PENSIONS ON SOLID GROUND
1990-2000

Summary

By the last decade of the 20th century, public pensions had become a Canadian success story. Since their inception, huge numbers of seniors had moved out of poverty. The proportion of seniors with low incomes has fallen sharply in the last decade and a half, from 34 percent in 1980 to 19 percent in 1997.

However, uncertainty about the sustainability of Canada's public pensions grew into an important political issue in the 1990s. Life expectancy was increasing and seniors were making up a greater share of the population. At the same time, the number of workers contributing to the Canada Pension Plan (CPP) was decreasing. Many people were concerned that pensions would not be there for them when they retired.

In response to this growing concern, the Government of Canada and the provinces agreed to make changes to the CPP in 1998:

- Canada Pension Plan contribution rates were increased.
- The Canada Pension Plan Investment Board[1] was established to invest funds not immediately needed for benefits.
- The administration and calculation of benefits changed.

These changes put the CPP on solid financial ground. Despite the aging population, the Chief Actuary confirmed that the Canada Pension Plan would continue to be available for future generations. Public pensions were here to stay.

Researcher's Summary

Sustainability of the Canada Pension Plan and the Old Age Security program was the major issue in the 1990s. In this, the last decade of the twentieth century, fewer Canadian seniors were being counted amongst the poor, in large part because of Canada's public pension programs. At the same time, however, seniors were making up an increasing proportion of the

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[1] **Canada Pension Plan Investment Board**:
The Canada Pension Plan Investment Board operates independently from government. The Investment Board receives funds not required by the CPP to pay current pensions and invests them in the equity market.

For more information on the Canada Pension Plan Investment Board visit their Web site at: www.cppib.ca total population as life expectancy continued to rise and health standards improved. A longer and healthier life for Canadians was a cause for celebration, but it also meant that retirement years were lengthening and would continue to do so in the future. The longer people lived, the longer they would require an income.

Canada's net federal debt had risen virtually uninterrupted since the mid-1970s. It climbed from $34 billion in 1975, representing approximately a 20 per cent debt-to-Gross Domestic Product ratio, to a total of $583 billion in 1996-1997, representing roughly a 70 per cent debt-to-Gross Domestic Product ratio. That high debt left Canada's fiscal health extremely vulnerable to economic shocks such as increased interest rates or an economic slowdown.

However, by the mid-1990s deep spending cuts and a thriving economy stopped the growth of the yearly deficit. For the first time since 1969-1970, a budgetary surplus of $3.5 billion was recorded in the fiscal year 1997-1998.

Of concern, too, was the aging of the large baby boom generation. That group would place enormous strain on a public pension system already suffering from declining numbers of working taxpayers and contributors relative to the size of the population that was becoming eligible for benefits. In 1966 when the Canada Pension Plan was created, there were seven workers for every retired person in Canada. In 2000 that ratio was 5:1— it is projected to be 3:1 in 2040.

In the 1990s, the country's pension system remained sound, but after extensive public consultations, the federal and provincial governments undertook a number of reforms to ensure that it would be able to meet the increased demands placed on it over the coming years. The most important changes involved funding arrangements for the Canada Pension Plan, and changing the way some benefits were calculated.

In 1998, a new course was set that would increase Canada Pension Plan contribution rates more rapidly than planned and implement various benefit adjustments meant to restrain future growth in benefit costs. At the same time, a Canada Pension Plan Investment Board was established to diversify the investment of Canada Pension Plan funds and maximize the amount of money that would be available to pay future benefits.

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A major reform proposed for the Old Age Security program in 1996 would have replaced the existing Old Age Security/Guaranteed Income Supplement program with a single payment that would target the most needy and reduce payment amounts to some higher-income pensioners. The Seniors Benefit, as this new payment was to be called, faced opposition. In any case, by 1998 improved fiscal conditions made this cost-motivated measure appear less urgent. It was never implemented; however, other more modest initiatives were carried out.

In 1996, a withholding tax was imposed on Old Age Security and Canada Pension Plan benefits paid to seniors living abroad. For the first time, too, the clawback on Old Age Security benefits for high-income earners was extended to those living outside Canada. Another important change to the pension programs involved a modernization initiative. In the year 2000, equality of treatment in laws, including those pertaining to pensions, was extended to same-sex couples. Members of same-sex couples would be included in the definition of common-law partners and would have the same obligations and rights to benefits under the Canada Pension Plan and Old Age Security programs.

Minor changes were also made to the *Old Age Security Act* to provide for a new method of determining the entitlement to and the amount of Guaranteed Income Supplement and Allowance benefits payable to persons who had not lived in Canada for at least 10 years after reaching age 18.

The government was confident that the reforms undertaken in the 1990s would ensure the long-term sustainability of the public pension programs and that benefits would be available for future retirees. Nevertheless, it stressed the on-going importance of private provisions for retirement income such as savings, investments, and Registered Retirement Savings Plans. This was especially important in light of workforce downsizing that had taken place in that decade, and the increased number of contract, part-time, and self-employed workers who were not always provided with employer-sponsored pension benefits. At the same time, these changes in employment patterns made saving for retirement more difficult for many Canadians and accentuated the importance of the Canada Pension Plan and Old Age Security.

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Daily Life

Like the paradigm shift 100 years earlier that ushered out the agricultural age, the last decade of the 20th century moved much of the world's population from an industrial existence into the era of knowledge and high-speed technology.

Increasing reliance on satellite communications, electronic mail, cable television and the internet brought Marshall McLuhan's "global village" to reality. Such a major shift in business, lifestyles and thinking also carried great risks as seen in 1999 with the unrealized fear of a global shutdown of computer systems at the turn of the century.

The recession of the early 1990s had many serious and long-term effects on Canada's economy. One of the most important of these was the emergence of a new level of social distress, which has been called the "New Poverty". Levels of poverty among families and children, in particular among single-parent families, grew from the beginning of the recession, despite the numerous social programs in place.

The experience of Canada's senior citizens throughout the 1990s formed a notable exception to this modern re-emergence of poverty. On average, Canadian senior citizens saw continual growth in their incomes and improvement in their standard of living. In 1997, 19 per cent of Canada's senior citizens lived on low incomes compared to 34 per cent in 1980.[2] Looking at after-tax measures, the low-income rate among seniors fell to nine per cent. This incongruous development in relation to the growth of low-income rates among the entire population was largely the result of the growth of Canada's public pension system.

[2] Statistics Canada, *A Portrait of Seniors in Canada* (Catalogue no. 89-519-XPE)(Ottawa, 1999), 95.

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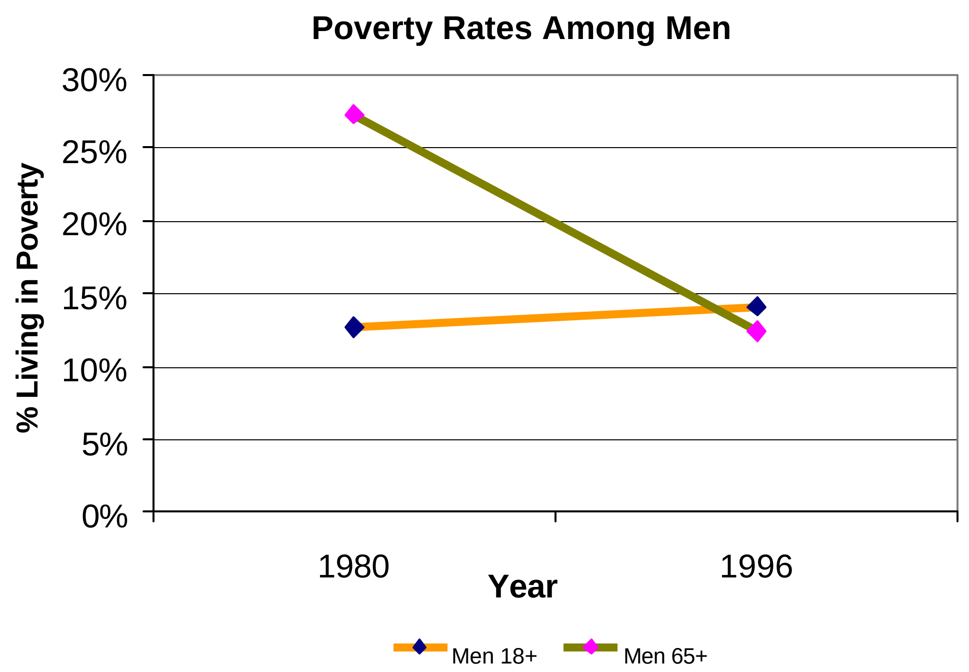

Poverty Profile 1996, National Council for Welfare (Ottawa, 1998), pages 86 and 89

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Despite the rise in poverty over the early 1990s, the economic position of Canadian senior citizens continued to improve.

The rapid improvement in the financial position of senior citizens in Canadian society was accompanied by numerous policy initiatives that helped to ensure that the public pension system would be strong enough to support the increasing numbers of people due to retire over the next generation. Despite these positive changes, research also suggested that younger Canadians needed to focus on their retirement strategies if they wanted to ensure that their retirement incomes would remain comparable to their incomes while in the workforce.

In the late 1990s, Statistics Canada projected that by 2041, 25 per cent of Canada's population would be 65 or over. As health care continued to improve rapidly, Canadians were expected to spend much longer periods in retirement in the future. Moreover, saving for retirement had become increasingly difficult for many people as more and more jobs became temporary or part-time. Such jobs generally did not offer benefits to employees who, if they had the disposable income, had to put money aside for retirement on their own.

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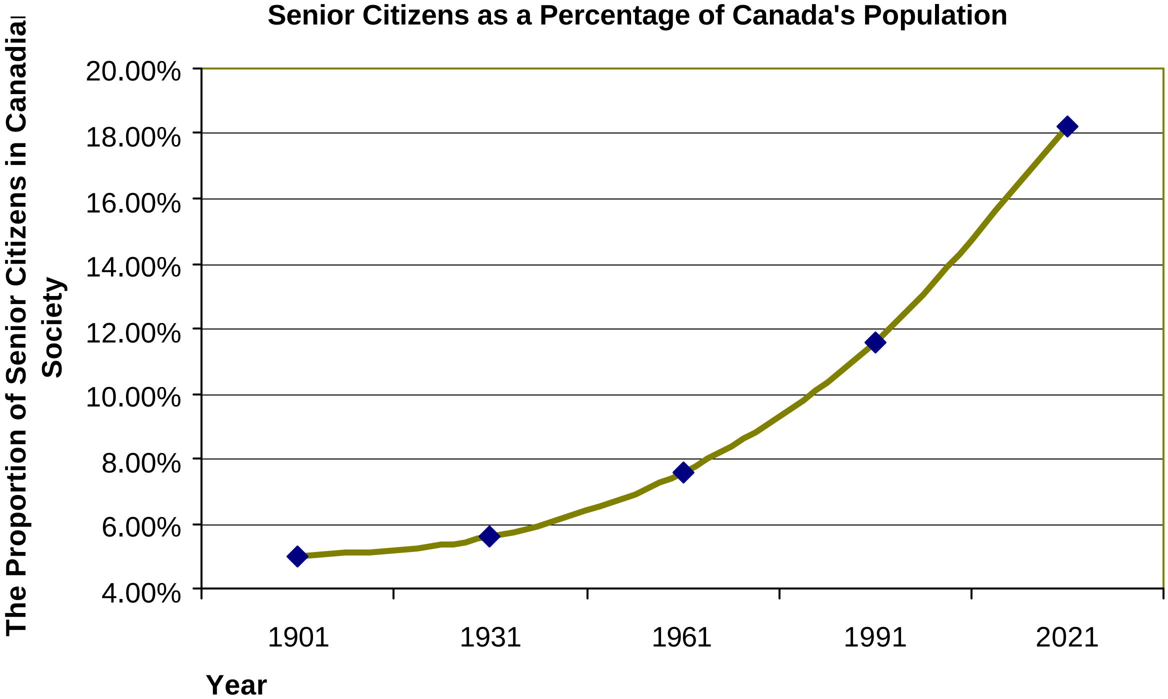

Both the number and the percentage of senior citizens in Canada grows each year as the oldest members of the "baby boom" generation moves toward retirement. The effect this will have on Canadian public pensions will be profound and will require careful management of the pension programs. Adjustments made to the programs over the 1990s were designed to meet this challenge.

Profile of Canada's Seniors, Statistics Canada Statistics Canada (Ottawa 1995), p. 7.

The 1990s were also marked by increased globalization. Canadians were increasingly offered worldwide opportunities to tap into larger markets and transcend social, political and business borders. The movement of people and knowledge went beyond national boundaries and crossed into international ones.

One of the largest changes in the composition of Canada's workforce by the end of the 20th century was the growth in the number of women entering employment. The number of working women between the ages of 45 and 54 increased from 41 per cent in 1971 to 72 per cent in 1999. This change was expected to help lessen the financial effects of the growth in the proportion of older people in Canadian society. This was because as more women entered the workforce, the percentage of Canadians who were employed would increase in relation to the growing percentage of people in retirement.

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The ratio between the number of retired people and the number of employed people — the dependency ratio — is used to calculate the financial effects of the aging of Canada's population. It is notable that Canada's dependency ratio after World War II, including children as well as seniors as dependents, was markedly higher than the projected 2040 figure.

The changing role of women in Canadian society brought into question many traditional notions concerning the family. By the late 1990s, the very concept of what constituted a family came to be re-evaluated. The gay community became more active and outspoken in its attempt to obtain a wider range of legal entitlements. Over the course of the 1990s the question of extending the spousal rights of opposite-sex common-law partners to same-sex couples became an important political issue.

It is interesting to note that unlike age and mental or physical disability, sexual orientation was not included in the Equality Rights laid out in Section 15 of the *Canadian Charter of Rights and Freedoms*. However, since 1985, when Section 15 came into effect, a number of rulings of the Supreme Court of Canada have established that other minority groups that faced discrimination in the past were also protected by Section 15. Protection from discrimination on the basis of sexual orientation thus came to be included in the Equality Rights of Canadians as an analogous ground, despite the fact that it was not explicitly stated in the *Canadian Charter of Rights and Freedoms*.

This development was strengthened in 1996 when the *Canadian Human Rights Act* was amended to include, among its clauses, freedom from discrimination on the basis of sexual orientation. In 2000, the federal government acknowledged this change by extending to same-sex couples the rights and obligations previously enjoyed only by common-law partners of opposite sexes. This initiative had important consequences for Canada's public pension system. Same-sex partners were given the same rights and obligations as opposite-sex common-law partners on July 31, 2000.

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Political Events

Throughout the 1990s, the government of Canada was faced with many different pressures from a wide range of groups responding to the social, economic, and political developments of the decade. These pressures formed the context within which the government approached the issue of pension reform and influenced the government's actions in this area.

As the 1990s began, uncertainty regarding the sustainability of Canada's public pension system grew into an important political issue. The early 1990s also marked the beginning of a severe economic recession. As businesses were forced to close or lay off employees, pushing many people into unemployment, the tax revenues of the federal government declined. At the same time, high interest rates made it increasingly difficult to cover costs to service the federal debt. This led the federal and provincial governments to reduce expenditures and bring their deficits under control. The federal government's powers to initiate new programs and enhance existing ones were thus significantly constrained, and many spending cuts were made.

At the same time, the aging of Canadian society contributed to the growth and strength of hundreds of senior citizens' organizations. Throughout the 1990s, changes in public pension policy were watched closely by these organizations. They became increasingly active in promoting the interests of Canada's older population by lobbying the government, taking part in consultations on policy initiatives and helping to raise public awareness of issues affecting seniors.

Some of the largest groups included the National Pensioners and Senior Citizens Federation (NPSCF), the Canadian Association of Retired Persons (CARP) and the Association québécoise pour la défense des droits des retraités et des préretraités (AQDR). These organizations, along with various think tanks and politicians, played a very important role in defending Canada's public pensions during the economic difficulties of the 1990s.

In response to these pressures, the federal government made some significant changes to various branches of Canada's social security network. The changes made to public pensions were designed to maintain the programs for the future without incurring unduly large new costs.

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In 1996, in the face of a difficult economy, a new program called the Seniors Benefit was proposed as a replacement for Old Age Security and the Guaranteed Income Supplement. The Seniors Benefit would be more fair than the existing programs since the benefits of individuals with higher incomes would be reduced at a faster rate. However, as the economy and the government's fiscal situation improved, this proposal was not implemented.

To help ensure that the Canada Pension Plan would have enough funds to provide pensions for future generations, four changes were made, to take effect in 1998, including:

- increasing contribution rates for both employers and employees;
- restraining modestly the future costs of some benefit types;
- creating a new investment strategy; and
- strengthening the governance and accountability structure of the Plan.

At the same time, the federal Parliament, with provincial approval, enacted the *Canada Pension Plan Investment Board Act.* It was agreed that the use of the Canada Pension Plan surplus fund to provide loans to the provincial governments required improvement in order to provide higher returns. The provinces agreed to this change and were offered options to renew existing loans.

The Canada Pension Plan Investment Board operates at arm's length from government. Its purpose is to help make the Canada Pension Plan a partially funded plan at a faster rate than would otherwise have been possible by investing part of its surplus into the equity market. The *Seventeenth Actuarial Report on the CPP*, tabled in Parliament in December 1998, confirmed that the 9.9 per cent combined employer-employee contribution rate (which would be reached in 2003) is expected to be sufficient to sustain the Canada Pension Plan as larger numbers of Canadians reach retirement age.

World Events

In the 1990s, many of the public pension issues Canada faced also became important areas of policy reform around the world. Western countries in particular began revising their public pension policies in order to make their programs sustainable.

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The public pension programs in most Western European countries pay higher benefits, but offer them to a smaller number of contributors, compared to Canada's public pension system. European workers retire earlier on average, and their pension benefits, especially those of people with higher incomes, are closer to their incomes while working. In many countries public pensions account for a much higher proportion of retired people's incomes. At the same time, the payroll deductions required to support European programs are often higher than those in Canada.

In the 1990s, however, the future of the extensive European public pension systems came to be seen as being under threat from the aging of Europe's population. Projections made in the 1990s suggested that by 2025, close to one-third of Europeans would be senior citizens. In comparison, Canadian estimates indicated that by 2041 the percentage of Canadians aged 65 and over would peak at 25 per cent.

At the same time that these countries worked toward ensuring the survival of their national public pension programs, the increasing globalization of many areas of commerce throughout the 1990s added a new dynamic to the issue of public pensions. As countries sought to compete successfully in the global arena, social security programs such as pensions were considered by some analysts to unnecessarily constrain economic growth and the ability to be competitive, as a result of excessive taxation. Many national governments therefore began exploring new ways of maintaining public pensions without greatly increasing their cost.

A number of countries implemented pension reforms in response to these pressures and some interesting new ideas were attempted. For example, in France, where only public pensions are legally allowed to exist, the number of years over which people must contribute to their pension plan was extended in the mid-1990s. This longer contribution period helped to bolster the pension fund. In contrast, in the United States a gradual increase in the qualifying age for the American social security system was introduced so that by 2027 benefits would begin to be paid at age 67 rather than 65.

More fundamental changes in other countries also attracted international attention during the 1990s. The Chilean adoption of a mandatory private old age and disability insurance system in the early 1980s was of particular interest. This system costs the Chilean government very little as it is administered by private pension fund management companies and the contributions are paid entirely by workers. Critics point out, however, that undue reliance on investment returns can introduce risk into such a scheme. As well, administration costs have proven to be very high.

In response to these pressures, the government of Canada became involved in a number of international projects designed both to improve Canadian public pensions and to promote social security improvements in the international arena.

The signing of international social security agreements between Canada and other countries, which began in 1977, continued to be a very important activity undertaken by the federal government.

By 1998, through the combination of international agreements and other pensions received by people living outside of Canada, Canada was making annual payments of about $355 million to pension recipients in other countries and was receiving $1.6 billion in pension payments from abroad.

By June 2000 Canada had concluded 42 agreements, of which 38 were already in force. Five more interested countries were engaged in negotiations with Canada.

Canada also continued to participate in many different international organizations and events to encourage the development of public pensions around the world. These included the International Social Security Association, the Inter-American Conference on Social Security, the Council of Europe, the International Labour Organization, the United Nations and Rehabilitation International.

The problem of sustaining public pensions as populations around the world age quickly in the early 21st century was the focus of numerous international conferences in which Canada took part. In December 1997, the International Labour Organization and the International Social Security Association, with the participation of the World Bank, held a conference on pension reform. This was followed in 1998 by an International Social Security Association gathering in Stockholm, called “The Future of Social Security”, at which the issue of meeting the costs of public pension programs despite shrinking tax revenues was examined. 1999 was designated the International Year of Older Persons by the United Nations, a move that further highlighted the significance of an aging population around the world.

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Several unique features of the Canadian public pension system were the subject of particular international interest by the late 1990s. The fact that the Canadian system consisted of numerous layers with different sources of funding (including Old Age Security, the Guaranteed Income Supplement, the Canada and Quebec Pension Plans, tax-assisted employer pensions and private savings) was seen to protect the system as a whole against economic fluctuations. In addition, the overall effects of Canada's public pensions were significantly more equitable than those of most other industrialized countries.

Influential People

The 1990s saw the growth and consolidation of hundreds of senior citizens organizations across Canada. As membership in these organizations grew, they became an increasingly powerful political force.

One of these was the Canadian Association of Retired Persons (CARP), a non-profit organization with close to 400,000 members. **Murray and Lillian Morgenthau**, who continue to act as Executive Director and President respectively, founded CARP in 1984.

Lillian Morgenthau continually meets with politicians in order to fulfil CARP's mandate, which is "to effectively promote the rights and quality of life of mature Canadians." [3] Among other issues, she advocated the establishment of a body of investment experts to manage the Canada Pension Plan's funds, which came to fruition in 1997 with the creation of the Canada Pension Plan Investment Board. Morgenthau explains her philosophy on the influence of older Canadians:

"There's strength in numbers. Yes, it's an old adage, but one that CARP takes very seriously. With a strong membership, CARP is in a position to get the attention of important political decision-makers across the land." [4]

Paul Martin (b. 1938) has been a Liberal Member of Parliament representing the riding of LaSalle-Émard, Quebec, since 1988. He was sworn in as Minister of Finance in November, 1993. As the federal Finance Minister, he holds formidable power over the nation's financial

[3] Canadian Association of Retired Persons (CARP), www.fiftyplus.net.
[4] Ibid.

policy. He also has direct influence in the strategic management of the Canada Pension Plan and the Old Age Security program.

In the mid 1990's, Canada's public debt and annual deficit peaked at $583 billion and $42 billion respectively. At the same time, concerns grew regarding the sustainability of the public pension system.

As Finance Minister during this period, Paul Martin was instrumental in eliminating the annual deficit, building a surplus, and beginning the reduction of the national debt. He was also a key figure, along with his provincial counterparts, in developing the 1998 changes to the funding of the Canada Pension Plan in order to preserve it for future generations.

"Current evidence indicates that the changes we put in place two years ago will be sufficient to sustain the CPP. Canadians can rest assured that the CPP will continue to provide the retirement pensions and other CPP benefits that they depend on." [5]

What Canadians Received

The retirement income system known to Canadians in the 1990s was the product of initiatives covering the greater part of a century. From the hesitant introduction of the Old Age Pension in 1927, to the first universal pension of 1952, through creation of the Canada Pension Plan and the Quebec Pension Plan in the 1960s and the expansion and reforms of the 1970s and 1980s, the country had gradually erected a public pension structure that had significantly improved the quality of life for seniors. The essential nature of that structure remained intact in the 1990s, but was under pressure from an aging population and federal government indebtedness. Initiatives in this period were directed toward the challenge of affordability and sustainability.

The Old Age Security program continued to form the first tier of Canada's retirement income system. The basic Old Age Security pension was available to all Canadians 65 and over who met the residency requirements and was indexed quarterly to offer protection from inflation. Partial pension benefits could be obtained by those who fell short of meeting residency criteria

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[5] Department of Finance Canada news release, *Federal-Provincial Review of the Canada Pension Plan* (Ottawa, December 9, 1999).

for full pensions. However, pensioners with a net income over $53,960 by the year 2000 were required to return some or all of their basic Old Age Security pension through the income tax system.[6] This "clawback" affected about five per cent of beneficiaries.

Old Age Security pensions were augmented by a Guaranteed Income Supplement for Old Age Security pensioners on low incomes.[7] An Allowance was available for 60- to 64-year-old spouses of Guaranteed Income Supplement recipients. An Allowance was also provided for any survivor between the ages of 60 and 64 who qualified under the income and residency rules. By 1999, Old Age Security benefits were being paid to 3.7 million Canadians at a cost of about $24 billion dollars. Women accounted for 57.4 per cent of recipients.

The second tier of the retirement income structure was composed of the Canada Pension Plan and the Quebec Pension Plan. These contributory, earnings-related packages of benefits ensured a measure of protection for contributors and their families against the loss of income due to retirement, disability, and death. Until 1987, retirement pensions began at age 65 and amounted to 25 per cent of the contributor's average pensionable earnings over their contributory period. However, flexible retirement provisions introduced in 1987 allowed for retirement any time after age 60, with benefits adjusted accordingly.

[6] By the year 2000, pensioners with a net income of $87,025 had all of their benefits withheld.
The proportion of Old Age Security pensioners receiving this supplement was 37 per cent, or about 1.4 million people per month by early 2000.

[7] In 2000, the Year's Basic Exemption was $3,500. The Year's Maximum Pensionable Earnings was set at $37,600. The combined employer and employee contribution rate was 7.8 per cent (or 3.9 per cent respectively) on earnings between these limits. There were an estimated 10.1 million contributors.

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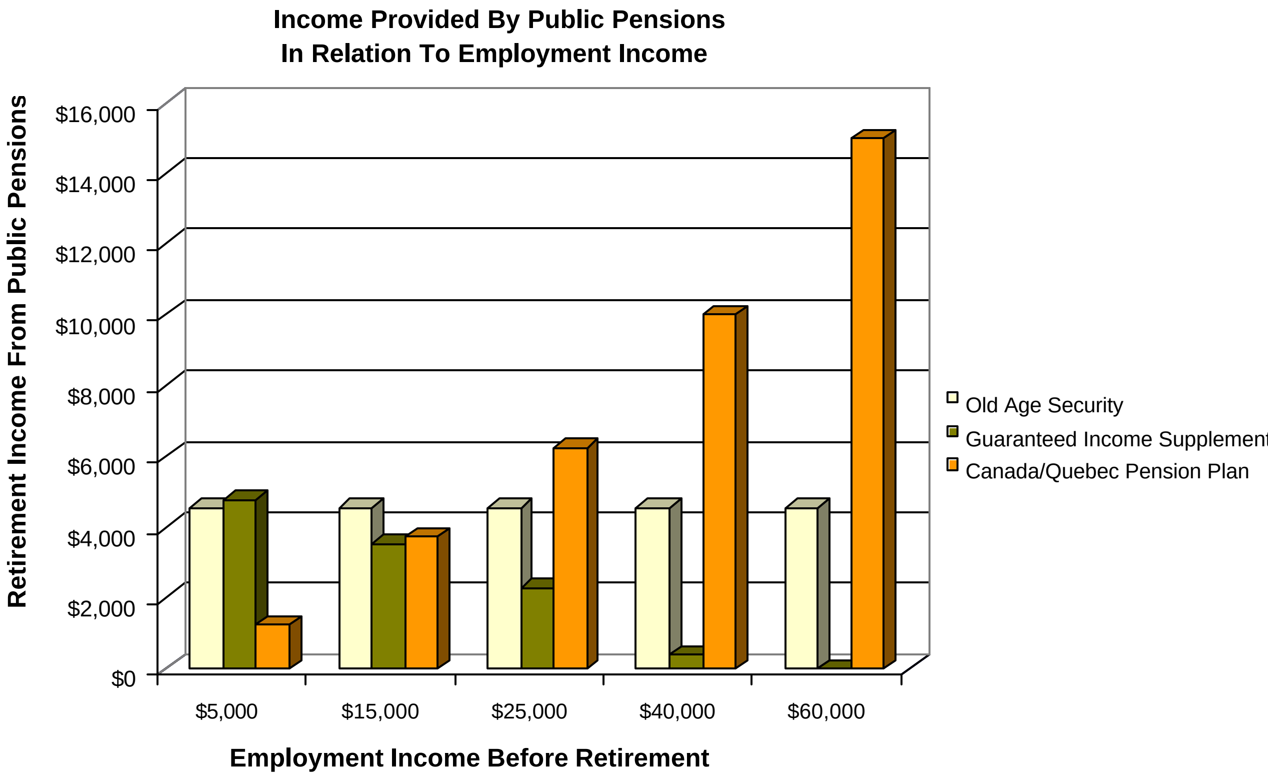

By the 1990s the retirement income available through Canada's public pensions provided senior citizens with a significant proportion of their employment income before retirement. It is important to know how much of one's pre-retirement income will be replaced in retirement in order to plan for retirement effectively.
(G. Schellenberg, *The Road to Retirement: Demographic and Economic Changes in the 90s* (Centre for International Statistics, Ottawa, 1994), p.17)

From the late 1980s through the early 1990s the Canada Pension Plan disability program experienced a significant increase in applications. The caseload and expenditures also increased. A brief survey of the experiences of long-term sickness or disability income programs in other Organisation for Economic Co-operation and Development member countries reveals that Canada was not alone in experiencing an increase in number of disability beneficiaries in the late 1980s, a time of economic recession.

The number of people applying for Canada Pension Plan disability benefits increased dramatically in the decade following 1985. The number of applications rose 78 per cent in five years, from 61,303 in 1988-1989 to 109,001 in 1993-1994, when eligibility criteria changed.

However, legislative changes were not the only factor leading to the dramatic increase in caseload and costs. Other major factors that contributed to caseload growth included improved information about the program and its benefits, increased efforts by provincial social assistance programs to refer clients to the Canada Pension Plan disability program in order to reduce their own costs, changing labour conditions and lay-offs of older workers, and referrals to the Canada Pension Plan disability program from insurance companies, which were similarly experiencing an increase in applications.

Children's and surviving spouse's benefits offered families valuable insurance against a loss of income after the disability or death of a contributor. Equal treatment of men and women was enshrined in the Canada Pension Plan, as was recognition of common-law relationships. Significant advances had been made for women over the previous decades. Credit-splitting was now mandatory for divorcing couples, and available upon application for separated spouses and common-law partners. Couples over 60 years of age who continued to live together had the option of splitting their Canada Pension Plan payments. There was also a “child-rearing drop-out” provision that allowed parents who stayed out of the workforce to raise their young children to exclude those low-earning periods in the calculation of their pension amount.

Excluded from the Canada Pension Plan at its inception because they did not pay income taxes and therefore did not have the normal means of submitting compulsory contributions, Aboriginal people who earned their income on reserves could now participate on a voluntary basis through payroll deductions.

Both Old Age Security and the Canada Pension Plan were included in international social security agreements that Canada had signed with other countries. This allowed a person who lived and worked in another country to be eligible for social security benefits, either from that country or from Canada. A person would qualify for these benefits by living and working in a country that had a reciprocal social security agreement with Canada, and by accruing credits in the social security plan of that country. By July 2000 there were 38 such agreements in force, with more to follow.

The most significant change in the 1990s involved the Canada Pension Plan. In 1998, concerns over the availability of funds for the coming retirement of the post-war baby boom generation led to reforms aimed at financial sustainability. Legislation implemented in that year stipulated that contribution rates would rise rapidly to 9.9 per cent (combined employer and employee portions) of pensionable earnings by the year 2003, and then remain at that level thereafter. With the introduction of this steady-state contribution rate, the Canada Pension Plan would retain sufficient reserves to pay five years' worth of benefits, up from the current two years' worth.

With a view to earning a higher rate of return, the investment of Canada Pension Plan contributions would become more diversified. Previous policy had dictated that Canada Pension Plan funds be invested only in what were essentially risk-free provincial and federal securities. Under the new policy, these funds could also be invested in the stock markets. A Canada Pension Plan Investment Board, accountable to the Canadian people and independent of government and of the Plan itself, was established to carry this out.

In calculating retirement benefits, maximum earnings for the last five, rather than the last three, years would form the basis of working out average lifetime pensionable earnings. With the idea of expanding the number of contributors to the Canada Pension Plan and increasing Plan revenues at a given contribution rate, the Year's Basic Exemption would be kept at $3,500.[8]

Lump sum death benefits were to be held at the reduced figure of $2,500 indefinitely, and eligibility for disability benefits became more stringent, while combined benefits recipients such as those who were receiving a retirement and a survivor pension simultaneously, were subject to new rules that could lead to lower overall benefits.

Initiatives were also undertaken to address rising costs in the Old Age Security program. In 1996, facing a difficult fiscal situation, the government proposed a change to the existing senior income package composed of the Old Age Security pension and the Guaranteed Income Supplement. In its place would be a single income-tested monthly payment program called the Seniors Benefit. However, as the fiscal situation improved, this new program was no longer necessary.

Finance Minister Paul Martin summed up the government's change in plans in a press release dated July 28, 1998:

"*Therefore, in light of the structural enhancements to the public pension system, the turnaround in the country's economic prospects, and because of our commitment to sound fiscal*

[8] In 2000, the Year's Basic Exemption would be kept at $ 3,500. The Year's Maximum Pensionable Earnings was set at $ 37,600. The combined employer and employee contribution rate was 7.8 per cent (or 3.9 per cent respectively) on earnings between these limits. There were an estimated 10.1 million contributors.

management, the government is today announcing that the proposed Seniors Benefit will not proceed. The existing OAS/GIS system will be fully maintained." [9]

While the Seniors Benefit never went into effect, other changes were implemented in the Old Age Security program to control costs. In 1996, a Non-Resident Tax was introduced for Old Age Security and Canada Pension Plan beneficiaries residing outside Canada. This imposed a 25 per cent withholding tax on pensions paid abroad, unless the recipients were living in a country that had signed a tax agreement with Canada. In that case, the withholding tax would be less, possibly as low as zero. Lower-income payees could apply for a further reduction if they provided a report of their income for the previous year.

A Non-Resident clawback of Old Age Security benefits was also introduced. Calculated on the same basis as the regular clawback, it would be applied on top of the Non-Resident Tax with similar tax treaty restrictions. For the first time, too, the clawback for higher-income beneficiaries would be deducted before the payment was sent out.

The final Canada Pension Plan and Old Age Security reform of this period was not a cost-cutting measure, but a modernization initiative. In the year 2000, equality of treatment in all federal legislation was introduced for same-sex couples. The word "spouse" would continue to apply to partners in a legal marriage, but members of same-sex couples would henceforth be covered under the definition of common-law partners. To reflect this change, the Old Age Security Spouse's Allowance was renamed the Allowance and the Widowed Spouse's Allowance became the Allowance for the survivor. Similarly, eligibility for Canada Pension Plan survivor benefits and for the credit-splitting provision were extended to same-sex couples.

[9] Department of Finance Canada news release, *Finance Minister's Statement on the Seniors Benefit* (Ottawa, July 28, 1998).