

Actuarial Report

(6th)

supplementing the Actuarial Report on the

OLD AGE SECURITY PROGRAM

As at 31 December 2000



Office of the Superintendent of
Financial Institutions Canada

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31 March 2005

The Honourable Ken Dryden, P.C., M.P.
Minister of Social Development Canada
House of Commons
Ottawa, Canada
K1A 0G5

Dear Minister:

In accordance with section 4 of the *Public Pensions Reporting Act*, which provides that an actuarial report shall be prepared by the Chief Actuary when an amendment to the *Old Age Security Act* is introduced in the House of Commons and that affects the cost of benefits, I am pleased to submit the 6th Actuarial Report on the Old Age Security Program.

Yours sincerely,



Jean-Claude Ménard, F.S.A., F.C.I.A.
Chief Actuary

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Executive Summary

This is the 6th Actuarial Report since the inception of the *Old Age Security Act* in 1952. It has been prepared in compliance with section 4 of the *Public Pensions Reporting Act*, which provides that,

“...Where an amendment is made to a pension plan referred to in subsection 3(1) and the amendment affects the cost of benefits or creates an initial unfunded liability, the Minister shall cause the Chief Actuary to conduct an actuarial review of the plan as of the effective date of the amendment.”

The most recent report made pursuant to section 3 is the 5th Actuarial Report on the Old Age Security Program (OAS), which was tabled in the House of Commons on 19 June 2002. Therefore, this 6th Actuarial Report has been prepared on the basis of the 5th Actuarial Report to show the effect of Part 23 of Bill C-43 on the long-term financial status of the OAS.

Part 23 of Bill C-43 amends the *Old Age Security Act* to increase the maximum monthly Guaranteed Income Supplement (GIS) benefits by \$36 for singles and for persons whose spouse or common-law partner receives neither the basic OAS pension nor the Allowance and, by \$29 for persons who are legally married or are in a common-law relationship where both spouses or partners receive the basic OAS pension. Corresponding increases are also extended to recipients of both the Allowance (A) and Allowance for the Survivor benefits. Half of the increase is to take effect on 1 January 2006, and the remaining instalment is to take effect one year later on 1 January 2007.

Main Findings

1. Projected expenditures are respectively \$325 million and \$671 million higher in 2006 and 2007 than the 5th OAS Actuarial Report.
2. Projected expenditures are \$3.2 billion higher than the 5th OAS Actuarial Report over the five-year period running from 1 January 2006 to 31 December 2010.
3. Projected number of GIS beneficiaries is 25,000 higher in 2006 than the 5th OAS Actuarial Report and 51,000 higher by 2007. Projected number of Allowance beneficiaries is 2,000 higher in 2006 than the 5th OAS Actuarial Report and 4,000 higher by 2007.
4. Projected expenditures, expressed as a percentage of the gross domestic product (GDP), are 2.41% or 0.03% higher in 2006 than the 5th OAS Actuarial Report and 2.44% or 0.06% higher by 2007.

I. Introduction

This report has been prepared in compliance with section 4 of the *Public Pensions Reporting Act*, which provides that:

“...Where an amendment is made to a pension plan referred to in subsection 3(1) and the amendment affects the cost of benefits or creates an initial unfunded liability, the Minister shall cause the Chief Actuary to conduct an actuarial review of the plan as of the effective date of the amendment.”

II. Description of Part 23 of Bill C-43

Part 23 of Bill C-43 amends the *Old Age Security Act* to increase the maximum monthly GIS benefits by \$36 for singles and for persons whose spouse or common-law partner receive neither the basic OAS pension nor the Allowance and, by \$29 for persons who are legally married or are in a common-law relationship where both spouses or partners receive the basic OAS pension. Corresponding increases are also extended to recipients of both the Allowance and the Allowance for survivor benefits. Half of the increase is to take effect on 1 January 2006, and the remaining installment is to take effect on 1 January 2007.

III. Financial Status

The financial estimates presented in this report use the same actuarial assumptions and methods as per the 5th OAS Actuarial Report as at 31 December 2000.

A. Assumptions and Methods

Increasing the maximum monthly GIS and Allowance benefit results in an increase in the income cut-off up to which partial benefits are paid. Therefore, some persons who do not now qualify for a GIS or Allowance income-tested benefit because their annual income is just above the cut-off may qualify for a partial benefit due to the increased income cut-off.

For estimate purposes, based on Canada Revenue Agency (CRA) data on senior's income for tax year 2001 it is assumed that once the full increase in benefit takes effect (i.e. for years 2007 and thereafter) that each category of GIS and Allowance beneficiary will increase by 4% for males and 3% for females and that each new beneficiary will qualify for half of the increase in the maximum rates (since the amount for which new beneficiaries will qualify will vary between the full increase and \$1). Half of the assumed increase in beneficiaries for years 2007 and thereafter is assumed to apply in 2006 since half the increase in maximum rates will have been implemented. Any other beneficiary that qualifies regardless of the increase in the maximum monthly benefit is assumed to receive the increase in benefit.

New beneficiaries are assumed to generate additional administrative expenses. For this purpose, the projected average administrative expense per beneficiary as per the 5th OAS Actuarial report for each year in the projection period was assumed to apply to each new beneficiary for any given year.

B. Results

For comparison purposes, Table 1 shows the financial status of the OAS Program as it is presented in the 5th OAS Actuarial Report as at 31 December 2000. Table 2 presents the financial status of the OAS Program as amended per Part 23 of Bill C-43 while Table 3 presents the impacts of the amendments on the financial status of the OAS Program (the differences between the financial results presented in Tables 2 and 1).

Table 1: Financial Status Before Amendments

Year	Number of Beneficiaries (thousands)			Expenditures (\$ million)					GDP (\$ billion)	Expenditures as a Percent of GDP (%)
	OAS	GIS	A	OAS	GIS	A	Admin. Expenses	Total		
2006	4,178	1,479	115	23,218	6,215	543	135	30,111	1,263	2.38
2007	4,263	1,496	121	24,156	6,421	583	140	31,299	1,313	2.38
2008	4,363	1,517	125	25,238	6,654	620	146	32,658	1,364	2.39
2009	4,469	1,537	130	26,410	6,899	657	153	34,119	1,420	2.40
2010	4,577	1,555	134	27,666	7,152	696	160	35,674	1,481	2.41
2015	5,385	1,699	133	36,963	8,954	807	210	46,934	1,840	2.55
2020	6,325	1,855	134	50,113	11,357	953	281	62,705	2,273	2.76
2025	7,403	2,027	125	67,962	14,439	1,049	376	83,825	2,793	3.00
2030	8,419	2,172	99	89,513	18,020	976	488	108,998	3,450	3.16
2040	9,209	2,161	79	131,332	24,414	1,078	706	157,530	5,273	2.99
2050	9,583	2,026	67	183,794	31,003	1,265	972	217,034	8,009	2.71
2075	10,579	1,669	41	424,571	54,233	1,776	2,163	482,742	23,004	2.10

Table 2: Financial Status of Amended Program

Year	Number of Beneficiaries (thousands)			Expenditures (\$ million)					GDP (\$ billion)	Expenditures as a Percent of GDP (%)
	OAS	GIS	A	OAS	GIS	A	Admin. Expenses	Total		
2006	4,178	1,504	117	23,218	6,517	565	136	30,436	1,263	2.41
2007	4,263	1,547	125	24,156	7,044	629	142	31,970	1,313	2.44
2008	4,363	1,568	129	25,238	7,300	670	148	33,355	1,364	2.44
2009	4,469	1,589	134	26,410	7,569	709	155	34,843	1,420	2.45
2010	4,577	1,607	138	27,666	7,847	751	162	36,426	1,481	2.46
2015	5,385	1,756	137	36,963	9,823	871	213	47,869	1,840	2.60
2020	6,325	1,917	138	50,113	12,458	1,028	284	63,882	2,273	2.81
2025	7,403	2,095	129	67,962	15,834	1,129	379	85,304	2,793	3.05
2030	8,419	2,245	102	89,513	19,755	1,050	493	110,811	3,450	3.21
2040	9,209	2,233	81	131,332	26,748	1,158	711	159,950	5,273	3.03
2050	9,583	2,094	69	183,794	33,956	1,357	979	220,086	8,009	2.75
2075	10,579	1,724	43	424,571	59,346	1,898	2,174	487,989	23,004	2.12

Table 3: Impact of Amendments on Financial Status

Year	Difference in Number of Beneficiaries* (thousands)			Difference in Expenditures* (\$ million)					GDP (\$ billion)	Difference in Expenditures as a Percent of GDP*
	OAS	GIS	A	OAS	GIS	A	Admin. Expenses	Total		
2006	-	25	2	-	302	22	1	325	1,263	0.03
2007	-	51	4	-	623	46	2	671	1,313	0.06
2008	-	51	4	-	646	50	2	697	1,364	0.05
2009	-	52	4	-	670	52	2	724	1,420	0.05
2010	-	52	4	-	695	55	2	752	1,481	0.05
2015	-	57	4	-	869	64	3	935	1,840	0.05
2020	-	62	4	-	1,101	75	3	1,177	2,273	0.05
2025	-	68	4	-	1,395	80	3	1,479	2,793	0.05
2030	-	73	3	-	1,735	74	5	1,813	3,450	0.05
2040	-	72	2	-	2,334	80	5	2,420	5,273	0.04
2050	-	68	2	-	2,953	92	7	3,052	8,009	0.04
2075	-	55	2	-	5,113	122	11	5,247	23,004	0.02

* Differences taken with 5th OAS Actuarial Report as at 31 December 2000.

IV. Conclusion

The 6th OAS Actuarial Report reveals that if the *Old Age Security Act* is amended as per Part 23 of Bill C-43:

- Projected expenditures are respectively \$325 million and \$671 million higher in 2006 and 2007 than the 5th OAS Actuarial Report.
- Projected expenditures are \$3.2 billion higher than the 5th OAS Actuarial Report over the five-year period running from 1 January 2006 to 31 December 2010.
- Projected number of GIS beneficiaries is 25,000 higher in 2006 than the 5th OAS Actuarial Report and 51,000 higher by 2007. Projected number of Allowance beneficiaries is 2,000 higher in 2006 than the 5th OAS Actuarial Report and 4,000 higher by 2007.
- Projected expenditures, expressed as a percentage of GDP, are 2.41% or 0.03% higher in 2006 than the 5th OAS Actuarial Report and 2.44% or 0.06% higher by 2007.

V. Acknowledgements

The following people assisted in the preparation of this report:

Patrick Dontigny
 Lyse Lacourse

VI. Actuarial Opinion

In our opinion, considering that this actuarial report was prepared pursuant to the *Public Pensions Reporting Act*:

- the methodology employed is appropriate and consistent with sound actuarial principles;
- the data on which this report is based are sufficient and reliable; and
- the assumptions used, are in aggregate, reasonable and appropriate.

This report has been prepared, and our opinions given, in accordance with accepted actuarial practice.



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Chief Actuary