Written Submission for the Pre-Budget Consultations in Advance of the Upcoming Federal Budget

GENERATION squeeze

Generation Squeeze is a non-partisan, charitable Think and Change tank promoting wellbeing for all generations. We champion generational fairness to preserve what Canadians hold sacred – a healthy childhood, home, retirement and planet – so we all leave a proud legacy.

RECOMMENDATION 1: Trim Old Age Security subsidies for the top 20% of recipients with household incomes more than 35% above the national median.

RECOMMENDATION 2: Shore up the funds we need to support Canada's aging population by eliminating outdated tax shelters that fail to prioritize financial support for those who need it most.

RECOMMENDATION 3: Reinvest the saving from retirement policy reforms to eliminate seniors' poverty and improve affordability for young and working-age Canadians.

RECOMMENDATION 4: Compensate young people for enduring high housing costs to protect housing wealth gained by older home owners.

RECOMMENDATION 5: Establish a clear goal for home prices.

RECOMMENDATION 6: Fix the way Canada measures housing price inflation.

GENERATION squeeze

Reduce poverty and improve affordability by implementing the responsible, modern, and fair retirement policy reforms Canadians want.

Prime Minister Carney committed to bring costs down, help Canadians get ahead, catalyze a modern housing industry, and reduce unnecessary government spending. As the government works to deliver on this vision, modernizing retirement policies merits immediate scrutiny.

In the midst of a cost-of-living crisis, Canada is on track to spend $17.5 billion annually on retirees with six-figure incomes. Responsible changes to Old Age Security (OAS) and retirement tax credits are needed to realign these policies with core Canadian values about helping those most in need. Practical reforms will free up sufficient funds to make generational investments that virtually eliminate seniors' poverty and improve affordability for young and working age Canadians. No new taxes or deficit spending are required to achieve these nation-building goals.

Updating retirement policy is not a new priority. Decades ago, the Chrétien Liberals called for reform to manage pressures from an aging population and to reduce financial burdens for younger generations. Prime Minister Chrétien began with sweeping changes to the Canada Pension Plan – a success that is a key part of his legacy. As Canada faces US threats, global insecurity, and rising deficits, similar reforms are needed to OAS and retirement tax credits.

Modernizing OAS has wide appeal:

- Three-quarters of Canadians – including seniors – consistently support changes. Just 10% think the status quo is acceptable.
- Liberals like former Finance Minister John Manley and Conservatives like Pierre Poilievre have identified the need for reform.
- Reforms are called for by diverse leaders concerned with reducing poverty (Maytree Foundation, Basic Income Canada Network), responsible public spending (Globe & Mail Editorial Board, Canadian Affairs Editorial Board), and fairly managing growing cost pressures (Fraser Institute, CD Howe Institute).

RECOMMENDATION 1: Trim Old Age Security subsidies for the top 20% of recipients with household incomes more than 35% above the national median.

OAS is unusual in the generosity it shows to financially secure families. It delivers $18,000 a year to retired couples with $185,000 in household income – and even households with $300,000 are eligible for partial support. In contrast, the Canada Child Benefit is clawed back at $81,000 of household income, and two-person households are only eligible for Canada Student Grants with incomes below $54,000.

There is a practical solution: begin reducing OAS subsidies for retired couples once household income exceeds $100,000. This responsible reform protects or improves benefits for 80% of recipients, while asking the top 20% to accept about $3,000 less annually. It *does not cut* OAS spending – it simply slows its rapid growth.

This one change would save $7 billion today, and $9 billion by 2030 – savings drawn entirely from households with 1/3 more income than the family median.

National opinion polling consistently confirms that most Canadians support this plan across all age groups, income levels, regions, and political parties. Retirement age Canadians are standing up to say they are prepared to do their part by taking less from OAS.

RECOMMENDATION 2: Shore up the funds Canada needs to support our aging population by eliminating outdated tax shelters that fail to prioritize financial support for those who need it most.

The Age and Pension Income Tax Credits for retirement-age Canadians cost $7 billion each year, yet they fail to help most seniors with incomes below $25,000 because the credits are not refundable.

The Canada Revenue Agency confirms that just 39% of those claiming the Age credit, and 17% of Pension Income credit claimants, report incomes below $25,000. Many of the lowest-income retirees gain little or nothing from these costly tax subsidies. Redirecting funds from these inefficient credits to the OAS and Guaranteed Income Supplement (GIS) would be a far better way to improve income security for economically marginalized retirees.

The Age Credit costs $5.5 billion each year, equivalent to Ottawa's entire 2023 investment in $10-a-day child care – a sum widely celebrated as historic. This credit shelters $8,000 for those over age 64, delivering a maximum benefit of $1,200 for retirees with moderate incomes between $25,000-$40,000. While the value of the credit gradually declines thereafter, it still delivers benefits to retirees with incomes near $100,000. Given Statistics Canada findings that many younger people are delaying or forgoing parenthood due to financial pressures, the age-based design of this tax shelter is increasingly arbitrary – especially when seniors have the most wealth and least poverty of any age group.

The Pension Income Credit costs Ottawa $1.4 billion annually. It enables any retiree to shelter $2,000 in pension income from taxation, saving approximately $295 for seniors with incomes above $25,000 – an amount that does not decline in value as income rises. This credit privileges pension income over earnings from paid work, even though low-wage workers face higher risks of poverty and housing insecurity than retirement-age Canadians.

These credits were identified for elimination by the Chrétien government to preserve funds to address OAS cost pressures from population aging. With deficits now ballooning, it is timely to reconsider this wisdom.

RECOMMENDATION 3: Reinvest the saving from retirement policy reforms to eliminate seniors' poverty and improve affordability for young and working-age Canadians.

Acting on recommendations 1 and 2 will generate approximately $14 billion in annual savings – more than the federal government is working hard to generate via its comprehensive expenditure review. With these savings, Canada could:

Eliminate poverty for 400,000 seniors. Data suggest about $5,000 per senior living below Canada's official poverty line would be required, likely delivered via improvements to the GIS. This shift would virtually eliminate seniors' poverty.

Improve affordability for young and working-age people facing rising costs to get an education, afford a home, start a family, and find a good job, by:

- Delivering a $3,000 annual rent subsidy to a million young people struggling to afford a place to live.
- Maintaining the full $4,200 Canada Student Grant for a million postsecondary students, instead of cutting it to $3,000.
- Subsidizing 100,000 more $10-a-day child care spaces, meeting Ottawa's target of 250,000.
- Expanding the Youth Climate Corps from a 1,000-person pilot to tens-of-thousands, helping young people build skills and earn living wages while strengthening climate resilience and reducing unemployment.
- Covering the full cost of the new Groceries and Essentials benefit.

Responsible retirement policy reforms would permit Canada to do all these things – right now, with no new taxes or deficit spending. Billions would remain to invest in other priorities, like increasing benefits for low wage workers, growing the Disability Benefit, or expanding the Canada Child Benefit for families living in poverty.

As the government reviews spending and seeks high-impact investments, it is timely to modernize subsidies for financially secure retirees. The fiscal return is high – and Canadians are ready.

Renew – and substantially improve – Canada's National Housing Strategy

Despite media, political, and public attention to post-pandemic inflation, home prices have been rising for decades. After adjusting for inflation, prices have tripled since the mid-1970s when today's generation of retirees first entered the housing market. This trend has eroded affordability for many – and grown wealth for many more.

Rising prices are a significant source of wealth for Canadians already in the housing market – especially owners who purchased homes decades ago. Since 1977, escalating home values have contributed an additional $3.2 trillion in housing wealth, with two-thirds going to those age 55+. Simultaneously, prices that are far out of reach of earnings have locked many younger people out of home ownership altogether.

Renewing and substantially improving Canada's National Housing Strategy (NHS) is a necessary response to these trends. The Parliamentary Budget Officer (PBO) shows federal housing spending will drop by 56% after 2027 if the NHS is not renewed. Those cuts run directly counter to the government's commitment to make "generational investments" in housing. At the same time, the inaugural NHS failed to address several hard truths about that can no longer be ignored if Canada's housing strategy is to advance the goal of restoring affordability.

RECOMMENDATION 4: Compensate young people for enduring high housing costs to protect housing wealth gained by those who came before them.

The next NHS must grapple openly with the fact that the goals of younger people – lower rents and attainable homeownership – conflict with the desire of many existing owners to maintain or increase their housing wealth.

The dramatic rise in home prices enriched those who already owned property – mostly baby boomers and Gen X – by shifting costs onto those who followed. Millennials and Gen Z are paying the price for these wealth gains through rents and mortgages that consume far more of their incomes than earlier generations faced. **Their housing insecurity finances the housing wealth gained by older generations.**

Canada's next National Housing Strategy must explicitly acknowledge this tension. It must also begin a conversation about the compensation young people deserve for this profound act of intergenerational solidarity.

RECOMMENDATION 5: Establish a clear goal for home prices.

Canada needs a clear goal for home prices: do we want them to rise, stall, or fall?

Home prices have stalled for three straight years. Yet the latest data from the Canadian Real Estate Association indicate that national home values are down by only 1% from last year and 4% from their 2022 peak. Adjusted for inflation, average prices today are roughly where they were in 2020.

This marks some progress towards restoring affordability – but not nearly enough. Home prices had already surged out of control before COVID, especially in British Columbia and Ontario. Returning to 2020 levels in these provinces leaves homes out of reach for most young adults. Meanwhile, prices in other provinces continue to climb.

The next NHS must *minimally* judge that prices should stall – not climb – so that new entrants to the housing market do not remain trapped by unaffordable prices.

The prospect of *falling* home prices also merits public and political discussion. Lower prices would give those locked out of ownership a better chance to enter the market – and bring rent costs more in-line with earnings. Yet Canada's housing policies prioritize protecting wealth homeowners have gained from rising home prices over restoring the affordability young people have lost. Canadians should have a say in whether this is the right political bargain.

RECOMMENDATION 6: Fix the way Canada measures housing price inflation.

The next NHS must repair a broken feedback loop between housing inflation and monetary policy. Ultralow interest rates helped fuel the surge in home prices during the pandemic, while rapid rate hikes later helped stall them. Throughout this cycle, Canada's official measure of inflation – the Consumer Price Index – played down rising housing costs by tracking homeowners' continuing expenses rather than the skyrocketing cost of buying a home. The result was cheaper credit for longer, pushing prices higher and deepening insecurity for those trying to enter the market.

Statistics Canada already has a solution: a tested "acquisition approach" that measures housing through the full cost of purchasing a home, including land. Adopting it would help ensure monetary policy no longer fuels the very housing inflation it is meant to control.