

Reducing the Cost of Working Through Reform to GIS and AISH Income Thresholds

Issue

Labour shortages, already a pressing issue for Canadian businesses before the COVID-19 pandemic, are growing and new ones emerging. Yet Canada's Guaranteed Income Supplement (GIS) and the Alberta Income for the Severely Handicapped (AISH) program claw backs are creating barriers to labour market participation for many employable older adults and for persons with disabilities by discouraging the pursuit of income exceeding set values to qualify for GIS and AISH. This is increasing labour market pressures, negatively impacting these citizens' quality of life, and limiting Canada and Alberta's potential economic output.

Background

Retirement Income System (RIS) and Barriers to Employment

Canada's RIS¹⁹ (which includes GIS) functions on many of the assumptions that we had decades ago. Though some reforms recently have been introduced, innovation to Canada's RIS programs has been slow, especially in light of the evolving economic, demographic, social and labour market context. Research posits that a lack of integrated political decision-making, regulation and research is restricting RIS innovation.²⁰

When Canada's public pension programs were designed over 50 years ago, the average age of the population was under 30. We're now on average over 40-years-old and living longer. About 23% of the working age population will be 65 years or older by 2024. Between 2021-2024, Canada will lose about 600,000 workers as people age and exceed 65-years-old, lowering the share of the population participating in labour markets.²¹

Further, many Canadians now face personal financial uncertainty.²² Forty years ago, almost half of working Canadians had some form of pension coverage. Today, only about one-third do. Faced with living longer and fewer savings, worries about "inadequate savings for retirement, outliving their money, and affording health services that are not universally guaranteed (such as long-term care)"²³ are more prevalent.

¹⁹ Canada's retirement income system is federally administered publicly funded, and contains three pillars: 1) Old Age Security (OAS) and the Guaranteed Income Supplement (GIS); 2) the Canada and Quebec Pension Plans (C/QPP); and, 3) tax-deferred and other private savings and workplace pensions.

²⁰ [Improving Canada's Retirement Income System- Setting Priorities \(squarespace.com\)](#)

²¹ [Squeeze Play: Higher wages alone won't solve Canada's labour shortage problem \(rbc.com\)](#)

²² [Labour shortages to become the new norm in future \(cpacanada.ca\)](#)

²³ [Improving Canada's Retirement Income System- Setting Priorities \(squarespace.com\)](#)

What is concerning is that while Canada is experiencing a declining labour force and Canadians are facing increasing costs of living and inadequate savings for retirement, research²⁴ shows features of Canada's public retirement income system have significant work and income earning disincentives for older workers. The greatest impact is on recipients of Guaranteed Income Supplement (GIS), a government program intended to support low-income seniors.

Basic Old Age Security (OAS) is a monthly payment available to all Canadian residents aged 65 and over. GIS is based on income and is available to low-income OAS recipients. A single senior qualifies for GIS if their income is below \$19,464; couples qualify if their combined income is below \$46,656.

These thresholds are meant to provide "floors" to keep people out poverty. To provide greater context for GIS thresholds, the thresholds to meet "low-income status" for Alberta's Community Housing Program are much higher: \$25,500 to \$43,000 (bachelor, 2021), depending on where you live.²⁵ This represents the minimum income required to meet basic needs in different municipalities throughout Alberta.

What is discouraging low earning seniors from saving for retirement and taking employment is that GIS benefits are reduced or clawed back for other income earned, including employment and self-employment income, above \$5,000 per year. For earnings between \$5,000 and \$15,000, GIS will be reduced by 50 cents for every dollar of income received.²⁶

Further, because GIS is based on previous year's income, the effect of earning additional income can be experienced for up to two years. For example, if an individual receiving GIS earns other income over \$5,000 in 2020, the GIS for that year is clawed back after they file their 2020 taxes and they will continue to lose the monthly benefit amount until they file their 2021 tax return showing no additional income. Although GIS is paid retroactively for qualifying years, the loss of GIS income for an entire year can have significant impact on quality of life during that time period.

In addition, other provincial income supplements, and health and basic needs programs are also restricted if the individual earns income. Although these individuals are in need of additional income to meet basic living expenses, the risk of losing benefits creates a major disincentive for earning additional income through part-time employment.

Reform of GIS claw back mechanisms to incentivize older workers to participate in the labour force aligns with recommendations from the Melbourne-Mercer Global Pension Index (MMGPI), which benchmarks and ranks retirement income systems across the world. In 2019,

²⁴ Ibid.

²⁵ <https://open.alberta.ca/dataset/423df5de-6562-4b06-9ccb-596e9d130bb5/resource/1128ae16-d050-4a98-860c-2e503d84a677/download/sh-2021-income-threshold.pdf>

²⁶ <https://www.canada.ca/en/services/benefits/publicpensions/cpp/old-age-security/guaranteed-income-supplement/apply.html#h2.2-3.1>

MMGI made three recommendations for improvement to Canada's RIS. One of those is: "Increase labour force participation rates at older ages as life expectancy increases."²⁷

When Canadians work longer there are numerous benefits to the economy and workplaces:²⁸

- Modeling shows that the impact to Canada could be substantial in terms of extra labour supply and real output and would result in a substantial increase in living standards.
- Studies show that 1) older workers' accumulated knowledge, leadership skills and high job match quality contribute to high productivity; and, 2) since experience is a key element in the commercialization aspects of innovation, an older workforce may increase this dimension of innovative capacity.
- More seniors working drives economic growth and generates tax revenue for government.

Alberta Income for the Severely Handicapped (AISH)

AISH was established to support Albertans with a disability who are unable to solely support themselves through work. Yet while many Albertans with disabilities wish to be employed, the existing claw back mechanism on AISH funding, similar to those claw backs for low-income seniors discussed above, is making it difficult for Albertans with disabilities who may be willing and able to integrate into the workforce to do so. Many AISH recipients have to keep earnings low enough to stay on AISH, in order to receive their maximum eligible amounts and to continue to be eligible for the medical services they need.

Albertans with disabilities not working and receiving AISH receive \$19,056.47 annually, which does not provide enough money for basic necessities. A University of Calgary study, for example, found that the cost of support required by many individuals diagnosed with Autism Spectrum Disorder (ASD) is "well beyond what the individuals with ASD and their families could pay for out of annual income, giving many no choice but to stay on AISH."²⁹ As a result, rather than integrating into the workforce, these Albertans remain in a cycle of dependency on the government. So despite having high levels of education and an availability of workers, data shows that persons with disabilities are highly underrepresented in the workforce.³⁰

Social assistance programs can contribute not only to a healthier and more productive population but to a healthier labour market. Key to achieving these goals is reform to the low-income amounts provided to AISH recipients and to the claw back rates to facilitate entry into the workforce for Albertans with disabilities.

A more modern framework to reduce the cost of participating in the workforce

It is in the best interest for individuals, communities, the government and the economy to ensure all productive and capable individuals have access to the labour market. Policy to

²⁷ [Improving Canada's Retirement Income System- Setting Priorities \(squarespace.com\)](#)

²⁸ P. 5, 12, [Skills Research Initiative \(ic.gc.ca\)](#)

²⁹ [Fostering a Workforce of Equal Opportunity in Alberta: An analysis of adolescent transitional supports for students with Autism Spectrum Disorder \(ucalgary.ca\)](#)

³⁰ Alberta Works, Calgary and Area Labour Market Report Recruiting and Employing Persons with Disabilities (Edmonton: Alberta Human Services, 2014), 11

eliminate current barriers for GIS and AISH recipients to remain in or enter the labour market is critical. Such reform will reduce the cost of working, and encourage and allow as much participation as possible in the workforce for those who are able – helping drive a healthy and diverse labour market. It will also generate long-term cost savings to the government as recipients leave the programs or rely less on them.

The Alberta Chambers of Commerce recommends the Government of Alberta:

1. Work with federal, provincial and territory governments, industry and academia to create a modern framework for RIS that includes undertaking a comprehensive review of the GIS income thresholds and claw back rates to allow for higher earnings exemptions and income thresholds, which will incentivize older Canadians to voluntarily delay receiving RIS, delay retirement or enter the labour force after retirement;
2. Undertake a comprehensive review of the AISH claw backs, striving for a model that allows for higher earnings exemptions and income thresholds before claw backs to incentivize AISH recipients to enter or remain in the labour force; and
3. Ensure reform encourages and allows as much participation as possible in the workforce for GIS and AISH recipients, helps these individuals stay out of poverty, and allows them to maintain or improve their standard of living.