



## OVERVIEW

During your working years, income needs are generally met with money earned from employment or self-employment. However, in retirement, income can come from multiple sources, including government benefits, public or private pension plans and withdrawals from personal savings and/or corporate savings.

Government-sourced benefits typically include the Canada Pension Plan (CPP) and Old Age Security (OAS). CPP normally begins at age 65, and is based on 25% of an individual's average "pensionable earnings" to a maximum benefit amount of \$1,134 per month or \$13,610 per year (as of 2018). Benefits are adjusted for inflation annually.

Pensioners can start collecting CPP as early as age 60, but at a reduced benefit, or defer collection to after age 65 and receive an increased benefit (see Quick Facts at right).

OAS is the second primary government-sourced retirement income benefit. Any Canadian aged 65, meeting residency requirements, is eligible regardless of their employment. The maximum benefit is \$587 per month, or \$7,044 per year (as of 2018). Like CPP, benefits are indexed to inflation. Since 2013, you can defer your OAS beyond 65, resulting in an increased pension amount.

One important difference with OAS is that benefits can be "clawed back" if your income is too high. At an income above \$75,910 (as of 2018), you would have to start to pay back part of your OAS benefit (now called OAS pension recovery tax) in the following year. If your income is at or above \$122,843, then your entire OAS is clawed back.

## Quick Facts

- ◆ The maximum CPP benefit amount at age 65 is \$13,610 per year for 2018 and is taxable income. Benefits are indexed to inflation.
- ◆ You can collect CPP as early as age 60, but benefits are reduced by a factor of 0.6% per month for each month prior to your 65th birthday (7.2% per year), up to 36% in total if you collect at age 60.
- ◆ CPP benefits increase if you defer collection until after age 65, rising by 0.70% for each month after your 65th birthday (8.4% per year), up to 42% at age 70.
- ◆ You can make an election to split your CPP benefits with your spouse or common-law partner to reduce income taxes, if you are both 60 or older.
- ◆ Log into My Service Canada Account at [www.servicecanada.gc.ca](http://www.servicecanada.gc.ca) to review your own CPP benefit information.
- ◆ OAS benefits begin only at age 65, at \$7,044 per year for 2018. Benefits are taxable income and indexed to inflation.
- ◆ Like CPP, you can defer receiving your OAS for up to 60 months, to age 70. By deferring OAS, your monthly payment is increased by 0.6% for each month you delay receiving it, up to the maximum of 36% at age 70.
- ◆ OAS benefits will begin to be "clawed back" if your income exceeds \$75,910 (for 2018). The benefit is clawed back completely at an income of \$122,843 or higher. These thresholds are adjusted every July and are based on the previous tax year.

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## PLANNING CONSIDERATIONS

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- ◆ Deciding when to begin collecting CPP is a complex decision and will depend on your personal situation, including your income sources, income needs, and even your state of health and life expectancy. This is also true in deciding whether to defer OAS Collection.
- ◆ Consider splitting CPP benefits with your spouse as a means to divide income more effectively and reduce your combined income taxes.
- ◆ For business owners approaching retirement, you may wish to draw dividends instead of salary as your remuneration to avoid ongoing CPP contributions, when those contributions may not add to your future benefits. After age 65 you can apply to stop contributing to CPP.
- ◆ Consider drawing CPP benefits prior to age 65 if you need the income as the expectation is that you would collect more in total benefits over the longer term
- ◆ Business owners who are receiving OAS benefits should be cautious when drawing dividends from their corporation to avoid unintended OAS claw-back. This is because the income threshold is calculated using the "grossed-up" amount of the dividends received, not the actual amount of dividends received.
- ◆ Draw up a detailed retirement income strategy with your accountant and include your other financial partners in the process. This will ensure you have an income plan that makes best use of government, private, personal and corporate income sources to maximize your after-tax dollars.

***Consult your accountant, financial planner, or investment manager to determine what strategies are best for you.***



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