Government Benefits

The foundation of your retirement income

Many Canadians will be looking to government benefits when they retire but are unsure what they can expect to receive. This is not surprising as the amount will depend on a few factors specific to the individual.

Old Age Security

Old Age Security (OAS) benefits are available to seniors aged 65 and older who meet certain eligibility requirements. Unlike other pensions, OAS is not based on employment history but is based on your age and the number of years you have lived in Canada as a Canadian citizen or legal resident.

To receive the maximum OAS payment, you must have lived in Canada for at least 40 years after turning 18. However, you may receive a partial OAS pension if you have lived in Canada for at least 10 years after the age of 18. OAS benefits are taxable in the year received and are adjusted quarterly (in January, April, July, and October) if there are increases in the cost of living as measured by the Consumer Price Index. If Canada has a social security agreement with the country where you also lived, your residency period there may count toward your eligibility.

> You may receive a partial OAS pension if you have lived in Canada for at least 10 years after the age of 18.

It should be noted that with OAS there is a recovery tax or 'clawback' of the OAS benefit under the *Income Tax Act* (Canada) that may apply once your income reaches a certain threshold ($77,580 in 2019). If net income is above the threshold, then you will have to repay 15% of the excess over this amount, to a maximum of the total amount of OAS pension received. Spouses' incomes are not combined for purposes of the clawback; each taxpayer's income is considered separately.

For an example to highlight how the OAS clawback works:

If your income in 2019 was $85,000, then your repayment would be 15% of the difference between $85,000 and $77,580:

$85,000 - $77,580 = $7,420

$7,420 x 15% = $1,113

You would have to repay $1,113 for 2019.

In addition, if you have to pay back part of your OAS pension in 2019, an appropriate amount will be deducted from your future OAS pension payments as a recovery tax. For this example, the recovery tax of approximately $92.75 per month would be deducted from your pension payments starting July 2020.

Service Canada automatically enrolls seniors who are eligible to receive the OAS pension and 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. However, depending on your circumstances, you may choose to defer OAS pension.

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. Your monthly benefit will increase 0.6% for each month that you defer, up to a maximum of 36% at age 70.

Example:

In 2019 the maximum OAS payable to an individual who began their pension at the age of 65 is $607.46. Using the 2019 maximum amounts, a deferment of 1 year and a deferment of 5 years would result in the following increases to the monthly OAS benefit:

1 year deferral, start age of 66

- they would receive an increase equivalent to 12 x 0.6% = 7.2%
- the monthly pension would be $651.20

5 year deferral, start age of 70

- they would receive an increase of 36%
- the monthly pension would be $826.15

Depending on your circumstances, it may make sense to begin OAS at age 65; however, if your income levels are anticipated to be above the threshold and the net OAS benefit is minimal to you, it may make more sense to defer OAS and possibly receive a premium amount for years in which your income is not above the threshold.

The Guaranteed Income Supplement & the Allowance for the Survivor

The Guaranteed Income Supplement (GIS) provides a monthly non-taxable benefit to OAS pension recipients who have a low income and are living in Canada. To qualify, you must be receiving OAS benefits, and your annual income (plus spouse or partner's income, if applicable) must be lower than the maximum annual GIS threshold. For instance, in 2019, if you are a single, widowed or divorced pensioner, the threshold is $18,408 but if you have a spouse or common-law partner, this amount can be as high as $44,112 (combined income).

The Allowance for the Survivor, once known as the Spousal Allowance, is meant for low-income Canadians, aged 60-64, whose spouse or common-law partner has passed away. In order to qualify, an individual must meet all of the following conditions:

- you are aged 60 to 64 (includes the month of your 65th birthday)
- you are a Canadian citizen or a legal resident
- you reside in Canada and have resided in Canada for at least 10 years since the age of 18
- your spouse or common-law partner has died, and you have not remarried or entered into a common-law relationship
- your annual income is less than the maximum annual threshold ($24,816 in 2019)

For more information, please go to: servicecanada.gc.ca.

The Canada Pension Plan/Quebec Pension Plan

The Canada Pension Plan (CPP)/Quebec Pension Plan (QPP) provides monthly benefits to contributors and their families, in the case of retirement, disability or upon death. The CPP is contributed to by individuals employed in Canada, with the exception of Quebec, where employed individuals contribute to the QPP. For 2019, the maximum CPP/QPP payment is $1,154.58 per month or $13,854.96 annually.

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It should be noted that the CPP & QPP programs are designed to mirror each other in almost all aspects and they are transferable; therefore an individual who has paid into one or both programs will not be impacted if they move in or out of Quebec. Once an individual is ready to begin receiving their pension it will be based on their province of residence at that time, but their pension amount will take into account contributions made in their lifetime to both programs, if applicable. Once the CPP/QPP payments begin, they will continue even if the recipient changes their province of residence.

You may have worked outside of 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/QPP contribution period, and taken into account when assessing your eligibility for CPP/QPP.

Even if you are living outside Canada when you become eligible for a CPP/QPP pension, you can still receive it. However, there may be a 25% withholding tax applied, unless Canada has a tax treaty with your country of residence, which may provide a reduction or exemption to the withholding tax.

What is the contribution requirement?

You begin contributing to CPP/QPP when you turn 18 and earn employment income greater than the basic exemption amount of $3,500 (for 2019). The maximum amount you are required to contribute is based on the Year's Maximum Pensionable Earnings (YMPE). For 2019, the YMPE amount is $57,400.

An employee and their employer each contribute 5.10% of the amount above the $3,500 basic exemption amount to the maximum contributory earnings amount ($57,400 for 2019) which is equal to $2,748.90 for 2019. If you are self-employed, you would pay both the employee and employer's contribution which is $5,497.80 for 2019. The amount you receive in retirement will depend on the contributions made by you, by your employer for your benefit, and the number of years contributions were made.

The CPP/QPP includes provisions that help to compensate for periods when individuals may have relatively low or no earnings. Dropping periods of low or no earnings from the calculation of average earnings increases the amount of one's CPP/QPP benefit. The following provisions may be accessible to you and could provide you with a greater CPP/QPP benefit amount:

- Child-rearing provisions: this provision allows you to drop low earning months or months that you were unable to work because you were the primary caregiver raising your children under age 7;

- Over-65 drop-out provision (applies to CPP only): this provision allows workers to increase their benefit amounts when they continue to work after reaching age 65. It allows low earning months before age 65 to be replaced with earnings after age 65;
- Disability exclusion and disability drop-in provision: this provision allows periods which individuals have been disabled (per the CPP/QPP legislation) to be omitted in their contributory period;
- General drop-out provision: this provision affects 17% for CPP or 15% for QPP, of your base contributory period, when your earnings were at their lowest, allowing up to 8 years of your lowest earnings to be dropped from the calculation.

To review your CPP status, go to your My Service Canada Account, to review your QPP status go to your ClicSÉQUR account. In Quebec, the Statement of Participation is also automatically mailed out to participants on an annual basis. It is important to note that both the CPP Statement of Contributions and the QPP Statement of Participation indicate projected amounts of what you could receive if you take your retirement at age 60 or 65. The values provided are quoted in today's dollars and based on the legislation as it applies in the current year.

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Enhancements to CPP/QPP

In order to meet rising costs due to longer retirement periods, and a larger pool of retirees vs contributors, the CPP & QPP programs are being enhanced. Starting in 2019, the CPP/QPP enhancement will begin to grow to replace one third of a worker's eligible pre-retirement employment earnings. *For those who make enhanced contributions for 40 years*, the maximum CPP/QPP retirement pension will increase by up to 50%.

Generally one-third of workers will see more of their earnings covered by the enhanced CPP/QPP in a given year as a result of the extension of the earnings range. Over time, approximately two-thirds of workers will see more of their earnings covered by the enhanced CPP/QPP.

The CPP/QPP enhancement results in increases to the contribution rates from 5.1% in 2019, to 5.25% in 2020, to 5.45% in 2021, to 5.7% in 2022 and then to 5.95% in 2023.

Beginning in 2024, a second, higher limit, known as the Year's *Additional* Maximum Pensionable Earnings (YAMPE), will be introduced. This higher limit will not replace the first earnings ceiling but will instead subject your earnings to two limits. This new range will start at the first earnings ceiling (estimated to be $69,700 in 2025) and go to the second earnings ceiling which will be 14% higher by 2025 (estimated to be $79,400). Similar to contributions made up to the YMPE, it is the responsibility of both employees and employers to contribute on earnings above the YMPE to the new YAMPE (at a rate of 4% each). Whereas self-employed individuals will contribute 8% on earnings between the two earnings limits.

When do you cease making contributions?

Generally, you stop making CPP contributions when you start to receive CPP benefits unless you continue to receive employment income. However, once you are 65, you can file an election with your tax return to cease making contributions. Otherwise, if you continue to work and don't make the election, you will stop contributing when you reach age 70.

If you are a resident in the province of Quebec, and you receive employment income above the basic exemption of $3,500, you will continue to contribute to the QPP, even if you have already begun receiving your QPP or CPP.

When should you start receiving CPP/QPP?

You can choose to begin receiving your CPP/QPP as early as age 60 or you can choose to defer the retirement benefits until you are 70. Your CPP/QPP monthly benefit is based on taking your CPP/QPP pension at age 65 and therefore will decrease 0.6% for each month that you begin prior to age 65 (up to 36%) or increase by 0.7% for each month that you defer receipt after age 65 (up to a maximum of 42%).

Example:

In 2019, the maximum CPP/QPP payable for an individual who has maximized their contributions and is 65 years old is $1,154.58.

Early retirement, starting at the age of 60

- they would receive a reduction equivalent to 60 x 0.6% = 36%
- the monthly pension would be $738.93

5 year deferral, start age 70

- they would receive an increase equivalent to 60 x 0.7% = 42%
- the monthly pension would be $1,639.50

Therefore, you should consider when it would be preferable to begin receiving CPP/QPP payments based on your individual circumstances. It is important to understand that once CPP/QPP retirement benefits begin, they cannot be halted (unless requested in writing up to six months after CPP/QPP payments commence), and it will impact your taxable income going forward. In addition, as individuals are living longer, a reduced pension amount may have a negative impact on your ability to meet your retirement needs.

The Post-Retirement Benefit or Retirement Pension Supplement

Once you have begun receiving your CPP/QPP payments, you may still be working, or you may decide to return to work. Should that occur the CPP & QPP programs approach this aspect slightly differently. The CPP offers the Post-Retirement Benefit (PRB) which is a program you may opt in or out of, whereas the QPP offers an automatic enrolment to the Retirement Pension Supplement. For both programs, additional payments begin the year following any additional contributions.

You may be eligible for the PRB if you are:

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

The amount of the PRB you receive will depend on your age, earnings, and contribution amounts made during the previous year. It is approximately 1/40 of your annual CPP. The PRB is paid as a separate amount in addition to your regular CPP or QPP.

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The Quebec Retirement Pension Supplement is 0.5% of the earnings on which contributions were made in the previous year and will continue for the remainder of the contributor's lifetime. If the individual is already receiving QPP the amount will be adjusted, however if they are receiving CPP they will continue to receive their base pension and separately receive a QPP pension for any new entitlements.

Pension sharing

You can share your CPP/QPP with your spouse or common-law partner if you are receiving your pension, or be eligible to receive it, and be living with your spouse or common-law partner. This is one way to share income with your spouse or common-law partner and could potentially decrease your household income taxes while increasing your total household after tax income. You must apply to Service Canada or Retraite Quebec in order to have the physical payments of the CPP/QPP shared with your spouse or common-law partner.

The amount that can be shared between you and your spouse or common-law partner is based on the number of months you and your spouse or common-law partner lived together during your joint contributory periods. This period is the time when either one of you could have contributed to the CPP and/or QPP.

Please see the two examples below.

1. Zahir and Rashin have lived together for *40 years*, when both were contributing to CPP/QPP. Zahir's monthly CPP/QPP benefit is $800, while Rashin's is $300. Since Zahir and Rashin have lived together for the entire time they were making CPP/QPP contributions, they can equally split their CPP/QPP entitlement so each will receive $550.
2. Jean and Marie lived together for *20 years* while making CPP/QPP contributions. Jean's monthly CPP/QPP is $700 and Marie's is $350. Of these amounts, $300 of Jean's CPP/QPP is based on years prior to the relationship while $150 of Marie's is based on time before they began living together.

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

Pension sharing will end under any of the following scenarios:

- If both partners decide to cancel the sharing arrangement.
- The month following a divorce for married couples.
- Relationship breakdown for common-law couples.
- The month the partner who has never contributed to the CPP/QPP beings to contribute.
- The death of one partner.

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

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

CPP/QPP splitting when your marriage breaks down

The CPP/QPP 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/QPP.

Service Canada or Retraite Quebec must receive legal notification of the divorce, and one spouse can apply for credit splitting. Service Canada or Retraite Quebec can assist in the process by reviewing the records of both partners' contributions to the plan.

An example of CPP/QPP credit splitting is as follows:

- 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/QPP credits.
- Upon the dissolution of their marriage, Leslie requested that Logan's accumulated credits be split between them.

- Not only will that establish CPP/QPP entitlement for Leslie in the long-run, any new time spent working and earning credits will add to her eventual CPP/QPP entitlement.

The Death Benefit and Survivor's Pension

The CPP/QPP provides a one-time taxable death benefit equal to six months' worth of CPP/QPP benefits up to a maximum of $2,500, payable to the deceased's estate. It also provides the survivor's pension, as well as an allowance to minor children of a deceased contributor.

The amount of the survivor's pension will be based on the eligibility of the decedent and their own eligibility if they have already begun to receive their own CPP/QPP. The amount of the survivor portion cannot increase his or her benefit to more than the individual maximum monthly benefit. Given the potential variations in the amount that an individual survivor could receive it is recommended to contact Service Canada or Retraite Quebec directly for information. In addition, it is important to note that one must apply for the survivor pension through Service Canada or Retraite Quebec following the death of the contributor.

In the case of the children's benefit (CPP) or the orphan's pension (QPP) the amount is adjusted annually for inflation and is $250.27/month for 2019. Generally speaking the amounts are paid to children of a deceased contributor until the age of 18, and must also be requested through Service Canada or Retraite Quebec. Under CPP a child may still be considered eligible until the age of 25 if they attend school full-time at a recognized school or university.

Considerations

Consult your personal accounts with Service Canada or Retraite Quebec to understand your eligibility and projected entitlements. Speak with your TD Advisor and tax specialist to help understand how your individual circumstances may be impacted or supported by these benefits.