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GETTING THE MOST FROM GOVERNMENT SOURCES OF INCOME

ADVISOR GUIDE

Sun Life Financial

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GETTING THE MOST FROM GOVERNMENT SOURCES OF INCOME

How can clients get the most from their Canada Pension Plan (CPP) and Old Age Security (OAS) programs? As an advisor, you can help clients prepare for a retirement they can look forward to. The following information is a recap of **My retirement café** content to help your clients get the most from government CPP and OAS benefits to meet their unique concerns and needs.

When should clients begin to collect CPP?

Timing is important. Clients need to consider a variety of factors before they decide when to collect CPP. Some want it as soon as they are eligible to apply for it, and others, concerned about increasing their monthly amount and outliving their assets, may choose to postpone it for as long as possible.

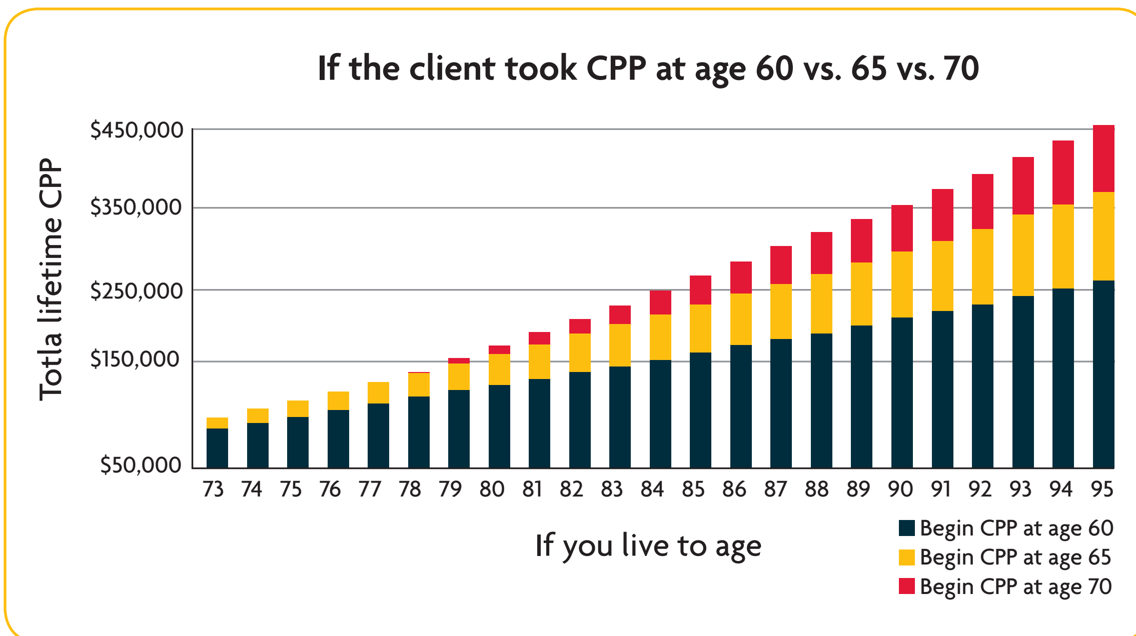
Many clients collect CPP the month after they retire, but is this the best time? Have they considered all their options? You can help educate them to make a decision that's right for their individual needs.

The rules for collecting CPP have changed and will be phased in over a period of five years (from 2011 to 2016). These changes affect the income benefit that retirees can receive before and after age 65. More information is available on My retirement café.

When are clients eligible to collect Canada Pension Plan (CPP)?

In 2012, Canadians will no longer be required to stop working in order to qualify for CPP. This means anyone who qualifies for CPP can collect anytime after age 60, even if they're still working.

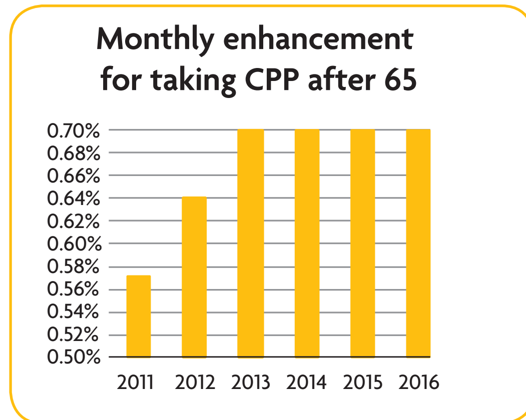
Taking CPP early could cost clients thousands of dollars

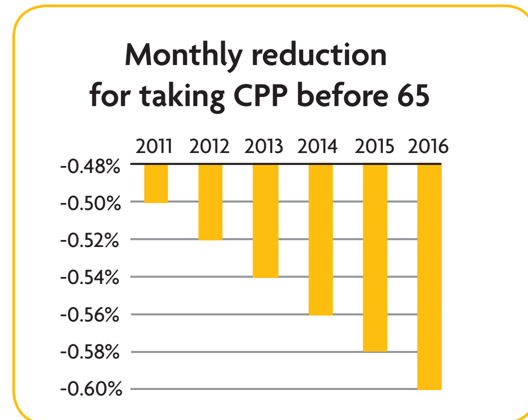


Based on new CPP rules once they are fully phased in after 2016. Use the CPP Calculator at MyRetirementCafe.ca to compare income at other retirement ages based on a client's expected lifespan.

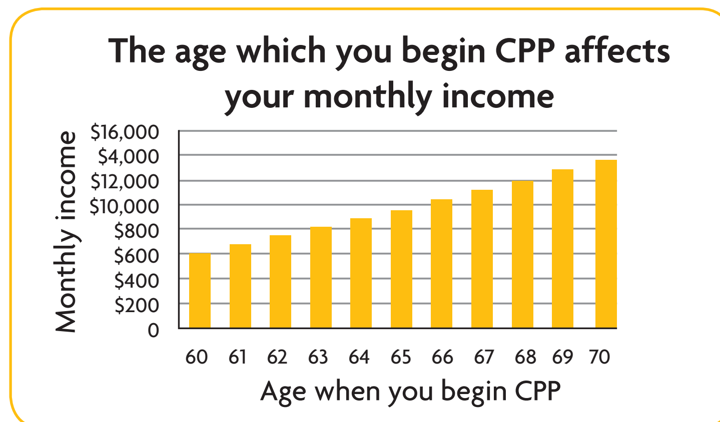
When should clients collect CPP?

Between 2011 and 2016 the adjustment factors for taking CPP before and after age 65 are changing. The new factors encourage people to postpone collecting CPP until later in life. The following charts show the monthly reduction or monthly enhancement factors being phased in.





For example, after 2016, a person who begins CPP at age 60 will have a reduction of 36% in their monthly income amount (0.6% per month for five years). Conversely, a person who waits until age 70 will have a 42% increase. (0.7% per month for five years) The chart below shows how the monthly amounts for CPP change depending on the age the person begins collecting.



Based on a person with the maximum CPP eligibility in 2011. More information on the new CPP rules are available on My Retirement Cafe. Additional information is also available on the Government of Canada website.

OTHER FACTORS FOR CLIENTS TO CONSIDER

Consider taking CPP between ages 60-64 if:	Consider taking CPP between ages 65-68 if:	Consider taking CPP between ages 68-70 if:
they have a below average life expectancy of less than 75.	they have an average life expectancy of 78 – 85.	they have an above average life expectancy of more than 85.
they have low income, or have no other sources of income during retirement.	they have an average income, and adequate savings to bridge the retirement years before starting CPP income.	they have a high income and lots of money saved up for retirement. They also believe themselves to be in above average health.
they're unemployed and have low retirement savings.	they've worked right up until their planned retirement and saved adequately.	they've worked right up until their planned retirement and saved adequately.

Source: "Modernizing the CPP" presented at the CIFP conference June 2010.

Everyone wants to live a long, healthy life. However, we can only guess how long we think we might live. Clients can consider health factors and family history, but the actual length of their life remains an estimate. If they live for a shorter period of time than expected they may have been better off taking the CPP earlier. If they live longer, they may have been better off to have waited. Unfortunately, there's no way of knowing for sure.

For help in determining life expectancy use the Life expectancy calculator.

Workers collecting CPP will be required to continue contributions

Beginning in 2012, workers between the ages of 60 and 65, and their employers, will have to continue contributions to the CPP. After age 65 workers collecting CPP have the option to continue contributing up to age 70. If the employee contributes the employer must also contribute.

Individuals who continue their contributions to the CPP while receiving the CPP will get a Post Retirement Benefit (PRB). The PRB increases their CPP amount for the following year.

For example, a 60 year old collecting a pension of $614.40/month who continues to work and contribute the maximum amount to the CPP would see their monthly payment increase by the PRB ($24/month) to $638.40/month the following year. If they continued to work, their CPP would continue to increase each year by the PRB.

The general drop-out provision

The CPP retirement payment rules are based on a 47-year career between the ages of 18 and 65. Beginning in 2012, up to 16% of an individual's lowest earning periods will be dropped from their CPP benefit calculation. In 2014, this increases to 17%.

"Drop-out" periods act as a buffer for time out of work. This is beneficial for individuals who were out of the workforce for extended periods, such as stay at home parents, students etc.

What other scenarios should you be aware of?

DIVORCE: When a relationship ends, that the CPP credits the couple accumulated are divided equally between them. This generally results in the higher income spouse losing credits and the lower income spouse gaining credits. The longer a couple was together and the bigger the difference between their earnings, the larger the exchange of credits will be. The impact of the credit split is reduced the longer a person continues to work following the divorce.

PERIODS OF LOW EARNINGS: For a person who was in and out of the work force, continuing to work can replace low earning periods with high earning periods, resulting in higher CPP.

STUDENTS: Someone entering the workforce late may have lower earnings at the beginning of their career. Up to 8 years of low earnings can be dropped from the CPP calculation. A person in this situation may be able to replace lower earning years with years of higher earnings at the end of their career, increasing their CPP entitlement.

HOW CAN YOU HELP CLIENTS BENEFIT FROM THE NEW CPP RULES?

Clients who have adequate retirement savings and anticipate a long life may benefit from deferring the start of their CPP income. In these cases, a bridging strategy until they receive CPP could be suitable.

Strategy	Summary	Ideal for clients who:
Income bridging through term certain annuities	Clients may defer the start of their CPP, but still want to retire. They may be looking for an interim income while waiting to apply for CPP. They could purchase a term certain annuity for the years they wait for CPP.	• are between ages 60 and 65. • have non-registered assets greater than $50,000 to purchase the annuity. • expect to live longer than average (age 81 or greater). • have above average income and can afford to wait to collect CPP. • are looking for a guaranteed stream of income. • are able to financially and emotionally afford delaying start of CPP benefits. • are willing to lock in assets to purchase the annuity. **NOTE:** this is not a good solution for those with a shortened life expectancy.
Income bridging through laddered AA/GICs	A laddered GIC / AA instead of an annuity can be used to provide income bridging while waiting for CPP. Cashing in each layer of a laddered GIC / AA on maturity would provide a yearly payment and more liquidity and flexibility than a payout annuity.	• are between ages 60 and 65. • have non-registered assets greater than $50,000 to purchase the laddered GIC/AA. • expect to live longer than average (age 81 or greater). • have above average income and can afford to wait to collect CPP. • are able to financially and emotionally afford delaying their CPP benefits. • prefer the liquidity and flexibility of a laddered term deposit like a GIC/AA. **NOTE:** this is not a good solution for those with a shortened life expectancy.

Strategy	Summary	Ideal for clients who:
Cash flow enhancer	Combine a term certain annuity with a T-class mutual fund to get higher cash flow and lower taxable income. This is an ideal solution for bridging income before the start of CPP or before starting to liquidate RRSP assets and also minimizing or eliminating the OAS clawback. This strategy combines solutions to create an income floor to cover both guaranteed and discretionary expenses. Use the term certain annuity to cover basic guaranteed expenses. The T-Class is ideal for discretionary expenses.	• are between ages 55 and 70. • have more than $200,000 of non-registered savings. • have above average income. • are concerned about lowering taxes. • are aggressive investors with a high tolerance for risk Note: this strategy is NOT applicable for conservative investors. • are concerned about OAS clawback or looking for greater cash flow in early retirement. • want to minimize tax. • want to tax shelter RRSP assets for as long as possible before starting to take income. • have non-registered assets in corporate class funds that are convertible to T-class funds. **NOTE:** this strategy is not suitable for clients who want minimal exposure to risk or who cannot understand the structure of T-Class solutions.

GETTING THE MOST OF OLD AGE SECURITY (OAS)

Eligibility for OAS

OAS is paid to all eligible Canadians beginning at age 65. For more information about OAS and rules, see the OAS information on **MyRetirementCafe.ca/advisor**.

Two sets of rules used to determine eligibility for Old Age Security (OAS) are known as the new rules and the old rules.

If a client turned 25 prior to July 1, 1977, they can apply for OAS under either the old rules or the new rules, whichever is more beneficial. Clients who turned age 25 after July 1, 1977, can apply under the new rules.

Under the old rules, clients are either eligible for a full OAS pension or nothing. In order to be eligible for a full pension they must meet one of the following criteria:

- They must have lived in Canada for a full 40 years after age 18.
- They must have lived in Canada for the 10 consecutive years prior to the approval of their OAS pension.
- If they have not been living in Canada for the 10 consecutive years prior to their application they can make up each year of absence by 3 years of residency between the ages of 18 and 65.

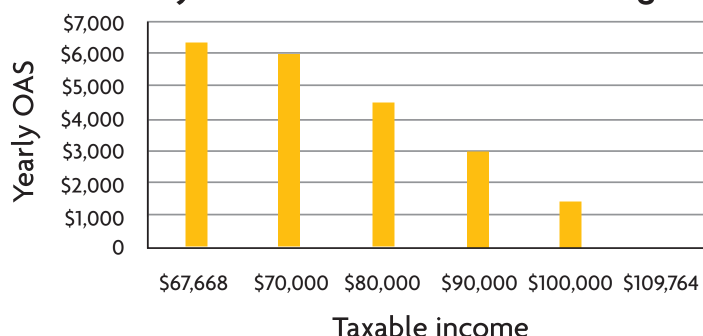
Under the new rules, clients qualify for a full pension after 40 years of living in Canada after age 18. If they do not qualify for a full pension, they are eligible for a pro-rated pension if they've lived in Canada for 10 years after age 18.

More information on the OAS is available on My retirement café.

If taxable income is too high, clients may have to pay back their OAS

Clients are required to pay back OAS income if their taxable income is above a set limit. These limits, or thresholds, are set by the government and change annually. In 2011, the OAS clawback applies when a senior's taxable income is above the threshold of $67,668. The clawback rate is 15% for each dollar of taxable income above the threshold. In 2011, the full OAS is eliminated when a pensioner's income exceeds $109,764.

Additional information about OAS clawback is available on **MyRetirementCafe.ca/advisor**.



Examples of client income increasing OAS clawback

- **Higher incomes and higher income tax rate:** Typically, any senior who has a Marginal Effective Tax Rate between 39% and 54%, depending on which province they live in, is subject to the OAS clawback.
- **RRIF income can bump up the clawback:** By the end of the year in which they turn 71, all seniors must convert their RRSPs into RRIFs or life annuities. Income from RRIFs is fully taxable and in many cases will bump taxable income above the OAS Clawback threshold.
- **Income from RRSPs:** Investing in RRSPs is an effective strategy when the client puts the money in while they are in a higher tax bracket and takes the money out when they are in a lower tax bracket. In situations where the money withdrawn results in an OAS clawback, the client may end up paying more tax than they saved in the first place!

HOW CAN CLIENTS AVOID OR MINIMIZE OAS CLAWBACK?

There are a number of ways to reduce OAS clawback available on **MyRetirementCafe.ca/advisor:**

- Changing the timing of income
- The type of income
- Sharing CPP benefit income
- Pension splitting

Additional strategies to avoid the OAS clawback include:

Strategy	Summary	Ideal for clients who:
Use a Tax free savings account (TFSA) for lump sums in retirement	Use a TFSA instead of an RRSP for unplanned expenses, special withdrawals, or lump sums in retirement. Withdrawals from RRSPs result in higher taxable income and could result in OAS clawback.	• are between ages 55 and 75 (note: this strategy could be used at any age) • have TFSA account or are able to fund one • plan a big purchase in retirement or need greater cash flow in some years which could subject them to higher taxes and OAS clawback in those years. • want to use the TFSA for unexpected expenses • are looking to minimize taxable income • are concerned about OAS clawback.

Strategy	Summary	Ideal for clients who:
Use Non-registered payout annuities to create eligible pension income and pension splitting	Instead of high taxable income from non-registered guaranteed investments, purchase a non-registered payout annuity with prescribed tax. This results in higher income, lower taxable income and increased eligible pension income for pension splitting, which helps to reduce or eliminate the OAS clawback.	• are over 60 • have at least $30,000 in non-registered funds to purchase the annuity. • have greater than average life expectancy. • want reduced account maintenance and a predictable, guaranteed lifetime stream of income from an annuity. • are concerned about lowering taxes. • are concerned about OAS clawback or have income subject to OAS clawback. • want to use pension income splitting or pension credit. (note: this solution is particularly appealing to those who do not have other pension income.) **NOTE:** this strategy is not suitable for clients who are unwilling to trade liquidity for guaranteed income or who have a shortened life expectancy

Strategy	Summary	Ideal for clients who:
Cash flow enhancer	Combine a term certain annuity with a T-class mutual fund to get higher cash flow and lower taxable income. This is an ideal solution for bridging income before the start of CPP or before starting to liquidate RRSP assets and also minimizing or eliminating the OAS clawback. This strategy combines solutions to create an income floor to cover both guaranteed and discretionary expenses. Use the term certain annuity to cover basic guaranteed expenses and the T-Class for discretionary expenses	• are between ages 55 and 70. • have more than $200,000 of non-registered savings. • have above average income. • are concerned about lowering taxes. • are aggressive investors with a high tolerance for risk Note: this strategy is NOT applicable for conservative investors. • are concerned about OAS clawback or looking for greater cash flow in early retirement. • want to minimize tax. • want to shelter RRSP assets from tax for as long as possible before starting to take income. • have non-registered assets in corporate class funds that are convertible to T-class funds. **NOTE:** this strategy is not suitable for clients who want minimal exposure to risk or who cannot understand the structure of T-Class solutions.

This guide will help you get clients the most from their Canada Pension Plan (CPP) and Old Age Security (OAS) income. Factors such as timing, age and life expectancy can affect when a client should take CPP and mean the difference of thousands of dollars.

By changing income timing, sharing CPP benefit income, and pension splitting, you can help clients reduce OAS clawback – leaving more money in their wallet. Making the right choices will help clients live a more comfortable retirement.

We're here to help

We've been a trusted and reliable company for over 145 years. As a leading international financial services organization, we continue to build on that strong foundation with a focus on market-leading products, expert advice and innovative solutions.

Our team of insurance- and investment-focused sales directors, living benefits specialists, and advanced tax and estate planning specialists understand your needs and work with you to help you make the best decisions.

Contact your Sales Director or visit MyRetirementCafe.ca/advisor today.

Life's brighter under the sun

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