

Canada's Old-Age Security Program: First Decade of Operations

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CANADA'S income-maintenance programs for the aged that are now in effect first became operative in 1952. The programs¹ have the same dual approach as those in the United States; they consist of a system of benefits payable as a right that are financed by earmarked taxes and a system of benefits payable on a means-test basis that are financed from general revenues. Significant differences exist, however, since the Canadian benefits payable as a right are flat amounts, available to all residents, rather than variable benefits determined from an earnings record, as under the old-age, survivors, and disability insurance system of the United States.

Now that the programs have been in effect for a decade it seems appropriate to review their development and their operating experience. A review also seems desirable in view of the possible expansion to include a third program. The Minister of National Health and Welfare in speeches before the House of Commons in February gave certain details of the proposed program. A constitutional amendment would be required, however, to permit a contributory system of disability benefits and benefits to younger survivors.

Generally speaking, the new plan would supplement the present flat-rate benefits payable as a right. The old-age benefits would be related to the contributions and would be available at age 65 (instead of age 70) or at age 62 on an actuarially reduced basis—in any event with a retirement test. Disability and survivor benefits, on a contributory basis, would also be payable; provision of these benefits would require a constitutional amendment. Contracting-out, when the employer has a suitable private plan, would be permitted.

BACKGROUND

Before 1952, only old-age assistance was available for persons aged 70 and over. This program was

financed jointly by the Dominion Government (75 percent) and the Provinces (25 percent); the maximum payment matchable by the Dominion Government was \$40 a month. Beginning in 1952, when the flat-rate pensions under the "old age security" program for persons aged 70 and over first became effective, old-age assistance has been provided on a national basis only for those aged 65–69.

The old-age assistance program is financed on a 50–50 basis by the Dominion Government and the Provinces. The Dominion Government participates up to a prescribed individual maximum payment, which has always been the same amount as the flat-rate payment under the old-age security program. The Provinces pay the full cost of any payments that are made to persons aged 70 and over to supplement their old-age security benefits. Recipients of old-age assistance who require further aid receive supplementary amounts under Provincial legislation that is separate from the old-age assistance program.

The old-age security benefits are payable without a retirement test or a means test to all persons aged 70 and over who meet certain residence requirements. These benefits are financed completely by the Dominion Government, with the payments coming from a special "old-age security fund," an account in the general accounts of the Government. The fund receives income from three earmarked, flat-percentage taxes—on taxable income (up to \$3,000 a year) of individuals; on taxable income of corporations; and on sales of most items (except such items as food, heating fuel, and most building materials), levied on the manufacturer's sales price. Most persons who draw benefits will thus have paid direct contributions to the system in the form of earmarked income taxes or, if they are women, their husbands will have done so. This is not a necessary condition, however, for receipt of benefits.

If the fund does not have the money to pay benefits because the earmarked taxes do not provide sufficient resources, the benefits are nevertheless paid, and the fund may obtain a loan for the purpose from the General Treasury. This procedure has been followed in the past, and in several instances

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¹ For details, see "New Canadian Programs for the Aged," *Social Security Bulletin*, April 1952.

these loans have been “forgiven” or waived as a result of special grants voted by Parliament.

LEGISLATIVE DEVELOPMENTS

For the old-age pension payable without a means test (the old-age security benefit), the effective rates are shown in the following tabulation.

Period	Monthly amount
January 1952–June 1957	\$40
July 1957–October 1957	46
November 1957–January 1962	55
February 1962 and thereafter	65

The residence requirements for these pensions have been gradually liberalized. Originally, for both old-age security benefits and old-age assistance, the person generally had to have lived in Canada for the 20 years immediately preceding his application. Alternatively for old-age security benefits, an individual who lived in Canada for the year immediately before application could qualify if he had lived in Canada before the 20-year period for at least twice the length of any absence during the 20 years. The alternative provision for old-age assistance required only that the applicant fill in any gaps in the 20-year period; it did not require that he live for 1 year in Canada immediately before his application. The 20-year measurement period is now 10 years.

Under the original law, the old-age security benefits were payable under limited circumstances when the individual left the country. If a pensioner left Canada, payment was made only if he returned within 6 months, and then he could receive at most 3 months of retroactive benefits. Now even if the pensioner does not return to Canada, he can receive benefits for the first 6 months of his absence, and, if he has had at least 25 years of residence after age 21, there is no limit on the duration of his benefits.

The rate applicable to the three taxes that are intended to support the old-age security program was maintained at the original 2 percent until 1959. At that time an increase to 3 percent was made in order to meet the higher costs arising from the two increases in pension amounts in 1957. The 3-percent rate became effective for the calendar year 1959 for both the corporation tax and the personal income tax, except that, for that year only, the maximum personal income tax payable was \$75

instead of \$90 (3 percent of \$3,000). For the sales tax, the 3-percent rate went into effect on April 10, 1959.

The old-age assistance payments that are partly financed by the Dominion Government are based on the amount of an individual’s “nonexempt income.”² When income is less than a prescribed amount, there is an assistance payment (up to a specified maximum) that is equal to the amount by which the actual income falls short of the income limitation. At present,³ for single persons the limit is \$1,140 a year so that when annual income is, say, \$600, the assistance payment is \$540 a year or \$45 a month; when annual income is \$360—that is, \$1,140 minus 12 times \$65—or less, the assistance payment is at the maximum rate of \$780 a year or \$65 a month. For married couples the income limitation is about 75 percent higher than it is for the single person, and it is slightly more than 100 percent higher if the spouse is blind. The following tabulation shows how the limitations have been changed.

Period	Maximum matchable amount	Annual income limitation		
		Single person	Married couple	
			In general	Spouse blind
January 1952–June 1957	\$40	\$720	\$1,200	\$1,320
July 1957–October 1957	46	840	1,380	1,740
November 1957–January 1962	55	960	1,620	1,980
February 1962 and thereafter ³	65	1,140	1,980	2,340

Operations of the Old-Age Security Program

The accompanying table shows the financial experience of the old-age security program for the period from January 1952 through March 1962.⁴ The data are for fiscal years running from April 1 to March 31; the fiscal year 1962, for example, consists of the period April 1, 1961, to March 31, 1962.

The number of pensioners rose slowly but steadily

² The total income includes the old-age assistance payment and the imputed value of assets (after certain exemptions); it excludes any supplementary assistance payment made entirely by the Province and certain other minor or unusual income, such as casual gifts, family contributions for other than ordinary maintenance, and family allowances for young children.

³ Implementation of these changes is contingent on the signing of amending agreements by the Provinces. By May 1962, only the Yukon and Northwest Territories had failed to do so.

⁴ See the *Bulletin*, May 1958, pages 13–15, for more details on operations in the first few years.

during the first decade of operation, in line with the growth of the total population aged 70 and over. There were 643,013 pensioners in March 1952, and 10 years later there were 927,590.

The annual rate of pension outgo was about \$300 million when the program began in 1952 and had risen about 25 percent by June 1957, the last month before the pension amount was first increased.

Operations of the Canadian old-age security program, 1952-62
[In millions]

Fiscal year ¹	Pension payments	Income to meet pension payments, by source..			
		Individual income tax	Corporation income tax	Sales tax	General Treasury ²
1952 ³	\$76.1	\$0.1	\$2.0	\$24.3	\$49.7
1953	323.1	45.2	36.9	141.5	99.5
1954	338.9	90.7	55.6	146.8	45.8
1955	353.2	100.9	46.0	143.0	63.3
1956	366.2	102.5	53.3	160.4	50.0
1957	379.1	125.0	67.3	179.3	7.5
1958	473.9	135.0	60.7	175.8	102.4
1959	559.3	146.4	55.3	173.6	184.0
1960	574.9	185.6	91.3	270.0	28.0
1961	592.4	229.4	103.5	270.2	⁴ -10.7
1962	625.1	258.9	100.1	284.9	⁴ -18.8

¹ April 1 of preceding year to March 31 of year shown.

² Balancing item between pension payments and income from earmarked taxes (see text).

³ Represents January-March only.

⁴ Represents excess of receipts over outgo (used to pay off deficit for fiscal year 1959-60 and to create positive balance in fund).

Significant increases in total outgo occurred in the fiscal years 1957 and 1958, as the higher pension amounts became payable in July and November 1957. In the fiscal years 1960 and 1961, the increases were relatively small (about 3 percent a year) and were solely the result of population growth. The 8-percent increase in the fiscal year 1962 resulted from both population growth and the higher pension amount payable after January 1962. The fiscal year 1963 will show a rise of almost 20 percent because the new pension amount will be in effect during the entire year.

Examination of the data on the financing of the pensions shows that the amount collected through the tax on individual incomes did not become significant until July 1952, and from the beginning there has, of course, been the customary lag in collections. The pattern was the same for the other taxes. Immediately after the system was in full operation, the annual tax receipts from individuals were about \$100 million; from corporations, they were \$50 million; and from the sales tax, \$150 million. Currently, with the 3-percent rate, the corresponding figures are about twice those amounts, because of

both the increase in the rate and the higher general level of incomes and sales.

As indicated previously, if the income of the fund from the earmarked taxes and any existing balance of the fund is not sufficient to meet the pension outgo, a loan may be obtained from the General Treasury. In each of the 9 fiscal years 1952-60, such action was necessary. From time to time, the loans for the fiscal years 1952-59 were repaid (in actuality, canceled) by special grants voted by Parliament—not necessarily in the same year that the deficit occurred. The \$28 million loan for the fiscal year 1960 was partially repaid from the excess of income over outgo in the fiscal year 1961 (the first time this situation occurred). The outstanding balance of the 1960 loan was repaid in the fiscal year 1962, and in fact there was still a small balance (about \$1.5 million) in the fund as of March 31, 1962.

The higher pension amount applicable throughout the entire fiscal year 1963 will apparently result in benefit payments of about \$736 million. Since income from the three earmarked taxes is estimated at \$672 million, there will be an excess of outgo over income of about \$64 million. As a result, the balance in the fund at the beginning of the year will be used up, and a loan from the General Treasury will be necessary. To put it another way, pension outgo for the fiscal year 1963 will be about 10 percent higher than the income from the earmarked taxes.

Operations of the Old-Age Assistance Program

Since January 1952 the Canadian old-age assistance program has complemented the old-age security system through payments to persons aged 65-69. In the latter part of the calendar year 1951 the number of assistance recipients—all aged 70 or over, as required at that time—was about 309,000, and the average monthly payment was about \$37.40. The annual rate of assistance expenditures was thus about \$139 million, of which \$104 million, or 75 percent, came from the Dominion Government.

When the new program became effective at the beginning of 1952, all persons on the assistance rolls were transferred to the old-age security program—since they were all aged 70 or over—to receive benefits without a means test. At the same time, needy persons aged 65-69 became eligible for old-age assistance. The number on the rolls rose each

month until, by March 1953, 87,675 persons were receiving an average monthly payment of about \$36.50. As of March 1954, the number had increased to 93,273, and it remained at about this level through March 1956. The number then declined to 89,907 in March 1957 but rose to 92,484 in March 1958 and by March 1962 was 98,944.

Until July 1957, when the old-age pension was increased, the average monthly assistance payment was about \$37. Since then it has risen in a fashion similar to the old-age pension and was about \$51 during 1958-61 and \$61 in June 1962. Thus, during the period since 1951, the average payment has been somewhat more than 90 percent of the maximum possible individual payment.

In each of the 5 fiscal years 1953-57, the program

cost the Dominion Government about \$20 million. As a result of the higher rates of payment, the cost to the Government rose to about \$25 million in the fiscal year 1958 and \$30 million a year from 1959 through 1962. The Government cost in the near future will apparently be about \$35 million a year.

The Dominion Government's cost for old-age assistance in the 7 fiscal years 1953-59 averaged about \$75-\$80 million a year less than it had been before the new program went into effect in January 1952. This "savings" is almost exactly the same as the average annual grant made from the General Treasury to meet the residual costs of the old-age security program during this same period (\$79 million a year); in the next 3 fiscal years, no such permanent, nonreimbursed grants were needed.

Notes and Brief Reports

Employers, Workers, and Earnings Under OASDI*

In the calendar year 1961, according to preliminary estimates, 74 million persons had earnings of \$210 billion that were taxable under the old-age, survivors, and disability insurance program. These totals were only slightly higher (about 1 percent) than the totals for 1960. Average annual taxable earnings in 1961, estimated at \$2,840, were the same as the average a year earlier.

Total annual earnings (which include both taxable and nontaxable earnings) were estimated at \$273 billion, an increase of 2.6 percent from the 1960 total. Average annual earnings, estimated at \$3,690, were 1.4 percent higher than in the preceding year.

The relatively small changes from 1960 to 1961 in employment and earnings were the net result of reversals in the trend of economic activity during the 2 years. Business activity had started to decline in the summer of 1960, reached a low point for the 2 years in January-March 1961, and then expanded in the latter half of 1961.

Improvements in economic conditions are evi-

dent, however, when some of the estimates for the fourth quarter of 1961 are compared with those for the corresponding quarter of 1960. The number of workers with taxable earnings (excluding the self-employed and agricultural labor) either showed small declines in the first 3 quarters of 1961 in comparison with the same period of 1960 or remained approximately the same. The estimated number for the fourth quarter of 1961—50 million—represents a 2-percent increase from the number for the fourth quarter of 1960.

The total earnings of workers varied only slightly in the first 3 quarters of 1961 from the amounts in the corresponding quarters of 1960. In the fourth quarter of 1961, in contrast, the total earnings of \$65 billion were 6.6 percent higher than those in the last quarter of 1960.

Average earnings including those not taxable under the Social Security Act were estimated at \$1,030 for the first quarter of 1961—2 percent more than the average for the first quarter of 1960. The average for the fourth quarter of 1961 was 4.7 percent greater, however, than that in October-December 1960.

Average taxable earnings in the first quarter of 1961, estimated at \$1,010, were 2 percent higher than the average for that quarter in the preceding year. The averages for the fourth quarter were about the same (an estimated \$680) in both years. The usual seasonal pattern of decline was apparent in the estimates of average taxable wages in the 4 quarters of 1961.

An estimated 5.3 million employers paid taxable

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