

“Financing Senior Services: Principles and Practices”

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Service Responsibility and Funding

Municipalities are responsible for two 'general' types of services. This distinction is important for funding purposes.

- ▶ Services that provide 'collective benefits' to the entire community; that is, they are available for everyone even though not everyone uses them. Examples include local roads, streets, neighbourhood parks, fire and police, social services, social housing, land ambulance and so on. These services are appropriately funded from the property tax.
- ▶ Services that provide 'private benefits'; that is, specific users can be identified and non-users can be excluded. Examples include water, sewers, solid waste collection and disposal, most recreational facilities and programs and cultural facilities and activities. These are efficiently and fairly funded by user fees.

What age defines a senior?

- ▶ A variety of ages have been used for public and private services:
 - ▶ Over 55;
 - ▶ Over 60;
 - ▶ Over 65;
 - ▶ In short, there is no magical number or clear definition of what defines a senior.
- ▶ Age level and its implications for funding govt. services
 - ▶ The lower the age, the larger the senior cohort
 - ▶ The larger the cohort, the greater the potential impact on the level and funding of senior services.
 - ▶ This can impact the fiscal sustainability of a municipality.

Changing Demographics: Last 40 Years

- ▶ In 1976, Canada's elderly poverty rate was 36.9 percent of the elderly cohort.
- ▶ In 1995, it was 3.9 percent of the elderly cohort (Osberg 2001).
- ▶ In 2010, it had climbed back to 12.3 percent (Conference Board of Canada 2013), primarily because of the slowed growth of government transfers to seniors (Murphy, Zhang, and Dionne 2012).
- ▶ The elderly poverty rate in Canada remains low when compared with similar rates in OECD countries (Conference Board of Canada 2013).
- ▶ The poverty rate for those over 65 in Canada in recent years has been considerably lower than for those under 65 (Citizens for Public Justice 2012).

General Policies to Combat Poverty

- ▶ In the 1960s, the Federal government introduced the Canada/Quebec Pension Plan, Old Age Security, and the Guaranteed Income Supplement. These programs have been widely praised as being responsible for lowering the incidence of poverty among the elderly.
- ▶ At roughly the same time, provincial and municipal governments introduced programs to lower the user fees paid by seniors for specific services (public transit and recreation/cultural programs and facilities, for example) and in some provinces, specific property tax relief schemes directed at the elderly.

Intergenerational Equity

- ▶ How is it defined and what does it mean? Two concepts:
 - ▶ 1. Over time as one moves from one age grouping to the next.
 - ▶ 2. Across all age groups at a particular point of time.
- ▶ Why is it relevant?
 - ▶ It can impact the level of spending on certain services and the way in which these services are funded.
- ▶ Why is it important?
 - ▶ Municipal spending decisions can lead to inefficient levels of service and the associated infrastructure along with unwanted income distributional consequences.

Financing Seniors Services

- ▶ Criteria/principles that municipalities should use in setting fees & taxes?
 - ▶ Efficiency
 - ▶ Fairness
 - ▶ Accountability
 - ▶ Transparency
 - ▶ Ease of administration
- ▶ Should seniors be treated differently than non-seniors?
 - ▶ If so, why?
 - ▶ If not, why not?

Seniors discounts in municipalities: where do they apply across Canada?

- ▶ User fees that are lower for seniors in every province:
 - ▶ Public transit
 - ▶ Public recreation facilities and programs
 - ▶ Libraries and cultural programs
- ▶ Property taxes are often lower for seniors (some examples):
 - ▶ In Ontario, eligible seniors may receive a property tax grant of up to \$500.
 - ▶ In Manitoba, seniors no longer need to pay the education portion of their property taxes.
 - ▶ In Alberta, seniors may elect to defer their property taxes until they sell their home or die.
 - ▶ In BC, homeowners grants are higher for seniors

Impact of Seniors' Discounts

Discounts for one age cohort must be subsidized by higher fees/taxes on other age cohorts.

- ▶ Implications on equity or fairness grounds:
 - ▶ It is unfair to give rich/wealthy seniors access to lower fees/taxes while asking poorer non-seniors to pay higher fees/taxes for the same services.
 - ▶ It is unfair to give richer/wealthier seniors the same subsidy as poorer seniors.
- ▶ Implications on efficiency grounds:
 - ▶ Differential fees/taxes based on age can lead to inefficient (in an economic and fiscal sense) levels of output if those who are underpaying, demand more than they would if they paid the same price as non-seniors. This is serious if the extra demand leads to a higher level of infrastructure (very expensive) than would otherwise be demanded.
- ▶ Implications on accountability grounds:
 - ▶ Accountability is not achieved to its fullest extent if those who use the service are not paying for the full cost of the service.

Impact of Seniors Discounts on a Municipality's Fiscal Sustainability

- ▶ Undercharging one age cohort and overcharging other age cohorts can lead to fiscal sustainability concerns.
- ▶ As 'Baby Boomers' retire, the percentage of seniors will rise. If discounts continue, this will lead to higher taxes and user fees on the non-senior cohort with the potential of creating a fiscal challenge for financing public services.
- ▶ Traffic congestion and commuting delays in the GTHA may lead to a larger percentage of working age people relocating in the City of Toronto and a larger percentage of seniors moving to the 905 regions - this could create fiscal sustainability concerns for the 905 regions.
- ▶ Drummond report (2012) - user fees should be set to cover full costs of a service because this leads to more efficient levels of service and is fairer on an intergenerational basis.

Assertions about Seniors' Discounts: Is there any Substance to them?

The following assertions are often made but are largely unsubstantiated:

- ▶ “User Fees are regressive in their impact and seniors as a group need financial relief”.
- ▶ “Seniors pay full taxes and fees when they are working and should get a break (reduction) on both taxes and fees when they are retired.”
- ▶ “Provincial and federal grants should be provided to fund municipal services”
- ▶ “Seniors should not have to pay school property taxes”
- ▶ Etc., etc.....

Start Thinking Differently

- ▶ No seniors user fees or property tax discounts based on age. They should be based on ability to pay for all age groups.
- ▶ Municipalities are limited in their ability to access revenues and need access to new taxes because:
 - ▶ visitors and commuters do not pay property taxes and, hence, benefit from municipal services without paying for them directly.
 - ▶ this could reduce the property tax burden on those who are asset rich but income poor.
 - ▶ a mix of local taxes makes the tax structure more flexible, permitting elected politicians to choose those that best fit local conditions and circumstances.
 - ▶ many countries currently use a range of local taxes.

New taxes: what should we be concerned about?

- ▶ Minimizing distortions in location, employment and cross border shopping?
- ▶ Revenue sharing or setting local tax rates?
- ▶ 'Piggybacking' onto a provincial tax or standing alone?
- ▶ Earmarking revenues?
- ▶ Is there a role for grants?

Key Points To Take Away

- ▶ Current seniors discounts are a hangover from a time when seniors as an age cohort were generally poorer than those in younger age cohorts.
- ▶ The percentage of poor in the seniors cohort now is lower than in younger age cohorts, a dramatic change from 40 years ago.
- ▶ The use of discounts by one age cohort means that this cohort is subsidized by those cohorts who do not get the discounts.
- ▶ Subsidies based on age have the following unfortunate outcomes:
 - ▶ They are unfair because those who receive the subsidies are frequently richer than those who are paying for the subsidy.

Key Points (cont.d)

- ▶ They are inefficient because those benefiting from lower fees/taxes have an incentive to demand more of the service than they would otherwise and hence create a larger demand for infrastructure that would otherwise be demanded.
- ▶ They are not fully accountable if those who benefit from a service are not paying the full cost of the service consumed.
- ▶ In general, assertions that are often heard for senior discounts based on age are not substantiated when dissected and analyzed.
- ▶ No seniors discounts based on age. These have the potential to create fiscal sustainability problems, a problem that will become greater as communities age.
- ▶ Seniors discounts should be based on ability to pay (income) just as they should for all age cohorts.
- ▶ Municipalities, especially large single tier cities and regional governments need access to new tax sources.