

# Current Seniors need Not Worry about OAS Changes

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The recent fuss over the federal government's proposal to changing the OAS age qualification rules is much ado about nothing. First, there were no specifics offered and second, there was no indication that if a change were in fact made that it would apply to current seniors. From an actuarial perspective, it would be unrealistic to make the proposed changes without a lead time of at least 20 years, to allow those affected to make adjustments to their retirement plans. However, the OAS was never meant to be anybody's retirement plan, it was meant as a modest safety net to help low income seniors.

Both the NDP and Liberals are trying to appear relevant in a world that has indicted the fiscal viability of big government. Social entitlement programs are largely responsible for a significant portion of the annual budget for many countries, including the United States. The demographic reality is that the aging baby-boomers are posing a funding challenge to all developed nation's ability to maintain social entitlement programs. The slow train-wreck that is the Euro sovereign debt debacle is based primarily on excessively large government, with a bloated civil service, and run-away social entitlements. Greece is the poster child for this problem, however, the rest of Europe, including the prosperous northern countries are also feeling the pressure of these funding challenges. Here too, in North America the writing is on the wall. According to 2010 U.S. budget documents, social entitlement programs are approaching 60% of the annual federal budget.

In light of these demographic realities around the world, it is not only appropriate for the Canadian federal government to reassess the OAS, it is necessary to ensure the long-term viability of the program. It is better to have the discussion today and plan for a future with a long and gradual transition, than to be served a sudden and immediate cut or modification as is presently occurring in much of Europe. When many of these pension programs were created, few people lived much beyond 70 years of age, so pension funding at 65 wasn't a significant issue. Today though, many in the Western world are living well into their 80's and early 90's.

This topic has brought much needed attention to the retirement funding crisis that most Canadians are ignoring because they think the government will take care of them. Virtually all pension funds in the world are underfunded as are most of Canadians' retirement plans. It takes one million dollars to provide a \$40,000 annual income for 25 years, yet few Canadians have RRSPs anywhere near that figure. The mainstream media advises people to focus on paying off their mortgages at the expense of ignoring their retirement plans. The government even permits Canadians to remove money from their retirement accounts to purchase a house. The focus on housing creates the unintended consequence of underfunded retirements. With a typical mortgage in the \$350,000 range and a retirement funding liability of \$1,000,000 or more, Canadians need to re-think their financial planning objectives. It is possible to incorporate both in a well thought out plan, but the emphasis needs to be on retirement funding.

If there is any blame to place on the federal government about the OAS trial balloon it is in their communications strategy. They should have provided more details instead of allowing the shrill voices of the opposition parties to dictate the discussion. The OAS benefit is unlikely to change for current seniors or those within 15 years of retirement, but those in their late 40's need to start paying closer attention to their RRSPs and make small lifestyle adjustments today, in order to avoid major lifestyle changes during their golden years.