# Retirement Planning:
## CPP/QPP, RRIF and OAS Considerations

February 2023

When the time for retirement arrives, payments from the Canada Pension Plan or the Quebec Pension Plan ("CPP"/"QPP"), Registered Retirement Income Fund ("RRIF"), and Old Age Security ("OAS") are the main sources of retirement income for many Canadians. It is important to consider these income streams and discuss the planning opportunities with your financial professional as you approach your retirement years. This article provides an overview of these programs and some factors affecting the decision-making process.

### CPP/QPP: Background and current rules

The CPP/QPP is a public pension plan that provides working Canadians and their families with income for retirement, and basic financial protection in the event of death or disability. The plan operates throughout Canada, except in Québec, where the Quebec Pension Plan provides similar benefits. The CPP/QPP provides monthly payments that are adjusted annually for inflation.

The program is funded by contributions from working Canadians and their employers. The 2023 CPP contribution rate is 11.9% (12.8% – QPP) of an employee's earnings between $3,500 and the Year's Maximum Pensionable Earnings ("YMPE"), which is $65,700 for 2023. Contributions are split equally between employees and employers; those self-employed must pay both the employee and the employer portions.

The CPP/QPP retirement pension is a monthly benefit based on the number of years you have worked and contributed to the CPP/QPP, and on your earnings, up to a maximum amount. The maximum annual retirement pension is 25% of the five-year average of the YMPE. In 2023, the maximum annual CPP/QPP retirement pension amount is $1,306.57 per month from January to March in 2023 (Visit canada.ca for updated figures.), for receipt beginning at age 65. The amount you will receive is calculated from your career average earnings during your contributory period, but an adjustment is made to the calculation to exclude some periods of low or no earnings. This "general low earnings drop-out" may increase your CPP/QPP retirement pension by compensating for periods of unusually low earnings.

Although the CPP/QPP retirement pension normally begins on your 65th birthday, it can be taken as early as age 60 or as late as age 70. Generally, there is an average 7.2% decrease annually when taking CPP/QPP early, and a 8.4% increase for each year CPP/QPP is deferred beyond age 65.

### When should I start collecting CPP/QPP?

A number of factors should be considered when deciding at what age to start taking CPP/QPP.

1. **Do you need the CPP/QPP income to finance lifestyle expenses?**
   If CPP/QPP payments are needed to fund lifestyle expenses, taking CPP/QPP early may be a necessity. It is important to consider other sources of retirement income you will have, such as OAS, other pensions, and registered funds when making this decision. If CPP/QPP income is not needed immediately, you may consider deferring this income stream and gaining a larger monthly benefit.

2. **What is your life expectancy?**
   Life expectancy can play a major role in deciding when to take CPP/QPP. This decision may hinge on the fact that you may be terminally ill, or that you're healthy and your family has a history of longevity. The chart on page 3 shows examples of the adjusted total annual amount received by an individual with a stated CPP benefit of $600 per month (as per their CPP statement at age 65). For illustrative purposes, the amount of $600 is used in the example and calculations to realistically reflect the average monthly CPP payment that Canadians receive from the Canada Pension Plan.

3. **Have you stopped working?**
   In most cases, it is beneficial to start taking CPP/QPP benefits when you stop working. If you defer CPP/QPP at retirement and continue to work part time, these low earning years become part of your contributory period and may reduce the payments you will receive when you start CPP/QPP.

4. **What is your spouse's CPP/QPP entitlement?**
   If you or your spouse dies, the surviving spouse is eligible for a CPP/QPP survivor benefit based on the CPP/QPP retirement pension entitlement of the deceased. In cases where the surviving spouse is already receiving the maximum CPP/QPP pension, there is no additional survivor benefit. If you do not have a spouse or partner, your CPP/QPP entitlement will be lost on death. In this case, it may be beneficial to start taking CPP/QPP as soon as possible.

5. **Tax implications.**
   Income from CPP/QPP is taxable, and when added to other income streams it may push you into a higher tax bracket, or trigger an OAS clawback. Although CPP/QPP pension income is not eligible for pension income-splitting, you may request to share CPP/QPP income with your spouse or common-law partner under separate CPP/QPP legislation, for greater tax efficiency.

6. **Will the CPP/QPP income be invested?**
   As mentioned earlier, if CPP/QPP income is not needed to fund living expenses, it may be beneficial to delay starting CPP/QPP until age 70. However, if CPP/QPP is taken early and invested in a tax-sheltered plan, such as a Tax Free Savings Account ("TFSA"), the invested amounts could grow substantially, assuming that the anticipated returns outweigh the reduction in the CPP/QPP benefit.

## Canada Pension Plan Post-Retirement Benefit ("PRB")

If you continue to work while receiving your CPP retirement pension, and are under age 70, you can continue to participate in the CPP. Your CPP contributions will go toward post-retirement benefits, which will increase your retirement income.

### Aged 60 and over and working

If you work while receiving your Canada Pension Plan retirement pension, you may increase your retirement income with a lifetime benefit. This is called the Post-Retirement Benefit. You may be eligible if you are:

- 60 to 70 years of age;
- working and contributing to the CPP; and
- receiving a retirement pension from the CPP or the QPP.

If you work in Quebec after you started receiving your CPP retirement pension, you could receive a **retirement pension supplement** from the QPP.[1] To get this benefit, you and your employer have to make CPP contributions. If you are self-employed, you have to pay both the employee and the employer portions of the CPP contributions. Once you reach 70, you will stop making CPP contributions.

### 60 to 65 years of age and working

CPP contributions are mandatory for working CPP retirement pension recipients under age 65.

### 65 to 70 years of age and working

Starting at age 65, you can choose not to contribute to the CPP.

To stop contributing, you must fill out form *CPT30 Election to Stop Contributing to the Canada Pension Plan, or Revocation of a Prior Election*. Give a copy of the form to your employer, and send the original to the Canada Revenue Agency ("CRA").

If you have more than one employer, you must give a copy of the form to each of your employers. You cannot choose to contribute to the CPP with one employer and not contribute with another.

If you are self-employed, you must complete the applicable section of the CRA's *Scheule 8 CCP Contributions on Self-Employment and Other Earnings* and file it with your Income Tax and Benefit Return.

You can start contributing once again, but only one change can be made per calendar year. Submit Section D of a new CRA form *CPT30 Election to Stop Contributing to the Canada Pension Plan, or Revocation of a Prior Election*. Give a copy of the form to your employer, and send the original to the CRA. If you are self-employed, contact the CRA.

### How much could you receive?

Like the CPP retirement pension, the amount of each Post-Retirement Benefit 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.

The maximum PRB for one year is equal to 1/40 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 will receive half of the maximum PRB.

Note: If you are working in the same year that your retirement pension begins, your contributions will be determined by administrators of the CPP as to which portion of that year's contributions will go toward the retirement pension and which portion, if any, will go toward the PRB.

### Will this affect my other benefits?

Each new PRB will be added to any previously earned PRB and to any other CPP benefits to which you are entitled. The PRB will allow you to continue to build your CPP retirement income, even if you are already receiving the maximum amount from your pension.

Since the PRB will increase your retirement income, it may have an impact on your eligibility or benefit amounts from the Old Age Security pension, the Guaranteed Income Supplement, or other provincial or territorial programs.

Note: Contributions made after the start of the retirement pension do not create eligibility for, or increase the amount of, other CPP benefits. The PRB cannot be divided with a former spouse (credit splitting) or shared with a current spouse (pension sharing).

### Enhancing the CPP/QPP and Post-Retirement Benefit

Up until 2019, the CPP retirement pension replaced one quarter of your average work earnings. This average is based on your work earnings, up to a maximum earnings limit each year. Other sources of income—such as the Old Age Security program, workplace pensions and private savings—make up the rest of your retirement income.

The enhancement means that the CPP will begin to grow to replace one third of the average work earnings you receive after 2019. The maximum limit used to determine your average work earnings will also gradually increase by 14% by 2025.

Your pension will increase based on how much and for how long you contribute to the enhanced CPP. The CPP enhancements will increase the maximum CPP retirement pension by up to 50% for those who make enhanced contributions for 40 years.

The enhancement also applies to the CPP Post-Retirement Benefit. If you are receiving the CPP (or QPP) retirement pension and you continue to work and make CPP contributions in 2019 or later, your Post-Retirment Benefit will be higher.

Enhancing the Quebec Pension Plan involves adding an additional plan. As of 1 January 2019, the Quebec Pension Plan will be comprised of two plans:

1. The base plan (the current plan) where employees and employers each contribute 6.15% for the portion of earnings between $3,500 (the basic exemption) and the maximum pensionable earnings (“MPE”).
2. The additional plan, where additional contributions are paid by the employees and the employers according to a rate that will see a gradual increase from 2019 to 2023. In addition, as of 2024 new contributions will be added to the portion of earnings between the maximum pensionable earnings and the new pensionable earnings ceiling, which will be 107% of the MPE as of 2024 and 114% of the MPE as of 2025.

Individuals who contribute to the additional plan, which was implemented on January 1, 2019, will gradually see higher benefits in retirement, or in the event of death or disability.

The enhancement of the Quebec Pension Plan will be carried out gradually. Specifically, additional benefits will be based on the number of years of contribution as of 2019. The full effect of the changes on benefits will be achieved in roughly 40 years.

The rate will increase from 25% to 33.33%, contributing to higher retirement pensions. Since the increase is gradual and determined depending on the number of years of contribution to the enhanced part of the QPP, the generation of employees entering the labour market after 2019 will benefit from the most significant increase in their retirement pension, whereas employees who will retire in the coming years will benefit from an increase in their pension prorated to their number of years of contribution to the additional plan.

#### Examples of CPP Retirement Benefits at Different Start Ages

| Age to start CPP | Monthly CPP | Annual CPP Rate | Total received at age 75 | Total received at age 80 | Total received at age 85 | Total received at age 90 |
|---|---|---|---|---|---|---|
| 60 | $384 | $4,608 | $69,120 | $92,160 | $115,200 | $138,240 |
| 61 | $427 | $5,126 | $71,770 | $97,402 | $123,034 | $148,666 |
| 62 | $470 | $5,645 | $73,382 | $101,606 | $129,830 | $158,054 |
| 63 | $514 | $6,163 | $73,958 | $104,774 | $135,590 | $166,406 |
| 64 | $557 | $6,682 | $73,498 | $106,906 | $140,314 | $173,722 |
| 65 | $600 | $7,200 | $72,000 | $108,000 | $144,000 | $180,000 |
| 66 | $650 | $7,805 | $70,243 | $109,267 | $148,291 | $187,315 |
| 67 | $701 | $8,410 | $67,277 | $109,325 | $151,373 | $193,421 |
| 68 | $751 | $9,014 | $63,101 | $108,173 | $153,245 | $198,317 |
| 69 | $802 | $9,619 | $57,715 | $105,811 | $153,907 | $202,003 |
| 70 | $852 | $10,224 | $51,120 | $102,240 | $153,360 | $204,480 |

Note: The annual rate of reduction between ages 60 and 64 is 7.2%, and the annual adjustment for deferring between 66 and 70 is 8.4%. This summary is an estimate based on the assumptions listed and it is not meant for a precise calculation of your accumulated CPP benefits. QPP benefits under these assumptions may be slightly different. Highlighted values are the maximum accumulated CPP benefit for the listed life expectancies (e.g., if your life expectancy is 75, then it would be most beneficial to start receiving CPP at age 63; if your life expectancy is 80, then it would be most beneficial to start receiving CPP at age 67, and so on). The assumptions for this table are on page 4.

### Assumptions for the Table on page 3

| | | |
|---|---|---|
| **Assumed age on January 1** | 60 years | • Reinvestment of payments has not been considered.<br>• Post-Retirement Benefits are excluded from these calculations.<br>• Future indexation of payments is ignored for this analysis to provide present day values. |
| **CPP benefit per CPP statement at age 65** | $600.00 | |

This table illustrates someone retiring now and demonstrates how the age at which you begin drawing CPP affects benefits over time, but does not calculate specific CPP entitlement.

For more information, please ask your BMO financial professional for a copy of our publication, *Collecting the CPP*.

## RRIF: Background and current rules

A Registered Retirement Income Fund ("RRIF") is much like a Registered Retirement Savings Plan ("RRSP") in reverse. While RRSPs are accounts designed to help you save for retirement, RRIFs are designed to provide annual income in the form of withdrawals from a registered plan during your retirement. Like RRSPs, the assets in RRIFs continue to be tax sheltered until withdrawn. With a RRIF you continue to control how your funds are invested and have access to many of the same investments you held in your RRSP.

Your RRSP will mature in the year you turn 71. At this time, the RRSP can be converted to a RRIF, taken in cash, or used to buy an annuity. You may choose any one or a combination of these options. However, there are a number of factors to consider:

- **Opportunity to convert to a RRIF earlier than age 71** – Conversion to a RRIF can be done at any time to provide a source of income. Taking a RRIF withdrawal rather than taking CPP/QPP early may allow you to increase your CPP/QPP entitlement. On the other hand, delaying taking funds from your RRIF will allow your investments within the plan to benefit from further tax-deferred growth.
- **Transfer of assets in kind from RRSP to RRIF** – There is no deemed disposition or any tax to pay when you transfer assets from an RRSP account to a RRIF account; tax is only payable when you make a withdrawal from either of these accounts. When making an in-kind transfer, there is no impact on the interest rate or maturity date of any fixed income investment transferred.
- **Minimum mandatory withdrawals** – The Canada Revenue Agency requires you to take a minimum amount from your RRIF account each year. This minimum amount is based on your (or your spouse's) age and the market value of the RRIF account. Please see the chart to the right for the current minimum amounts prescribed by the CRA. You may withdraw more than these minimum amounts if you wish.
- **Withholding taxes** – Any withdrawals from a RRIF that are in excess of the minimum amount, whether in cash or in kind, will attract withholding taxes. These taxes are pre-paid to the government and will be applied to your tax bill when you file your personal income tax return. The withholding tax rate applied is based on the excess amounts withdrawn and is detailed in the table below.
- **In-kind withdrawals from RRIFs** – If you don't need the cash, you may transfer securities from your RRIF account to satisfy the minimum withdrawal requirements. However, if the market value of the in-kind transfer exceeds the minimum withdrawal amount, the transfer will be subject to withholding tax and the account must contain sufficient cash to cover the required withholding tax.

### RRIF Minimum Withdrawal Amount

| Age on January 1 | Withdrawal % | Age on January 1 | Withdrawal % | Age on January 1 | Withdrawal % |
|---|---|---|---|---|---|
| 65 | 4.00 | 76 | 5.98 | 86 | 8.99 |
| 66 | 4.17 | 77 | 6.17 | 87 | 9.55 |
| 67 | 4.35 | 78 | 6.36 | 88 | 10.21 |
| 68 | 4.55 | 79 | 6.58 | 89 | 10.99 |
| 69 | 4.76 | 80 | 6.82 | 90 | 11.92 |
| 70 | 5.00 | 81 | 7.08 | 91 | 13.06 |
| 71 | 5.28 | 82 | 7.38 | 92 | 14.49 |
| 72 | 5.40 | 83 | 7.71 | 93 | 16.34 |
| 73 | 5.53 | 84 | 8.08 | 94 | 18.79 |
| 74 | 5.67 | 85 | 8.51 | 95 & over | 20.00 |
| 75 | 5.82 | | | | |

### Withholding Taxes on RRIF Withdrawal

| Amount withdrawn above the minimum amount | Withholding tax in all provinces, except Quebec | Withholding tax in Quebec |
|---|---|---|
| Up to $5,000 | 10% | 20% |
| $5,001 to $15,000 | 20% | 25% |
| More than $15,000 | 30% | 30% |

## Other RRIF tips

1. **Postpone your first withdrawal** – You are required to take your first withdrawal by the end of the calendar year following the year in which the RRIF was established. Postponement of the withdrawal allows the RRIF to grow tax sheltered for longer. For example, if you turned 71 on March 15, 2023, you must establish the RRIF account by December 31, 2023; however, you will not need to make your first withdrawal until December 31, 2024, at the latest.
2. **Use the pension income tax credit and pension income-splitting** – RRIF withdrawals are considered eligible pension income for the purposes of the $2,000 Federal pension income tax credit (for individuals age 65 or older). (A provincial tax credit is also available; however, the amounts vary by province/territory.) This means that you can deduct from your Federal taxes payable, a tax credit on the first $2,000 of eligible pension income. To the extent that you are not otherwise taking advantage of this credit from another eligible pension, consider transferring $14,000 from your RRSP to a RRIF at age 65 and make $2,000 annual withdrawals until age 71 to access this credit. If your spouse is also age 65 (or older) and does not have income that qualifies for the pension credit, you could double-up on this strategy by splitting up to 50% of your qualifying pension income with your spouse to enable them to take advantage of their pension tax credit. For more information, please ask your BMO financial professional for a copy our publication, *Pension Income Splitting Provides Tax Planning Opportunities for Couples*.
3. **Use your spouse's age to your advantage** – You may use your spouse's age to calculate the minimum withdrawal amount, so if your spouse is younger than you, this will lead to lower required annual minimum amounts. If the income is not needed for living expenses, lower withdrawals will leave more in the RRIF account to continue growing tax-sheltered. Once you have elected to use your spouse's age, you cannot change it in subsequent years.

As you approach your retirement years, be sure to maximize the benefits of your retirement accounts by discussing your options with your BMO financial professional.

## OAS: Background and current rules

The OAS is the largest pension program in Canada and is funded from the general revenues of the government, which means that you do not pay into it directly. The OAS pension is a monthly payment available to most Canadians 65 years of age and older who meet Canadian legal status and residency requirements. The CRA will automatically enroll seniors who are eligible to receive OAS; seniors who are selected for automatic enrollment will receive a letter in the month after turning age 64 (however, automatic enrollment can be deferred by signing and returning the letter to Service Canada). Where no letter is received, in order to receive OAS you must make an application once you have met the eligibility requirements. The general requirements for eligibility are as follows:

- 65 years of age;
- Canadian citizen or legal resident at the time the application is approved; and
- Resided in Canada for at least 10 years after turning 18.

If you have lived in Canada for at least 40 years after attaining the age of 18, you are eligible to receive the maximum benefit of $687.56 per month, from January to March in 2023 (Visit canada.ca for updated figures.).

Following a budget announcement by the Federal government in 2012, a deferral option for the OAS program was introduced, giving individuals greater flexibility in choosing when to take up their OAS benefits. You can opt to defer receipt of OAS payments for up to five years (i.e., until the age of 70) For each month that you defer OAS benefits, the payment is increased by 0.6%, such that deferring until the age of 70 will result in an increase of 36%. For the 2023 maximum benefit, an increase of 36% would increase the monthly benefit amount to approximately $935.08.

When deciding whether to defer your OAS benefits, you should take into consideration your current and future sources of income, whether or not you will be working in the future, income tax implications (such as the potential clawback of OAS if your net income exceeds $86,912 in 2023), your health, and your general plans for retirement. Please take the time to discuss with your financial professional how OAS will play a role in your retirement.

## Seek advice

The CPP/QPP, RRIF, and OAS income streams in retirement play a significant role for many Canadians and the decision on when to take part in these programs can be confusing. Speak with your BMO financial professional and evaluate these programs along with your other retirement assets and income stream to see what makes sense for your situation.

**For more information, please speak with your BMO financial professional.**

BMO Private Wealth

[1] If you are already receiving your retirement pension under the Quebec Pension plan, you can work and continue to receive it. However, you must contribute to the Plan as soon as your earnings exceed the $3,500 basic exemption. These contributions entitle you to an increase in your retirement pension: the retirement pension supplement. No application needs to be filed to receive it because it will automatically be paid. The supplement will be added to your pension amount for the rest of your life. The supplement is payable as of January 1 of the year following the one during which you made contributions. The supplement that will be paid 2023, in respect of income earned in 2022, is equal to 0.58% of the earnings on which you contributed. Due to the enhancement of the QPP in effect since 2019, the supplement will continue to increase until 2024, the year during which it will be 0.66% of the earnings on which you contributed during the previous year. Your pension will increase even if you are already receiving the maximum amount each month. Your pension will continue to increase on a yearly basis as long as you continue to make new contributions.



ID4254 (01/23)