Strategy UPDATE
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CPP and OAS

Michael Derby,
CIM®, PFP®, CEA
Investment Advisor

"Go on take the money and run" - Steve Miller.

Tempting, but not so fast. Steve Miller may be a popular song writer, but he is not a financial planner. In Canada we pay between 0% and 54% in tax. A little planning can help you maximize these government sponsored retirement programs and keep more of what you collect.

What are CPP and OAS?

Canada Pension Plan and Old Age Security.

Canada Pension Plan is essentially a defined benefit pension plan that traditionally begins at age 65. If you are over 18 in Canada and have a job, you and your employer are making contributions. The money paid into CPP by you and your employer is held in trust and not considered an asset of the Canadian government. Skepticism of the government aside, CPP is fully funded and solvent.

The premise (intention) of CPP is to replace 25% of your income at retirement based on a notional annual income requirement. The 2019 notional annual income amount, called the Yearly Maximum Pensionable Earnings or YMPE is $57,400. This number is pegged to inflation and will increase year over year.

In other words, if you have captured maximum CPP credits during your working life you can expect CPP to provide you with 25% of $57,400 beginning at age 65, for life, fully indexed. It is a true pension plan. As of 2019, assuming you start CPP at the traditional age of 65, and assuming you have maximum CPP credits, the maximum monthly benefit is $1,154.58* (roughly 25% of $57,400**).

However, the average Canadian collecting CPP receives $723.89 per month, well below the maximum.

**There are plans in place to gradually enhance CPP to replace 33.3% of the YMPE. With apologies, it is your kids and grandkids who will benefit from these gradual enhancements.

As you can imagine, if you start collecting CPP before age 65 your pension will be reduced. If you delay beyond age 65 you are entitled to a larger payment. Starting early will reduce your monthly benefit by 0.6% per month for each month before your 65th birthday or 7.2% per year. Delaying will boost your monthly pension by 0.7% per month or 8.4% per year until age 70. Don't worry, there is a neat and tidy table below.

Old Age Security is an entitlement. More accurately, a means tested government benefit. If you are a Canadian resident for 40 years between ages 18 and 65 you will receive the full entitlement beginning the month you turn 65. Currently that entitlement is approximately $600 per month.

You cannot start OAS early, but as with CPP you can elect to delay this entitlement until age 70. Deferring will boost your benefit by 0.6% per month. That's an additional approximate $200 per month at age 70 based on the 2019 amount.

Caution: OAS is means tested, which means the government will reduce the amount you are entitled to if you earn too much in a given year. This is affectionately referred to as the OAS Clawback. You begin to lose 15 cents of each OAS dollar once your net income exceeds $75,910. This entitlement is fully clawed away at $122,843 of net income. OAS is paid by current taxpayers. There is no OAS reserve fund held in trust on behalf of Canadians.

When should *you* start CPP and OAS?

If you need the cash flow the answer is simple – take them as they become available. If you do not need immediate cash flow or you are not sure, talk to your advisor. You need a financial plan.

As stated above, you can start your CPP at age 60 or delay until 70. You are entitled to OAS at 65 or can delay until 70. After paying a lifetime of taxes the idea of the government sending you money is pretty tempting. Do you start as soon as possible or once you have maximized your lifetime benefit?

As always, when it comes to financial planning the answer is, 'it depends'. There are numerous variables to consider. The formal answer is the result of an in depth analysis of your unique financial situation and best addressed with a proper retirement plan. The answer will depend on your priorities. Put simply, it boils down to cash flow planning, tax planning, and mortality.

Cash flow planning is simply an analysis of the various sources of funds used to support your lifestyle. Tax planning or tax efficiency is an analysis of your financial situation from a tax perspective. Mortality is simply an assumption of how long you expect to live.

Simple analysis. Ask yourself two questions:

1. Are you drawing upon your savings or selling investments to pay your bills and support your lifestyle?

If yes, you will probably want to start CPP and OAS as they become available to stop the erosion of your net worth.

If you are still working, have other pensions, or enough passive income from investments to meet or exceed your lifestyle need you will probably, but not necessarily, wish to delay.

2. How is your health? What is your life expectancy?

Mortality matters. Survival benefits for CPP are negligible and for OAS they are essentially non-existent. If it is reasonable to assume you will live past 78 disregard this question and refer back to the first question. If personal health or family history suggest caution when buying green bananas you should heed Steve Miller's advice, "*Go on take the money and run*".

Consider the following CPP calculation:

Assuming $1,000 per month at age 65						
Attained Age	60	61	62	63	64	65
Monthly CPP Payment	$640	$712	$784	$856	$928	$1,000
Amount Collected Before Age 65	$38,400	$34,176	$28,244	$20,544	$11,136	
Breakeven Age	73.9	74.9	75.9	76.9	77.9	

Source: https://moneycoachescanada.ca/blog/take-cpp-age-60/

There is a lot of information baked into this chart. Starting CPP at 60 results in $640 per month versus $1,000 per month at 65. Collecting $640 per month is 36% less than $1,000 per month, but you collect it for five years longer. This places the breakeven point, the point at which a higher monthly income at 65 is better than a decision to start at 60, at age 74 (73.9). A word of caution: This chart is an observation not advice. Breakeven is not everything. Statistically speaking, most of you will live well into your 80s and beyond.

Starting Old Age Security is a similar cash flow conversation with one very important twist. Recall that I stated that OAS is means tested. If starting OAS will push your total income above $75,910 you should proceed with extreme caution. Alternatively, if you have other taxable income such as registered plans on the horizon that may push you into a higher tax bracket (and clawback) later in life, it may make sense to start OAS as soon as possible to manage clawback as efficiently as possible. You need a financial plan to optimize tax efficiency.

There are a multitude of additional variables to consider:

Are you looking to reduce debt or boost your portfolio as you near retirement? Should you start CPP and OAS if you are confident you will invest or pay down debt with the new income?

Not necessarily. What are the interest rates on your debt or mortgage? What is your inflation outlook? Will delaying CPP allow you to maximize your CPP credits? How do you invest? Equities or GICs? Can you qualify for GIS (Guaranteed Income Supplement)? What is the expected return of your portfolio? A decision to start CPP and OAS early, even "on time", is a decision to reduce a fully indexed pension and entitlement for life.

If you are a client of Polson Bourbonniere Derby Wealth Management you have an advisor that cares about you and is prepared to have an intelligent conversation regarding the long term opportunities and dangers of tapping into these income tools. Schedule an appointment, or refer a friend or loved one today.

A Passion for Giving!

If you've popped into our office on a Friday you may have noticed a lot of jeans and sneakers. Friday is our "Casual for a Cause" day, with funds raised used during the Festive Season to support at-risk youth. This year we will also be conducting another Toy Drive, along with our company gift-toy exchange taking place at our annual party. All the toys collected are donated to a local Women's Shelter where they are very gratefully accepted. If you are visiting the PBD team over the coming months, we would love it if you brought along a toy for the collection!

The spirits of giving and giving back are alive year-round here at Polson Bourbonniere Derby. Michael Derby and his family are long-time sponsors of two children through World Vision. Derek Polson is a volunteer soccer coach in the Durham league. Ruth Ashton sings with the band at charity events supporting SickKids. Paul Bourbonniere rides in the annual Ride to Conquer Cancer. Lydia Bzowej donates her talents to Team Cat Rescue and is currently looking for a forever-home for JJ. And the list goes on!

team cat rescue

www.teamcatrescue.ca

We think Dr. Seuss said it best, "Unless someone like you cares a whole awful lot, nothing is going to get better. It's not." We like to think we're doing our bit to make things better!

We at PBD recently did a little research on where our new clients were coming from. Overwhelmingly, the answer was "through referrals". In a recent survey of clients, virtually 100% said they were willing to refer friends and family to Polson Bourbonniere Derby. We would like to thank those of you who have suggested PBD to friends, colleagues and family.

We have ambitious growth goals for the next five years. Achieving those goals will allow us to develop services and enhance our offering to serve you better. If you know someone who might like to have a chat with us, we would be grateful for the introduction. Thank you!

Polson Bourbonniere Derby Wealth Management
HollisWealth®, a division of Industrial Alliance Securities Inc.
Hollis Insurance

7050 Woodbine Ave., Suite 100
Markham, Ontario L3R 4G8
Main: 416.498.6181 or 905.413.7700
Fax: 905.305.0885
Toll Free: 1.800.263.0120
Website: www.worryfreeretirement.com

Ruth Ashton, CFP®
Certified Financial Planner®
Investment and Insurance Advisor
Direct: 905.413.7710
Email: rashton@pbfinancial.com

Paul Bourbonniere
CFP®, CLU, CH.F.C., CEA, CIM®, CHS
Certified Financial Planner®
Investment and Insurance Advisor
Direct: 416.498.6181
Email: pbourbonniere@pbfinancial.com

Cory Bruner, CFP®, CFA®
Certified Financial Planner®
Associate Investment Advisor
Direct: 905-413-7706
email: cbruner@pbfinancial.com

Lydia Bzowej, CFP®, EPC, CEA
Certified Financial Planner®
Investment and Insurance Advisor
Direct: 905.413.7703
Email: lbzowej@pbfinancial.com

Michael Derby, CIM®, CEA, PFP®
Investment and Insurance Advisor
Direct: 905.413.7726
Email: mderby@pbfinancial.com

Derek Polson, CFP®,CEA
Certified Financial Planner®
Investment and Insurance Advisor
Direct: 905.413.7709
Email: dpolson@pbfinancial.com

Office Hours
Monday to Friday,
8:30 a.m. – 5:00 p.m.