to the legislation was required to reverse this outcome.

2024

Bill C-319 was a private members' bill introduced in 2023 by the Bloc Québécois. It would have increased OAS at ages 65 to 69 by 10% to match the amounts payable at age 75. It received broad multi-party support and passed second reading in September of that year. The Bloc Québécois pressed the Liberal minority government to proceed with the Bill in the weeks leading up to the dissolution of parliament but were unsuccessful.

Sustainability



Taken together, OAS and GIS comprise a system that largely eliminates poverty and provides a basic layer of earnings replacement for older adults. After a century of operation, it has come to be regarded as something Canadians can expect and count on. Even individuals who are not currently receiving the OAS pension or GIS because their income from other sources is too high are secure in the knowledge that, if other income were to dry up, this guaranteed basic income would be there for them. OAS provides insurance that allows all older adults to spend with confidence, take investment risks, and enjoy life.

But, with no dedicated assets and no constitutional or contractual guarantees, it is a system that can be changed or cancelled whenever it suits Parliament to do so. The fact that it has survived multiple attempts to curtail benefits is a result of its financial and political sustainability.

Some of society's support for older adults takes the form of cash payments that pensioners can use to buy the goods and services they need, some takes the form of public services like parks, libraries and health care, and some takes the form of family, community and volunteer support. As Canada's fertility rates fall and life expectancies increase, the need for working Canadians to provide support to retirees could increase. However, improving productivity, rising retirement ages, increasing retirement incomes (and the associated tax revenues), and other societal and technological changes have the potential to offset this. A recent investigation of national transfer accounts at the subnational level found no significant generational imbalance in favour of older adults (Mérette, 2026).

Any proposed changes to OAS need to be evaluated in this broader context. Who are the winners and losers? What are the macroeconomic impacts? Will the foreseeable changes in Canada's demographic mix undermine our ability to continue to thrive and achieve the growth in productivity that has made OAS possible? Do the changes strengthen or weaken the confidence of working age Canadians in their expectation of future benefits?

Financial Sustainability

One aspect of the OAS/GIS system that distinguishes it from other elements of the Retirement Income Framework is the way it is financed. The retirement income available to an individual employee from a funded retirement income plan will depend on investment returns, future employment or both. The possibility that employment will not be available or that investments will underperform represents a risk, primarily to individual employees and pension plan sponsors but also to the system as a whole.

In contrast, OAS/GIS benefits are financed through general government revenues. There is still a risk that employment (and tax revenues) will falter or that investments in the economy as a whole will not lead to the expected level of economic growth. But the effect is allocated to individuals and generations of Canadians in a different way. The OAS/GIS financing model pools employment and longevity risk across generations, with less overall impact on individuals who are receiving their pensions at the time unexpected events occur.

RRIF account balances and pension plan terms determine how much each plan participant will receive but, from a macroeconomic perspective, drawing down fund balances and increasing employer contributions to pension plans does not increase Canada's supply of goods and services. In the absence of spare capacity, providing more to older and wealthier Canadians means providing less to other Canadians and investing less in equipment and technology that has the potential to increase productivity. Of course, Canada is not a closed economy. By investing globally while baby boomers' retirement funds were accumulating, pension fund managers like the Canada Pension Plan Investment Board (CPPIB) have mitigated this macroeconomic problem – not just for funded retirement programs but also, indirectly, for unfunded government benefits and services like the OAS/GIS system.

While the lack of a dedicated investment fund makes OAS susceptible to a degree of political risk, this is a different kind of risk and, as such, represents a form of diversification relative to the investment risks associated with other sources of retirement income.

The Office of the Chief Actuary provides periodic reporting on all of the major retirement income programs administered by the federal government, including OAS/GIS, CPP, and workplace-based pension plans for federal civil servants. In addition, actuaries provide periodic reporting on thousands of workplace pension plans offered by other employers. But, in doing their work, actuaries do not all use the same measure of financial sustainability. Financial sustainability means different things for different kinds of retirement income programs:

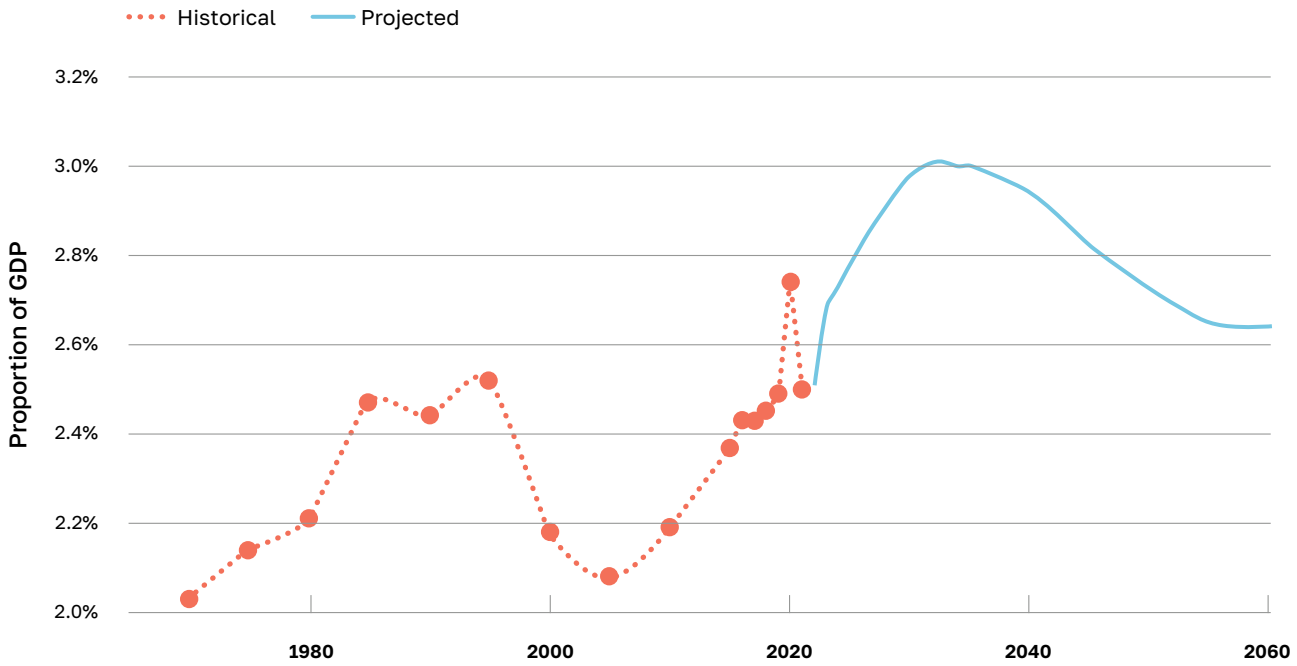
- The key actuarial metric for funded pension plans is the level of invested assets: are they enough to maintain stable contributions or (for single-employer plans) enough to settle the accrued obligations in the event of bankruptcy of the sponsor? In contrast, the key actuarial metric for OAS is the ratio of projected benefits to GDP.
- Different actuarial measures of sustainability translate into different key long-term economic assumptions: expected investment returns or the price of long-term debt are key to funded pension plans, while real growth in GDP is key to OAS.
- There are differences in demographic risks. Longevity is a key issue for all types of retirement income plans but for OAS and C/QPP, fertility rates, migration patterns and workforce participation are important as well.

Actuarial reports on the OAS/GIS system have consistently projected a surge in cost of OAS/GIS (as a percentage of GDP) when the baby boom generation reaches age 65.[23]

The most recent actuarial estimate shows the surge lasting for five years, beginning in 2031 (Billig, 2023). Figure 13 shows expenditures will rise in the near term, from 2% of GDP in 1970 to a peak of 3% before falling back to 2.6% at the end of the 40-year projection period.

[23] See for example (Ménard, 2005).

Figure 13: OAS/GIS Historical and Projected Expenditures as a Percent of GDP[24]



The near-term increase and the prolonged peak in this most recent projection is partially due to the 10% increase in OAS pensions at age 75 adopted in 2022. The decline in cost after 2035 is primarily due to a gradual return to a more normal age distribution, but also due to real GDP growth and reductions in GIS associated with recent enhancements to C/QPP benefits. The increase in OAS/GIS costs from a range of 2% to 2.5% of GDP during the first 50 years after the adoption of the modern OAS/GIS system to 3% during the 2030s is significant for government finances, especially since it comes at the same time as pressures on health care spending and a commitment to increase defense spending from 1% of GDP to 5% of GDP. It is worth noting that these cost figures are the gross amounts, before deduction of the pension recovery tax and other income tax payable on OAS benefits. OAS pension costs are reported in Canada's public accounts after deduction of pension recovery taxes but before deducting other related income taxes. This measurement of the fiscal impact of OAS is inconsistent with non-taxable social programs like GIS, with income tests embedded in the benefit formula rather than the Income Tax Act, as they are reported on a net basis. The fiscal impact of tax-deferred retirement savings is not included in the public accounts at all but is reported separately as a tax expenditure.

Tax deferral is a key ingredient in many of the government measures to facilitate earnings replacement and retirement savings. Contributions to C/QPP, private workplace pension plans, RRSPs, and other similar arrangements are deductible from income tax while funds are accumulating, and withdrawals are taxable as ordinary income.[25] Consequently, Canadians continue to report taxable income

[24] Historical data and projected future results from Tables 10 and 11 of the 18th Actuarial Report on OAS (Billig, 2023).

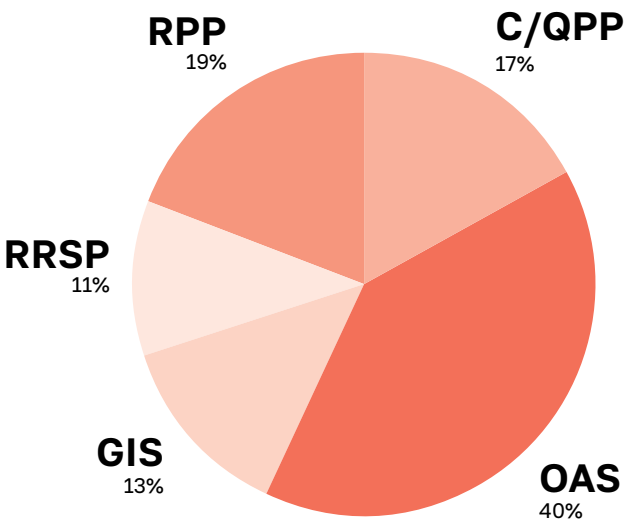
[25] C/QPP employee contributions for base benefits are eligible for a personal tax credit, while employer contributions and contributions for additional benefits are deductible. Contributions and benefits related to private workplace pension plans that do not meet the requirements for Registered Pension Plans have different (less generous) tax treatment.

and pay federal and provincial income taxes throughout their retirement. Tax deferral measures lead Canadians to report taxable income during their retirement and so provide governments with a tax base. This means benefits for older adults (including GIS and other poverty alleviation measures that transfer income from higher-income Canadians to lower-income Canadians) can be, at least in part, financed within the same cohort. Net transfers from high-income Canadians to low-income Canadians remain, but tax deferral measures reduce intergenerational transfers.

In the 2023 fiscal year, the cost to the federal government of the retirement income system was roughly $123 billion, of which half was for after-tax OAS and GIS payments and half was for tax expenditures related to tax-deferred retirement savings, as shown in Figure 14. Provincial governments have fiscal costs related to provincial supplements to GIS and tax expenditures related to tax-deferred retirement savings but gain revenue from provincial income taxes on OAS. Contributions to C/QPP and public sector pension plans in respect of federal government employees are not included in these costs.

Future demographic change from sources such as declining fertility rates and improving longevity will create other fiscal pressures on Canada and the provinces in the decades ahead. In addition to best-estimate projections, actuarial reports on OAS explore the effect of alternative scenarios, such as sustained low fertility, stagflation, low economic growth, or a failure to respond to climate change. Some of these scenarios, taken in conjunction with their effects on other parts of the Canadian economy, would strain OAS in its current form.Consider the following:

Figure 14: Fiscal Impact of Canada's Retirement Income System (in millions of dollars)[26]



- Real GDP growth makes OAS more affordable. Benefits are linked to consumer prices, not GDP growth. It is reasonable to expect that investments in technology and productivity will help make OAS sustainable.
- Trends in workforce participation rates, healthy life expectancy, and retirement ages suggest that simplistic age dependency ratios overstate concerns with the cost of Canada's ageing population (Hicks, 2025).
- Average wages tend to rise more quickly than prices. While living standards in Canada as a whole might rise over time, the purchasing power of OAS benefits is stuck. OAS is indexed to prices so beneficiaries do not share in rising living standards, except through occasional minor improvements to the benefit formula when those improvements are politically expedient.

[26] OAS and GIS costs are from the CPP/OAS StatBook (Seniors and Pension Policy Secretariat, 2025), with a reduction of 11.5% for estimated federal taxes on OAS. Tax-deferred retirement savings plan costs are from the annual report on federal tax expenditures (Department of Finance, 2026), with $1,407 million added to C/QPP to reflect non-taxation of CPPIB and CDPQ investments (15% of investment income reported in the CPP Annual Report for the 2023 fiscal year).

Political Sustainability

OAS is a covenant between and within generations and between socio-economic classes. The keys to keeping this covenant are reliability and universality. Canadians will continue to support OAS if they are confident they and people they care about will benefit.

Universality was established as a key tenet of OAS pensions in the Old Age Security Act of 1951 and has remained more or less intact since then. The rationale offered for this approach was merit: OAS was seen as a reward for a lifetime of participation in Canadian society. Universality was also identified as necessary to avoid the stigma associated with means-tested or income-tested government benefits.

GIS has also proven to be politically sustainable although, as a poverty reduction measure, it faces some of the challenges of a targeted program serving a narrower constituency. The keys to the political sustainability of GIS over the 60 years since its adoption in 1965 are explored in a 2024 article: "The success of GIS stems from its policy design (e.g., income-tested rather than means-tested benefits), the social construction of its target population (older people), and the vested interests that the program has created over time through self-reinforcing feedback effects with its constituencies" (Béland & Marier, 2024). The choice of income testing instead of means testing makes GIS less intrusive and easier to accept. While OAS pensioners are considered worthy by virtue of their long period of residence, GIS beneficiaries are considered worthy based on their age. Public perception of older adults as an advantaged group is a social construction. The fact that so many people are receiving or will eventually receive at least partial GIS benefits means there is a powerful political constituency with a vested interest in the preservation of GIS. These themes echo an earlier celebration of the success of the OAS/GIS system (Béland & Marier, 2022).

Paradoxically, a case can be made that countries that have adopted universal programs have achieved better outcomes in terms of income inequality than those that have adopted more targeted approaches (Korpi & Palme, 1998). Universal social programs create broad coalitions of supporters, spanning income groups. Targeted programs depend on much narrower constituencies. In Canada, this has evolved as a universal floor sponsored by the federal government and supplementary provincial programs targeted based on income, means, rental or property tax costs, or special needs. There may be political disagreements about the generosity of the supplements or the worthiness of the beneficiaries but it is difficult for either side of those disagreements within provinces to question the federally funded universal floor.

Even with these essential design elements, Canadian taxpayers may resist the strain that the OAS/GIS system puts on current government finances and taxes. Younger taxpayers might not feel a sense of responsibility to older generations or might discredit the prospect of receiving benefits themselves because they do not expect OAS/GIS to be financially sustainable. Canadian taxpayers with higher incomes might object to the cost of the OAS/GIS system if they do not expect to personally receive any benefit because of the clawback provisions.

Perhaps the best evidence that the universality of OAS and the coalition of interests that support GIS create a politically sustainable system lies in the failure of attempts to scale back benefits. Opposition to reductions affecting current recipients (such as the partial de-indexing proposed in 1985 and the lack of phase-in provisions in the 1996 Seniors Benefit proposal) is particularly strong. Canadians count on OAS benefits and older adults are not in a position to adjust their retirement income plans to reflect a reduction in government benefits once they have already made plans to

exit the workforce. Even reductions that will only affect future recipients after a long lag period (such as the revised 1997 Seniors Benefit proposal and the increase in retirement age proposed in 2012) were opposed by advocates for older adults. In fact, delayed reductions of this kind are particularly problematic because they openly undermine the intergenerational covenant: asking working Canadians to pay for OAS benefits for others that they will never receive themselves.

On the one hand, the political obstacles to reducing benefits strengthen the political stability of OAS. On the other hand, they make it more difficult to modernize and improve. Reductions that are made abruptly and immediately are unfair to older adults who have already left the workforce or whose financial plans for retirement are largely completed and predicated on existing OAS benefits. Reductions that are delayed or phased-in undermine the intergenerational covenant, reducing or eliminating benefits for cohorts who, throughout their career, have paid for the OAS benefits of older cohorts with the expectation that they, in turn, will receive these benefits.

The introduction of the Pension Recovery Tax in 1989 was projected to achieve a modest 2.6% reduction in OAS pension costs and affect 4% of recipients. Unfortunately, it came with a loss of universality that could affect political sustainability in the future. The percentage of beneficiaries affected has doubled since then and, without modification, the Pension Recovery Tax will erode universality further and further as real wages and income inequality increase.[27]

OAS is still universal in the sense that the security of a guaranteed basic income remains intact for high-income Canadians, even though the benefit is taxed away in years with high net income. This may offer some comfort for those older high-income taxpayers who are being asked to support a universal social program that does not currently help them.

However, if the impact of the Pension Recovery Tax is allowed to continue to expand, it is possible that fewer high-income taxpayers will support the use of their taxes to improve the lifestyles of middle-class older adults with benefits that they themselves are denied. Indeed, evidence is beginning to emerge to suggest that some Canadians would prefer a lower threshold for the Pension Recovery Tax, preserving the poverty-reduction value for low-income Canadians while eliminating the value to the income foundation of Canadians with moderate or high incomes (Generation Squeeze, 2026).[28]

The risk to political sustainability is particularly acute at a time when older private sector workers with moderate to high pre-retirement incomes are finding it more difficult to establish an appropriate balance between their income foundation and their spending buckets, due to the decline of private sector defined benefit pension plans.

Other trends could also make future generations less willing to respect the intergenerational covenant established a century ago; for example:

- Climate change could make future generations less willing to respect the intergenerational covenant established a century ago. If living standards erode, a program that burdens younger adults while guaranteeing purchasing power of older adults could prove unpopular.

[27] See Tables 36 and 37 in the 18th Actuarial Report on OAS (Billig, 2023).

[28] The poll conducted by Research Co. found that, overall, 36% of Canadians believe the $93,000 threshold is too high. 28% believe it is about right and 21% believe it is too low. Support for a lower threshold is strongest amongst those with lower incomes and those over 55. When the question was framed in comparison to the income threshold for the Canada Child Benefit or as a way to "strengthen affordability for retirees, by lifting all seniors out of poverty" or some other government priority, support for lowering the Pension Recovery Tax threshold was higher.

- Growing wealth inequality, disruptions in the labour market due to artificial intelligence and other technological innovations, and other societal trends all affect public and private income security programs designed around a 20th century model of work and retirement (Weiner et al., 2023).

While future political support or opposition remains to be seen, OAS's 100 years of history provides ample lessons for policy makers to understand the potential pitfalls they may encounter in proposing reforms. And simply by having persisted for so long, the OAS/GIS system sends a strong message to future generations that it is something they can count on.

Conclusion

For the past 100 years, Canada has demonstrated a commitment to ensuring older adults have some degree of income security. OAS/GIS are foundational elements of Canada's Retirement Income System, with OAS providing an earnings replacement floor, and GIS working to reduce poverty. They come with significant costs financed through general revenues of the federal government. Despite their importance, the sustainability and political support for these programs cannot be taken for granted.

One of the stated goals of Canada's retirement income system is to allow Canadians to avoid a substantial decline in their standard of living upon retirement. As a part of most Canadian's income foundation, OAS is key to this goal. It goes beyond simply adding to total income because it provides lifelong secure income to pay for routine expenses. This less tangible value is of growing importance to Canadians with higher incomes because they have lower income replacement rates than Canadians with lower incomes, their access to alternative forms of pension income has been declining, and investments are an imperfect substitute for pensions. However, unlike other social benefits, OAS is subject to income taxes and the pension recovery tax, two measures that have eroded the effectiveness of OAS pensions.



While GIS has been largely successful in achieving its poverty reduction objective, some older adults in Canada continue to struggle to meet their basic needs. It may be possible to bring the income of all older adults in Canada up to the average cost of a modest lifestyle (as defined by MBM) through an increase in the GIS flat benefit rate alone. However, the remaining pockets of material deprivation are not linked to income alone. Other programs that target specific circumstances might be more effective than GIS in responding to variations in spending needs such as out-of-pocket health and medical care costs. This is particularly true with respect to supportive living arrangements, which are structured differently in different provinces.

The combined OAS/GIS program operates in the complex environment of Canada's tax system. It is critical for policy makers to understand not only how OAS/GIS are designed on paper, but how they operate in reality based on individual and household level choices. Retired taxpayers have options for sharing taxable income with their spouse and shifting taxable income from one year to another that are not available to working Canadians. Consequently, GIS and other poverty-reduction measures intended for older adults with limited financial resources can find

their way to Canadians with significant wealth and limited unmet needs when those measures are targeted based on income alone.

The expected bulge in OAS/GIS costs during the 2030s as a result of the baby boomer generation becoming eligible for these benefits is a significant challenge to the sustainability of the OAS/GIS system. A key factor in that bulge is the age at which Canadians begin receiving OAS pensions. The vast majority start their OAS pensions at age 65. For low-income Canadian residents, this is because it is tied to GIS eligibility. For higher income Canadians, it may be by default, due to a psychological bias towards "money now" rather than "money later," or an attempt to minimize Pension Recovery Tax and other taxes over their lifetime. Regardless, claiming at age 65 leads to a smaller lifetime income foundation than claiming later. If a significant proportion of the cohort born around 1965 could be convinced to claim at age 70, the bulge would be smaller.

Overall, the OAS/GIS system is an effective foundation for anti-poverty measures and a key resource for replacing pre-retirement spendable income through a secure, lifelong income foundation. However, the Pension Recovery Tax is gradually eroding the earnings-replacement function of OAS pensions at the same time as defined benefit pension plan coverage has been in decline.

The OAS/GIS system has proven to be resilient and effective over the past 100 years. While evolutionary changes will be required from time to time in the future, those changes should be made in a way that promotes confidence in the system through careful targeting of anti-poverty measures and universality of OAS pensions.

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