Retirement planning: CPP/QPP, RRIF and OAS considerations

When the time for retirement arrives, payments from the Canada Pension Plan or 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 publication 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 Québec Pension Plan (QPP) 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 2019 CPP contribution rate is 10.2% (11.10% – QPP) of an employee's earnings between $3,500 and the Year's Maximum Pensionable Earnings (YMPE) $57,400 for 2019. 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 2019, the maximum annual CPP/QPP retirement pension amount is $13,854.96 ($1,154.58 per month) for receipt beginning at age 65. The amount you will receive is calculated from your career average earnings during your contributory period,[1] 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 2 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.

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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 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 environment 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.

Enhancing the CPP/QPP

As of 2019, the Canada Pension Plan (CPP) is being gradually enhanced. This means you will receive higher benefits in exchange for making higher contributions. The CPP enhancement will only affect you if, as of 2019, you work and make contributions to the CPP.

The enhancement increases the CPP retirement pension, post-retirement benefit, disability pension and survivor's pension you may receive. Eligibility for CPP benefits is not affected. Up until 2019, the CPP retirement pension replaced one quarter of your average work earnings. 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.

Enhancing the Québec Pension Plan involves adding an additional plan. As of 1 January 2019, the Québec Pension Plan will be comprised of 2 plans:

- the base plan (the current plan) where employees and employers each contribute 5,55% for the portion of earnings between $3 500 (the basic exemption) and the maximum pensionable earnings (MPE).
- the additional plan, where additional contributions are paid by the employees and the employers according to a rate that will see a gradually 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 (MPE) 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 will be implemented on 1 January 2019, will gradually see higher benefits in retirement, or in the event of death or disability.

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).

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Assumptions for this table

Assumed age on January 1	60 years	• Reinvestment of payments has not been considered. • Post-Retirement Benefits (PRB) are excluded from these calculations. • 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 refer to our BMO Wealth Management publication "Collecting the CPP."

RRIF: Background and current rules

A 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 the investment transferred.
- **Minimum mandatory withdrawals** – The Canada Revenue Agency (CRA) 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 to the right.
- **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%	21%
$5,001 to $15,000	20%	26%
More than $15,000	30%	31%

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 turn 71 on March 15, 2019, you must establish the RRIF account by December 31, 2019; however, you will not need to make your first withdrawal until December 31, 2020 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 see our BMO Wealth Management publication titled "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
- 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 $601.45 per month (as of January 2019).

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 2019 maximum benefit, an increase of 36% would increase the monthly benefit amount to approximately $817.97.

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 $77,580 in 2019), 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.

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Summary

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. Reach out to your BMO financial professional and evaluate these programs along with your other retirement assets and income stream to see what makes sense for you.

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For more information, speak with your BMO financial professional.

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