

As Canada faces crippling debt, it must do the unpopular thing and cut elderly benefits

The government can reduce its spending while better targeting those genuinely in need

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The Carney government regularly describes its fiscal approach as “ambitious” and “transformational,” but in reality it’s simply perpetuating a fiscal decline that’s plunging Canada deeper into red ink. To truly transform federal finances, the Carney government must reduce spending, even in areas that are politically unpopular. And to truly be ambitious, it should start by reducing elderly benefits – Ottawa’s largest single spending item.

First, some context. The Carney government plans to run annual budget deficits ranging from \$66.9-billion in 2025-26 to \$53.2-billion in 2030-31. Cumulatively, this six-year period in the red represents \$362.4-billion in borrowing. Over that same period, Ottawa’s total debt will rise from a projected \$2.3-trillion, or 72 per cent of the economy, to more than \$3-trillion, or 78 per cent of the economy.

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For perspective, the last time total federal debt exceeded 80 per cent of the economy was in the early 1990s when Canada faced a fiscal crisis. Federal finances aren’t yet as precarious as they were back then, in large part because of relatively low interest rates, but the Carney government’s current plan will lead us down a path that may get us to that point.

In 2025-26, the government will spend a projected \$83-billion on elderly benefits, and by 2030-31 that amount will rise to a projected \$108.5-billion. This represents nearly \$1 out of every \$5 dollars the government plans to spend on programs and services that year. That’s more than the government spends per category on debt interest, health and social transfers to the provinces, employment insurance, children’s benefits and other big-ticket items.

Moreover, according to the Carney government's spring economic update, elderly benefits will grow at an average rate of 5.5 per cent per year from 2025-26 to 2030-31 – faster than any other single spending item in the budget except debt interest costs, which will increase at an annual average rate of 8.4 per cent.

Clearly, to get its finances under control, the government must reform elderly benefits. But how?

Elderly benefits are transferred to seniors via three streams: Old Age Security, a Guaranteed Income Supplement for low-income seniors and an additional allowance for individuals whose spouse qualifies for GIS.

OAS is the largest of the three and the most ripe for reform. Individuals aged 65 to 74 who earn less than \$148,451, or less than \$154,196 for those aged 75-plus, can receive monthly OAS benefits. Maximum benefits – \$743 per month for those aged 65 to 74 and \$817 for those aged 75 and older – are only available to individuals who earn less than \$90,997 of annual income.

In other words, the federal government pays OAS benefits to many seniors who aren't genuinely in need. Based on the above thresholds, a senior couple earning up to a combined \$181,994 can each receive the full benefit, while a couple over 75 earning up to \$308,392 can each still receive a partial benefit.

One option to reform OAS is to lower the income threshold at which seniors receive full payments. This would allow the government to reduce its spending while better targeting the program to those genuinely in need.

While any specific income threshold will be up for debate, one option is to use the maximum income upon which the government levies base CPP payroll taxes – \$74,600 this year – as the threshold for full OAS benefits. As a result, low-income seniors and many middle-income seniors would still receive OAS payments, while the most vulnerable seniors would continue to receive GIS on top of OAS.

In addition to adjusting income thresholds, raising the age of eligibility, which is currently 65, would also reduce the impact of OAS on the budget. Demographic trends and increasing life expectancy mean the share of Canadians 65 and older is expected to rise over the coming decades, which is generally the driving force behind rising spending on OAS and elderly benefits.

Canada is not alone; many other industrialized countries face similar fiscal pressures because of an aging population. But while the Carney government has no

plans to raise the age of eligibility for OAS or other elderly benefits, many other countries plan to or have already increased those ages of eligibility.

Out of a subset of 23 high-income OECD countries, Canada was one of only seven countries (as of 2024) where the age of eligibility for public retirement programs was 65 or younger, and where there were no plans to increase that age in the future.

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Most of Canada's peers are already adjusting their retirement ages to improve the sustainability of government finances as their populations age. Countries including Denmark, the Netherlands, Sweden and Italy are specifically linking the age of retirement to changes in life expectancy rather than relying on ad-hoc political decisions.

In 2012, the Harper government passed legislation to increase the age of eligibility for OAS and GIS to 67 by 2029, to help manage the type of fiscal pressures Ottawa grapples with today. However, the Trudeau government abandoned this reform in 2015, and then in 2022 actually raised OAS benefits for seniors aged 75 and older. The Carney government could revisit Harper's proposal, but an even better – and truly ambitious – option is to link the age of eligibility to changes in life expectancy.

Of course, reforming OAS to reduce spending on elderly benefits may carry political costs for the Carney government – older Canadians tend to vote more than younger Canadians – but the costs of the current plan are too great to ignore. History also shows that necessary-but-unpopular measures, such as the Chrétien government's spending review in the 1990s, can result in considerable political success if done right – Jean Chrétien won three consecutive majorities as prime minister.

In light of the deteriorating state of federal finances and the potential for a future fiscal crisis, the Carney government must reduce spending. And the most "ambitious" place to start would be elderly benefits.