Canada Pension Plan

The Canada Pension Plan (CPP) was created through federal and provincial governments in 1965. The original intent of the plan was to cover 25% of the average lifetime earnings for the Canadian workforce.

Many Canadians have a fear that the CPP may run out of money. In 1997, a study concluded that by placing major amendments to the CPP plan, the financial stability was restored for future generations. As of September 30, 2022, the CPP fund totalled $529 billion and has been receiving more money than it is paying out since the amendments were made.

CPP is essentially a defined benefit pension plan that is totally funded by employers and employees.

CPP Options

There are several options for drawing CPP benefits. The payment will depend on the contributions made to the plan. To receive the maximum CPP benefit, members must contribute the maximum amount for at least 39 years contributions based on the YMPE schedule set by CRA.

Child Rearing Provisions

There is an exception to the 39-year rule and that is the years your member’s may have had low or no income during the period they were raising young children The pension credits are based on the average earnings in the 5 years before the birth or adoption of the child. Note, application to CRA is necessary to receive the pension credits for the child rearing years.

CPP By the Numbers

The CPP Options are as follows:

Receive CPP payments ***before*** age 65. Payments are reduced by 0.6% each month up to a maximum reduction of 36% at age 60.

Standard CPP commencement date is age 65.

Receive CPP payments ***after*** age 65. Payments will increase by .7% each month up to a maximum of 42% at age 70.

A Canadian turning 60 years of age in 2022 will have the following options for their CPP Benefits:

Note, this is assuming they qualify for maximum benefit. Additionally, this does not factor in the indexing rate.

	Age 60	Age 65	Age 70
CPP (36% Reduction)	$802.30		
CPP at 65 - Standard		$1,253.59	
CPP (42% Increase)			$1,781

Planning for your member's retirement includes having a discussion regarding their CPP and OAS options. Many planners will ask the member when they are drawing their CPP benefits without showing the options the member has available to them. Many pre-retirees will want to take their CPP as soon as it is available to them which is at age 60. For many, this may be their wish as they may have heard about a friend or family member that passed away before receiving any or very little of their CPP benefits. Canadians are living longer and more healthier lives than ever before!

Reasons to take your CPP at age 60

There are several reasons to commence your CPP at age 60.

1) They require the CPP benefit to survive. If their income relies on the CPP benefit, then there are very few options available.
2) They may have health issues that will lead to a reduced life expectancy. If there is a shortened life expectancy consideration should be given to commencing the CPP payments at 60.
3) They did not work between 55 and 60. There were no contributions to the CPP plan during the last 5 years and therefore the CPP benefits will be based on your best 35 years of earnings.

Reasons to delay your CPP to age 70

Your members may want to consider delaying the CPP benefit to age 70.

1) The members will receive 42% enhanced payment compared to taking your CPP at age 65.
2) By delaying CPP to age 70 they are protecting retirement against longevity. Canadians are living longer, and many will live well beyond the average mortality age of 85.
3) CPP payments at 65 would trigger OAS clawbacks due to total income being over the OAS clawback threshold which is currently $81,761 in 2022.

Old Age Security

The Old Age Security benefits have been available to Canadians since 1952 and at that time provided universal pension to Canadians 70 years and older who met residence requirements. Unlike the CPP pension plan, the Old Age Security program is 100% funded by the revenues of the Government of Canada.

In 2022 the OAS pension amounts are as follows:

- Canadians aged 65 to 74 $685.50
- 75 and over $754.05.

To be eligible for OAS benefits members must be:

1) Age 65 or older
2) Reside in Canada for at least 10 years from the age of 18.
3) Be a Canadian citizen at the time the application is approved.

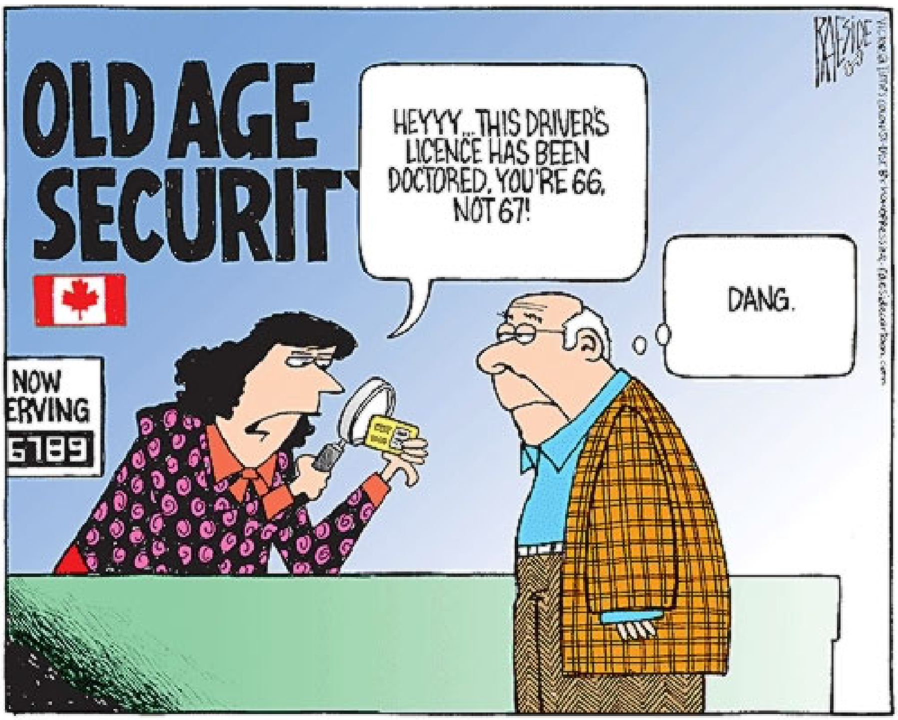
OAS Options

The standard age to receive your OAS Benefits is age 65, however there is an option of delaying the OAS benefit past the age of 65. If your member defers their OAS benefits past age 65, they will receive 7.2% more each year to a maximum of 36% up to age 70.

Age	OAS Payment
65	$685.02
66	$734.34
67	$784.21
68	$833.57
69	$882.92
70	$932.28

OAS Clawbacks

In 2022 the OAS minimum clawback is $81,761. The maximum OAS clawback is $133,141. The clawback rate is 15% of the portion the member's income exceeds the minimum threshold.



Strategies to Avoid OAS Clawbacks

There are a few strategies that can be used to reduce or avoid OAS clawbacks for higher income retirees.

- Spend/draw down RRSPs before turning 65.
- Elect Deferral of OAS - This works well for those people who are planning to work past the age of 65
- Use Tax Free Savings Accounts TFSA - Maximizing the TFSA is a great strategy to reduce OAS Clawback
- Watch for capital dispositions after the age of 65. For example, people with rental properties, cottages or significant unrealized capital gains from investments may be better off triggering those gains before the age of 65. Triggering them after 65 may result in losing OAS through clawback.

Summary

This financial tip is part one of two. The second part will delve into specific strategies when planning for your member's retirement. CPP and OAS strategies must be an integral part of the planning process and it is important that your members understand their options before deciding on receiving the CPP and OAS payments.

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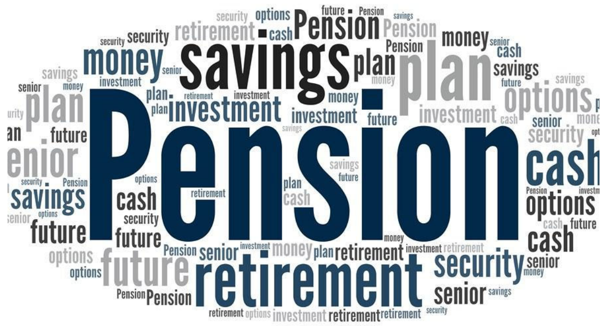

Canada Pension Plan and OAS Options

This strategy document will be the second part of creating options for our member's Canada Pension Plan and OAS benefits.

Pitfalls when discussing CPP/OAS Options with Members

There are several pitfalls that must be avoided when discussing CPP and OAS options for your member including:

1) Personal Bias. Many advisors have their own opinion on the best time for their members draw on the CPP benefits. This may be based on personal experience with a family or friend or their own opinion of the CPP Plan. Educate yourself on the CPP and OAS benefits and pass this along to your members.
2) Protecting your book of business by having members take their CPP early. Advisors can be biased to taking CPP early so the members are not drawing down their registered investments prior to age 65. Note, the incentive to delay the CPP may be greater than expected when the drawdown rate is substantially lower in the member's later years.

3) Neglecting to show the members the various options of taking the CPP early at age 60 to delaying the CPP until age 70.
4) The fear of CPP disappearing. As mentioned in part 1, the CPP is sustainable for generations.

Planners must be in the habit of showing the members their options for drawing out the CPP and OAS benefits.

<u>Examples of Drawdown with CPP at 60, 65, and 70</u>

Retirement expenses at $5,250 net. Retirement Assets combined of $700,000. Mortality at age 95.

CPP Scenario - CPP at age 60 - Only 83% of Goal Achieved

	60	65	70	75	80	85	90
Combined CPP	$16,000	$18,800	$20,750	$22,900	$25,300	$27,900	$30,800
Combined OAS		$16,230	$19,500	$23,500	$26,200	$28,900	$31,950
Retirement w/d	$62,500	$46,160	$49,500	$52,700	$58,065	$0	$0
Retirement Expenses	$68,000	$75,300	$83,120	$91,800	$101,000	$111,878	$123,500
Shortfall						($55,132)	($61,000)

CPP Scenario - CPP at 65 - 94% of Goal Achieved

	60	65	70	75	80	85	90
Combined CPP		$29,200	$35,200	$38,822	$42,800	$47,350	$52,300
Combined OAS		$16,230	$19,500	$23,500	$26,200	$28,900	$31,950
Retirement w/d	$78,000	$35,740	$35,000	$36,750	$40,400	$44,700	$0
Retirement Expenses	$68,000	$75,300	$83,120	$91,800	$101,000	$111,878	$123,500
Shortfall							($40,240)

CPP Scenario - CPP at 70 - 100% of Goal Achieved

	60	65	70	75	80	85	90
Combined CPP			$48,500	$58,400	$64,500	$71,.000	$78,524
Combined OAS		$16,230	$19,500	$23,500	$26,200	$28,900	$31,950
Retirement w/d	$78,000	$65,000	$21,700	$19,000	$19,900	$20,700	$23,500
Retirement Expenses	$68,000	$75,300	$83,120	$91,800	$101,000	$111,878	$123,500
Shortfall							

Advantages of delaying CPP to 70

1) The increase of the CPP payment of 42%.
2) Investment risk is greatly reduced with the guaranteed payment of the CPP. This will be noteworthy for retirees with RRIF income and a Defined Contribution Plan where they are incurring market risk.
3) Longevity. Many Canadians are living longer, and many Canadians are living healthier lifestyles in their 90s.
4) Delaying CPP can be a hedge against long term care insurance.
5) Alleviate the fear of outliving your retirement savings.

Disadvantages of delaying CPP to 70

1) Premature death of one spouse. The maximum CPP is based on the age at 65, not 70 when survivor's income is included.
2) For shortened life expectancy due to genetics, health status, or any other personal issues, delaying CPP may be detrimental to their financial plan. For all expected shortened life expectancy cased, it is recommended the member receive the benefits as soon as they are eligible which is age 60.
3) As the CPP is acting like an annuity, there may be a liquidity problem if larger lump sum withdrawals are required.
4) Estate Preservation on a premature death. As a higher withdrawal is required prior to age 70, a higher depletion rate is required in the early drawdown years.
5) If inflation is higher than wage growth (in 2022 and 2023), an increased immediate benefit is possible.

Create your own incentive plan by having the money last longer.

OAS Strategies to Consider

Clawbacks to avoid

1) Sell real estate prior to age 65 if there are capital gains incurred.
2) Watch the retirement schedule, members may be retiring in the year they turn 65. This will trigger a clawback as the income is determined from the year they retire or the year prior to retirement. There may be a need to delay the OAS by one year if there is significant clawback.
3) Neglecting to ask the member their income projection. Members may not be disclosing all their income and will not be aware of clawback provisions that may affect their OAS payments.

CPP Strategies to Consider

1) Apply for the sharing of CPP, this is based on a formula. Encourage your member to apply to Service Canada to share the CPP if there is a gap in benefits. The formula is based on contributions made and number of years the members have been married or in a common law relationship.

2) CPP can be considered the same way as bridging. The bridging concept can be included to draw down your retirement portfolio until the CPP benefits commence. If the member is a widow, it is in their best interest to take the CPP as soon as they are eligible at age 60 as there is a maximum, they can receive between their own benefits plus survivors' benefits.

3) Consideration should be given for members with a shortened life expectancy. As the breakeven point to taking CPP at 60 vs. 65 is 73 years of age, it may be a good decision to take CPP at 60 years of age if there is a shortened life expectancy.

Collecting CPP while continuing to work.

If you continue to work while receiving your Canadian Pension Plan (CPP) retirement pension and are between the ages of 60 and 65 years old, you must still contribute to the CPP. Your CPP contributions will go toward post-retirement benefits. These benefits will increase your retirement income when you stop working.

If you continue to work while getting CPP retirement pension and are between the ages of 65 and 70 years old, you can choose not to make any more CPP contributions. If you decide to keep paying into the CPP, your employer will also have to contribute. If you're self-employed, you'll have to pay both the employee and employer portions.

Learn how to contribute to the Canada Pension Plan post-retirement benefit.

CPP Post Retirement Benefits (PRB)

Like the CPP retirement pension, the amount of each Post-Retirement Benefit (PRB) will depend on how much you earn, the amount of CPP contributions you made during the previous year, and your age as of the start date of the PRB.

You can get an estimate of your PRB amount by using the Canadian Retirement Income Calculator (CRIC). The CRIC can also give you an idea of your other retirement income, including CPP and OAS benefit estimates.

The maximum PRB for one year is equal to 1/40th of the maximum CPP retirement pension. If you contribute less than the maximum, the amount of the year's PRB will be proportional to your contributions. For example, if you contributed half of the maximum contribution level, you would receive half of the maximum PRB.

Note:

Working the same year you start receiving your CPP retirement pension.

If you work in the same year that your retirement pension begins, we will determine which portion of that year's contributions will go toward the retirement pension and which portion, if any, will go toward the PRB.

National Institute of Ageing Research Paper

In December of 2020, FP Canada released a research paper written by Bonnie-Jean MacDonald, PhD, FCIA, FSA, Director of Financial Security Research at the National Institute of Ageing, Ryerson University.   Highlights of this paper include:

1) Fewer than 1% of Canadians choose to delay benefits to age 70
2) Canadians are facing longer periods of retirement and are living much longer than ever before.
3) Canadians are not receiving enough retirement options from their financial planners.
4) Most Canadians in reasonable health who can afford to defer their CPP benefits should do so. The financial advantages are material.
5) Life expectancy for a 60-year-old is 25.9 years for men and 28.5 years for women.   This stat is derived from Stats Canada however members with a shortened life expectancy may want to consider taking their CPP as soon as they are eligible at age 60.

Frederick Vettese - Retirement Income for Life Concepts

There is an excellent book written by Frederick Vettesse regarding retirement income with an entire chapter dedicated to CPP and OAS Strategies.

Some of the concepts discussed in this book include:

1) The “bird in the hand” argument is a completely irrational reason to consider taking your CPP early. The argument is that if someone dies early, they feel cheated about not receiving CPP income. Mr. Vettese’s rebuttal is “if you die early, you have bigger worries about getting short changed on your CPP income. Your bigger concern should be what happens if you live longer than expected because you will still be around to regret a bad decision”.
2) Transfer your market risk to the Government of Canada. CPP is an inflation protected payment for life. This may not be applicable when for members receiving the majority of their pension income from a Defined Contribution Pension Plan.
3) There are valid reasons to take your CPP early including having limited retirement savings funds that limits your ability to take larger withdrawals before your CPP commences. Conversely if you have retirement assets of $750,000, you may have the ability to delay your CPP payment.
4) The CPP survivor’s benefit is based on the maximum amount at age 65. For example, if you have delayed your CPP to age 70 and are receiving 1,700 per month, the CPP available to the surviving spouse is based on the amount you would have qualified for at age 65 ($1,306 in 2023).

   Note, with current high interest rates, Mr. Vattese has written another article for the Globe and Mail that provides reasons to take CPP prior to 70 in periods of high inflation. In “normal years” the inflation rate is higher than the national average wage increases, however this has been reversed in the last 2 years. Eventually inflation will decrease to the Bank of Canada goal of approximately 2%.

[Globe and Mail Article September 2022 Frederick Vettese]

CPP/OAS Tips and using Navi Plan

1) The retirement income required is based on a dollar amount and this will be reduced when the CPP and/or OAS benefits commence. Follow the Navi Plan when establishing and modifying the retirement withdrawals.
2) Be cognizant of total income. The OAS clawback may kick in without the member realizing. For example, if they are selling nonregistered assets, real estate or receiving outside income, this may affect their OAS payment. Be aware of all income sources and the amounts.
3) Show the members the different payments when reviewing their CPP and OAS options. As previously stated, many members do not know what their options are, and they are looking to us for guidance. Most Canadians do not know their options when considering CPP and OAS payments. We need to show the options to them through our Navi Plan program.

Summary

Becoming familiar with CPP and OAS options will build strong relationships with our members. CPP and OAS payments are a key component when implementing your members financial plan and it is important to explain the benefits/pitfalls of taking payments early or delaying the payments.

As Certified Financial Planners, we are required to educate our members providing them with the knowledge to make an informed decision for their retirement needs. The ultimate decision will be up to the member however by working with a financial planner the decision will be an educated and an informed one.

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