Government Benefits

The foundation of your retirement income

As you go through your working life, you will generally have one primary source of income: your job or your business. In retirement, you will have several potential sources of income. The basic source for many Canadians is often government benefits.

That includes: Old Age Security (OAS) and the Canada or Quebec Pension Plan (CPP/QPP). Canadians who continue to work after age 60, and are collecting CPP, may increase their retirement income with a lifetime benefit called the Post-Retirement Benefit (PRB).

Old Age Security

Old Age Security (OAS) benefits are available to most Canadians when they turn 65. Notably, they are fully indexed based on the Consumer Price Index.

To receive maximum OAS, you must have typically lived in Canada for 40 years after turning age 18. You are partially eligible for OAS if you have lived here for 10 years after age 18. If Canada has a social security agreement with the country where you also lived, your residency period there may count toward your eligibility.

It should be noted that with OAS benefits there is:

- no survivor benefit
- no income-splitting opportunity
- no option to receive it before age 65
- a clawback of the OAS benefit under the *Income Tax Act* (Canada). Once your income reaches a certain threshold ($73,756 in 2016), the amount of the clawback is equal 15% of the amount by which your net income exceeds the threshold up to your total OAS amount.

In 2013, Service Canada implemented a process to automatically enroll seniors who are eligible to receive the OAS pension. If you can be automatically enrolled, Service Canada will send you a notification letter the month after you turn 64. If you receive a letter informing you that you were selected for automatic enrolment, you will not have to apply for your OAS pension provided that the information in your letter is accurate. For more information, please go to: servicecanada.gc.ca

When should you start receiving OAS?

You can choose to defer receipt of OAS benefits for up to 60 months (five years) after age 65. It will increase 0.6% for every month you defer. If you defer until age 70, your monthly benefit will increase to 136% of the payment you were eligible for at 65.

Deferring may be a good strategy if your retirement income is high or you have significant assets you wish to sell. If the gains realized would trigger an OAS clawback, you may wish to sell the assets prior to turning 70. It may be worth putting off receipt of OAS, depending on the potential proceeds from the sale of your assets.

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Other benefits that are associated with OAS include the *Guaranteed Income Supplement* (GIS) and the Allowance. GIS provides a monthly non-taxable benefit to OAS recipients who have a low retirement income. You must be receiving OAS and have an income lower than the maximum annual GIS threshold. For example, if you are a single, widowed or divorced pensioner, the threshold is $17,544.

The Allowance, once known as the Spousal Allowance, is meant for a low-income Canadian, aged 60-64, whose spouse gets OAS and is eligible for GIS. It will put the couple level with each other.

Speak with your TD advisor about when you should begin receiving OAS to fit in with your overall Financial Plan and meet your retirement needs.

The Canada Pension Plan/Quebec Pension Plan

The **Canada Pension Plan (CPP)/Quebec Pension Plan** provides basic benefits to contributors, (and their dependents) when they retire, become disabled, or die. For purposes of retirement, the two key benefits are the CPP retirement *pension* and *survivor benefits*. CPP is provided for Canadian workers in all province and territories, except Quebec, which operates its own equivalent plan, the Quebec Pension Plan.

The amount you receive will depend on the level of contributions made on your behalf, as well as the number of years contributions were made.

You begin contributing to CPP when you turn 18, and earn more than $3,500 a year. If you are an employee, the annual contribution is shared with your employer. When you work for yourself, you pay your entire contribution. The plan is meant to provide approximately 25% of your average pre-retirement earnings, up to a maximum amount. The amount you receive will depend on the level of contributions made on your behalf, as well as the number of years contributions were made.

Since many Canadians will have years when their income was low or non-existent for a variety of reasons, exclusions have been developed so that the following time periods are *not* part of your CPP calculation:

- Time spent caring for children that are under age 7 (This is known as the "child rearing dropout provision". It can be used: by either you or your spouse/common-law partner; for months when your partner received or was eligible for "Family Allowance"; for months when the primary caregiver's earnings were lower than the other partner's earnings and their child was under the age of 7.)

- Low earning months after age 65;
- Any months during which you may have been eligible for CPP disability benefits;
- 17% of your overall contribution period when your earnings were at their lowest. This usually takes up about 7 years of that time period.

The easiest way to get an understanding of your eligible earnings and contributions to CPP is visit Service Canada: servicescanadagc.ca. Your CPP Statement of Contributions also provides an estimate of what your monthly CPP payment will be based on your average earnings.

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What is the annual contribution requirement?

As previously noted, you begin to contribute when you turn 18 and earn more than $3,500. The maximum amount you are required to contribute is based on your Year's Maximum Pensionable Earnings (YMPE). For 2017 the YMPE amount is $55,300, up from $54,900 in 2016 with the basic exemption amount of $3,500. The employee and employer contribution rate for 2017 is 4.95%. The maximum self-employed contribution rate will stay the same, at 9.9%. The maximum employer and employee contributions to the CPP for 2017 will be $2,564.10, up from $2,544.30 in 2016. The maximum self-employed contribution in 2017 will be $5,128.20.

Proposed enhancements to CPP

It must be noted that Canada's federal and provincial finance ministers reached an agreement in June 2016 to strengthen the CPP. The proposed enhancements are expected to be in place beginning in 2019.

In short, the CPP will increase the maximum CPP retirement benefit by about 50%. This represents an increase of almost $7,000 per individual. The current maximum benefit is $13,110. It will be increased to a maximum benefit of nearly $20,000.

To fund these enhanced benefits, annual CPP contributions will increase over seven years, starting in 2019. For example, an individual with earnings of $54,900 will contribute an approximate $6 extra per month by 2019. By the end of the enhancement phase-in period, contributions for that individual will be about an additional $43 per month.

The enhancement is intended to result in the following:

- The income replacement level represented by CPP will be increased to 33.33% of eligible earnings, up from the present 25%.
- The upper earnings limit will be increased by 14%, which is projected to be equal to about $82,700 by 2025.

With regard to the taxation of CPP contributions, a tax credit will continue to apply for existing employee CPP contributions. Employee contributions to the enhanced portion of the CPP, however, will be tax deductible. (Remember that deductions reduce taxable-income and credits reduce tax payable.) The tax deduction for new employee CPP contributions will lower the after-tax cost of enhancing CPP benefits.

When do you qualify to start receiving CPP?

The actual amount you receive depends on a variety of factors. If you are between 60 and 64, the amount will decrease 0.6% for each month that you are short of your 65th birthday to a maximum of 36%. At age 65, assuming you have made the maximum contributions during your working years, you will generally be eligible for full CPP benefits. If you defer receipt of CPP, for each month beyond your 65th birthday that you do so, the CPP monthly benefit will be increased by 0.7% to a maximum of 42%.

The following chart illustrates differences in total CPP retirement income for various lifespans:

Age when taking CPP	Monthly Payment	Annual Payment	Total Age 75	Total Age 80	Total Age 85	Total Age 90
60 in 2016	$699	$8,390	$125,856	$167,808	$209,760	$251,712
65 in 2021	$1,093	$13,110	$131,100	$196,650	$262,200	$327,750
70 in 2026	$1,551	$18,616	$93,081	$186,162	$279,243	$372,324

Note: Pre-tax values have been rounded to the nearest dollar based on the 2016 maximum monthly CPP payment of $1,092.50 (with no adjustment for inflation). For example, the calculation for CPP retirement benefit payment starting from age 65 to 80 is $1,092.50 per month x 12 months x 15 years = $196,650.00

Should you take CPP early, at 65, or defer until after 65? Your choice will be influenced by how you wish to manage all your sources of retirement income throughout your retirement. This is a complex calculation to view over your entire retirement. Talk to your TD advisor about all the factors involved and in making an informed decision.

When do you cease contributing to CPP?

Generally, you stop making CPP contributions when you start to receive CPP benefits. However, if you continue to work while receiving CPP, you will also continue to make contributions from ages 60-64. Then, between the ages of 65 and 70, you can file an election with your tax return to stop making contributions. Otherwise, if you continue to work, you will stop contributing when you reach age 70.

The Death and Survivor's Benefit

The CPP also provides a one-time death benefit equal to six months' worth of CPP/QPP benefits to a maximum of $2,500. It also provides the survivor's benefit, should you lose a spouse or common-law partner.

If you are receiving the full monthly benefit when you die, your spouse may be entitled to up to 60% of your benefit (depending on their age). However, if your spouse is also receiving CPP, the combination his or her CPP benefit plus yours cannot exceed the monthly payment for an individual.

For example:

- Your benefit is the maximum: $1,114.17
- The Survivor's Benefit will be $668.50 (60% of your benefit), and your Spouse's CPP benefit is $644.35 for a total of $1,312.85. This exceeds the individual maximum, therefore your spouse will receive: $1,114.17

When you lose your spouse or common-law partner, ensure that you notify CPP so you can receive these benefits. CPP will require a copy of the death certificate and your spouse's CPP account number. If you have questions about the calculation of the Survivor's Benefit, speak with your TD advisor for assistance.

Living or working outside of Canada

If you are living outside Canada when you become eligible for CPP you can still receive it. The drawback is that a 25% withholding tax will be imposed unless Canada has a tax treaty with your country of residence, which may provide a reduction or exemption of the withholding tax.

You may have worked outside Canada and contributed to a pension plan in the country where you resided and worked. If Canada has a social security agreement with that country, the time you spent working there may be added to your CPP contribution period, and taken into account when assessing your eligibility for CPP.

You may wish to consult with your TD advisor about the impact of living or working abroad, to ensure you receive the maximum CPP amount possible.

Pension sharing

If you have a spouse or common-law partner, you live together and you're both at least 60 years-old, you can apply to share your CPP pension. This is one way in which to divide income and potentially lessen the tax burden on the higher-income person, and therefore the couple too.

You must apply through *servicecanada.ca*. The two of you must be receiving CPP or applying for it — as well as applying to share it.

Your ability to share your CPP depends on two factors: first, how long you have lived together while contributing to CPP; second, any CPP earned during your working years prior to the relationship. Please see the two examples below.

1. Zahir and Rashin have lived together for *40 years*, when both were contributing to CPP. Zahir's monthly CPP benefit is $800, while Rashin's is $300. By simply dividing these two amounts by two, they will have the amount each will receive by CPP sharing: $550.
2. Jean and Marie lived together for *20 years* while making CPP contributions. Jean's monthly CPP is $700 but $300 of that is based on years prior to the relationship. Similarly, $150 of Marie's monthly payment of $350 is based on time before they began living together.

	Total CPP received (a)	CPP benefits related to period prior to relationship (b)	Amount available for sharing (a) – (b) = (c)	Amount that they can now share. Jean's (c) + Marie's (c) divided by 2 = (d)	**Amount they now have to report as income (d) + (b)**
Jean	$700	$300	$400	$300	**$600**
Marie	$350	$150	$200	$300	**$450**

Pension-sharing will end under any of the following scenarios:

- If both partners decided to cancel the sharing arrangement.
- Divorce or separation for married couples.
- Relationship breakdown for common-law couples.
- The death of one partner.

Upon dissolution of the CPP sharing agreement, both people will continue to collect and report their original entitlement.

Since CPP is taxable, sharing your credits with your spouse or partner can be tax efficient. Speak with your TD advisor and tax professional to work through the necessary calculations and discuss the impact of sharing.

CPP splitting when your marriage breaks down

The Canada Pension Plan (CPP) contributions you and your spouse/common-law partner made during the time you lived together can be equally divided after a divorce or separation. This is called credit splitting. Credits can be divided even if one spouse or common-law partner did not make contributions to the CPP.

Service Canada must receive legal notification of the divorce, and one spouse must apply for credit splitting. Then they can assist in this process by reviewing the records of both partners' contributions to the plan. Even if only one of you contributed to CPP, a split of the credits can be achieved. The credits are compiled and split equally between both partners.

Here's an example of CPP credit splitting:

- Leslie and Logan split after 20 years of marriage.
- Leslie stayed at home to care for their two children and did not earn any CPP credits.
- Upon the dissolution of their marriage, Leslie requested that Logan's accumulated credits be split between them.
- Not only will that establish CPP entitlement for Leslie in the long-run, any new time spent working and earning credits will add to her eventual CPP entitlement.

The Post-Retirement Benefit

With Canadians living and working longer, a lifetime benefit known as the Post-Retirement Benefit (PRB), separate from CPP is available. You might be eligible for the PRB if you are:

- 60-70 years of age
- Working and contributing to the CPP
- Receiving a retirement pension from CPP/QPP

Between 60-65 CPP contributions are mandatory for CPP retirement pension recipients. At age 65 you can choose not to contribute to CPP. Contributions cease when you stop working or reach age 70. The amount of PRB you receive will depend on your age, earnings and contribution amounts made during the previous year. It's approximately 1/40 of your annual CPP. You will start receiving the benefit the year after you begin contributing.

Other PRB facts:

- It's taxable, like CPP
- It's not available for credit splitting or pension-sharing
- There is no clawback
- It will affect income-tested benefits such as the GIS

If you decide to work after age 65, you may wish to contribute and benefit from the PRB. Speak with your TD advisor about this decision and how it fits in with your overall Financial Plan.

Now you can speak with your TD advisor about:

- **When you should start receiving Old Age Security and CPP/QPP**
- **Whether you wish to share CPP credits with your spouse or common law partner and how it will work**
- **If you want to contribute to and receive the PRB**

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