4 Vital Strategies

To Keep Every CPP and OAS Dollar You Deserve

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Do Not Neglect an Asset Potentially Worth More than $1.46 million*

Canadian Pension Plan (CPP) and Old Age Security (OAS) can amount to more than you think. Do not settle for less than you deserve.

The decision on when to start your CPP and OAS benefits will have a permanent impact on your retirement income. Taking CPP and OAS too early or too late could have an impact on withdrawals from your investments, annual tax payable and final estate. Be sure to read to the end, where we will introduce our **"SLEEP ON IT"** process designed to give you the clarity and confidence you need to make this life altering decision.

THE DIFFERENCE COULD AMOUNT TO OVER $250,000

This chart shows how age-at-filing can impact your total benefit received. The following is an example of how it impacted a hypothetical married couple.

Age at start of benefits	60 **	65	70
Total benefit received	$1,204,722	$1,375,957	$1,460,660

**OAS earliest start date is 65

ITS NOT AS SIMPLE AS DELAYING BENEFITS TO AGE

Your financial situation, life expectancy, marital status, income and tax situation - and more - mean you need a CPP and OAS start date strategy tailored specifically to you.

*Hypothetical estimate of a lifetime benefit assuming a couple – both contributing the maximum YMPE and would qualify for maximum CPP. Both have lived in Canada for 40 years and will collect maximum OAS. Benefits starting at 70, life expectancy to age 90. A 2% Consumer Price Index (CPI) included in the calculation. Estimate created using CRA calculator November 2020: https://www.canada.ca/en/services/benefits/publicpensions/cpp/retirement- income-calculator.html

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R.H. Kilburn & Associates can help.

Your CPP and OAS benefits may be your biggest asset — potentially exceeding a million dollars — and poses several complex decisions requiring financial projections as well as knowledge of comprehensive planning. Therefore, we suggest you consult a financial professional before you file for benefits.

At R.H Kilburn & Associates, we can help you plan your CPP and OAS benefit strategy as a part of our **SLEEP ON IT** process. This approach addresses all aspects of retirement financial planning.

We use these four vital strategies to help maximize your CPP and OAS benefits

1. **Pinpoint the optimal age at which to claim benefits**
2. **Consider the impact of working during retirement**
3. **Employ effective tax planning**
4. **Factor in options based on marital status**

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What You Need To Know

Canadian Pension Plan (CPP)

- CPP is a contributory plan that you and your employer contribute to during your working years. If you are self-employed and not taking income as dividends, you will contribute to both the employee and employer contributions.

- The annual amount you contribute is based on your Yearly Maximum Pensionable Earnings (YMPE) and employee/employer contribution rate. The YMPE is calculated and adjusted by Canada Revenue Agency (CRA) annually. The contribution rate is set to increase annually in 2023.

- CPP's other features including a disability benefit, survivor pension, children's benefit and death benefit.

Old Age Security (OAS)

- Is a non-contributory plan. The amount you receive depends on how long you have lived in Canada after the age of 18.

- Depending on your income, you may also be entitled to the Guaranteed Income Supplement (GIS).

- Between the ages of 60 and 64, you and your spouse, or common-law partner, may be eligible for an 'Allowance' or the 'Allowance for the Survivor'.

Guaranteed Income Supplement (GIS)

- An income-tested benefit for low income households.

- Must be eligible for OAS in order to apply for GIS.

For more information on CPP, OAS, GIS and other public pensions, please visit ttps://www.canada.ca/en/services/benefits/publicpensions.html

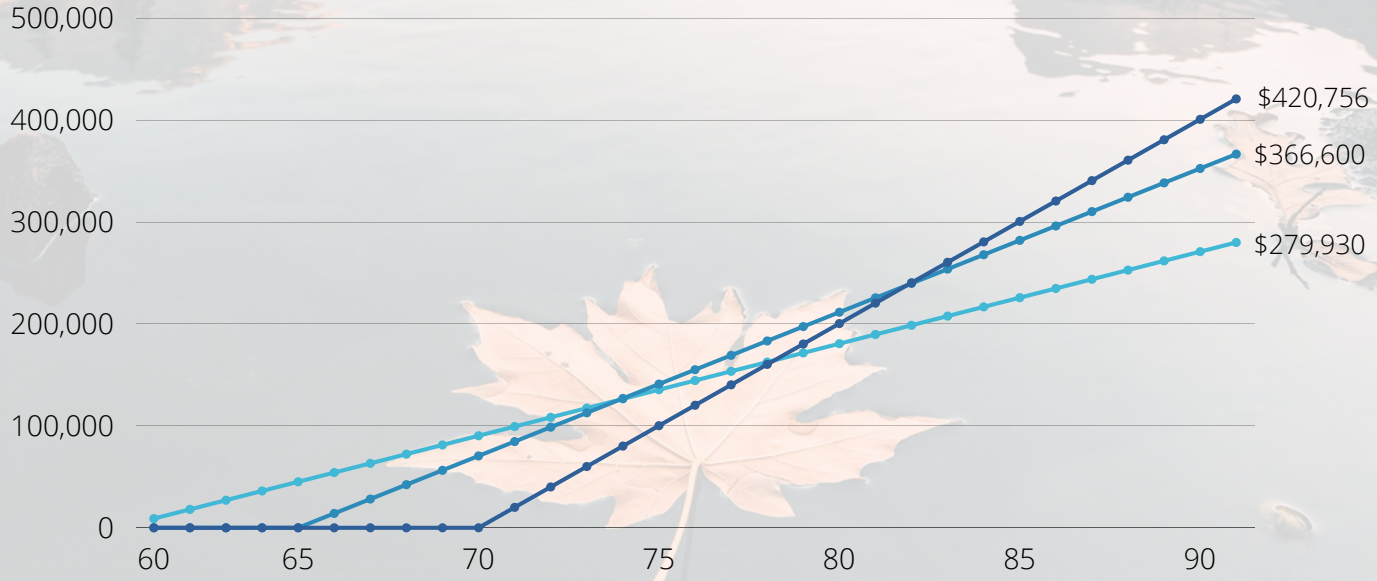
ONE

Pinpoint the Optimal Age at which to Claim Benefits

While in practice the decision to begin taking your CPP and OAS benefits may be complex, the principle is simple: The later you begin receiving benefits (up to age 70) the larger those benefits will be.

- You are entitled to your full CPP and OAS benefit at 65.
- CPP is decreased by 0.6% for every month you take the benefit before age 65 (-7.2% / year).
- CPP is increased by 0.7% for every month you take the benefit after age 65 (+8.4% / year).
- OAS is increased by 0.6% for every month you take the benefit after age 65 (+7.2% / year).

For those near retirement, the CPP increase of 8.4% per year adds up to 42% if you wait the full five years until age 70 to apply.



Canada Revenue Agency www.cra.ca *Estimates are shown in today's dollars and based on assumptions for someone who qualifies for the maximum CPP pension. No cost of living adjustment, inflation estimates, or reinvestment rate are included.

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It's important to note that once you apply for benefits, the effect on your benefits is permanent. In other words, apply before age 65 and your benefits will be reduced for your lifetime. Apply later and the increases will be for your lifetime as well.

The rules seem to be simple: The longer you can wait before age 70 to collect CPP and OAS benefits the better. But this is not always the case.

REASONS TO START DRAWING BENEFITS EARLY:

- You need income right away to cover expenses.
- You don't expect to live to old age.
- You want to reduce withdrawals from your other retirement investments.
- You are the lower earner and your spouse will continue working.
- You would rather take payments early and invest them.

REASONS TO WAIT UNTIL AGE 65 OR LATER:

- You want to maximize your benefits over the long term.
- You will continue working and do not want it to affect your benefits (see next section).
- You are the higher earner and want to ensure the largest benefit for your spouse, should you pass first.
- You expect to live to old age (consider the longevity of your parents)

THE BOTTOM LINE

When to start claiming benefits is perhaps the most complex decision of all. You need a financial advisor who will consider public pensions in the context of your entire financial situation.

TWO

Consider the Impact of Working in Retirement

Many retirees plan to continue working, most often part-time. While this is a great way to stay active and maintain a steady income, working in retirement can impact your benefits. Important rules to know are:

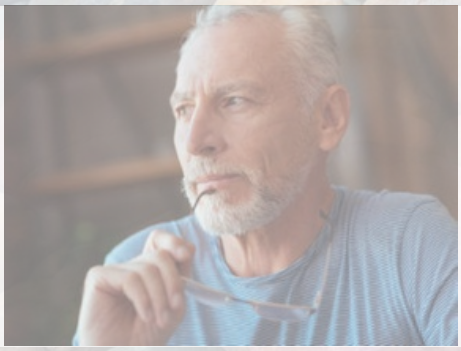
BEFORE AGE 65 – If you choose to continue working, you will be required to pay into CPP regardless of whether you have started taking CPP.

AFTER AGE 65 – If you choose to continue working, you can elect to stop CPP contributions.

OAS CLAWBACK – If you continue to work during retirement and your combined income is over a certain limit, you may be subject to a clawback of your benefit. This is an effective 15% increase in your marginal tax rate.

The OAS Clawback is crucial to understand if you are working in retirement. OAS clawback begins with income over $79,054 with a full clawback of OAS benefit once income recaches $128,149 (2021).

For example, let's consider an individual, aged 66, who earns a salary of $75,500, CPP of $12,000, OAS of $7,500 and interest income of $5,000. Total OAS clawback would be $3006.90. ($100,000 -$79,954 = $20,046 x 15% = $3,006.90). Effective retirement income tax planning will help to minimize or eliminate this penalty.



THE BOTTOM LINE

If you plan on working, it will be important to review your retirement income plan to maximize your government benefits and minimize the amount of tax you pay. Tread carefully and be sure to obtain professional advice.

THREE

Employ Effective Tax Planning

Whether or not you continue to work, you will undoubtedly continue to pay taxes. It's important to know that public pension benefits are taxable for all except the lowest income retirees.

Factoring in all sources of income when constructing a retirement income plan is an integral part of your CPP and OAS start dates.

- Job Earnings
- Self-Employed Income
- Pensions
- Rental Income
- Annuities
- Investment Returns
- Dividends
- Interest Income
- Capital Gains

Another important consideration is reviewing the asset allocation inside of your registered and non-registered plans. Improper portfolio construction can lead to unnecessary tax consequences and clawbacks of government benefits. The example below illustrates this with a moderate investors, age 67, withdrawing 5% from their RRIF and earning 5% interest in the non- registered account while earning $50,000 income between hobby work, CPP & OAS.

BEFORE - $1,000,000
50% Non-Registered - **Fixed Income**
50% RRIF - **Equity**

Taxable income: $100,000
OAS Clawback of $3,750

AFTER - $1,000,000
50% Non-Registered - **Equity**
50% RRIF - **Fixed Income**

Taxable income: $75,000
No OAS Clawback

THE BOTTOM LINE

Maximizing your public pension benefits — and your overall retirement wealth — requires careful consideration of tax status based on your combined income from all sources. Similar to tax planning before retirement, you need to organize your post-retirement earning strategies to be tax efficient.

FOUR

Factor in Options Based on Marital Status

Your marital status has an enormous impact on your claiming options. Depending on your status, it can be an extremely complex decision—and choosing the "easy" way is why some people lose out on the opportunity to maximize their benefits. Here's a brief overview of your options based on marital status.

Married / Common Law Spouse

Couples face several complexities including whether to share their CPP benefit. In general:

- If one spouse has a lower income than the other, sharing the CPP benefit will help to increase income and reduce overall household tax.
- If one spouse continues to work, it may make sense for the other spouse to start their public pension to supplement income.
- After 65, if your household income is less than a prescribed amount you may entitled to a guaranteed income supplement (GIS).
- If one spouse is over the age of 65, receiving GIS, and household income is less than a prescribed amount, the other spouse can apply for an 'allowance'.

Single, Never Married

Your public pension choices are simplified.

- Generally, you may want to consider taking CPP at 60. At your passing, the benefit stops, and your estate receives the CPP death benefit.
- If your income is below a certain threshold, you may qualify for the guaranteed income supplement (GIS).

Widowed

If you are widowed, you are entitled to receive a portion of your late spouses CPP benefit, among other benefits.

- CPP survivor benefit is calculated based on the late spouse's CPP estimate at death and the survivors current age.
- If the survivor is collecting CPP when their spouse dies, the survivor pension would top up their benefit.
- The combined maximum amounts that can be received will not exceed the maximum CPP benefit.
- If a surviving spouse is between the ages of 60-64, he or she may be entitled to an "allowance for survivor" if their income is below a certain threshold.
- The deceased spouse's estate will receive a death benefit of $2,500.

Divorced

If you are divorced and your ex-spouse was contributing to CPP, you may be entitled to a portion of their benefits.

- Once separated, an election for splitting CPP credits equally may form part of the settlement.
- CPP split calculation is based on historical household income, years together and estimated benefit.
- OAS cannot be split.

THE BOTTOM LINE

If you do not apply for public pensions properly, you could lose thousands. You cannot count on CRA to give you advice. Working with a financial advisor who knows the rules will not only help simplify your decisions, it may also help maximize your benefits.

THE WRONG BENEFIT DECISIONS COULD JEPORDIZE YOUR RETIREMENT.

Why burden yourself with managing multiple financial relationships and tracking disparate accounts—or manage the stress of doing it all on your own? You need a plan that brings everything together and simplifies your financial life.

You need R.H. Kilburn & Associates. Our **SLEEP ON IT** process helps ensure your financial life is organized, comprehensive and straightforward. This plan will enable you to make more confident decisions and be relieved of the stress that comes with managing your wealth.

Your financial life will be considered from all angles, including public pensions, retirement income planning, tax strategies, investment management, estate planning and insurance. When your needs require specific expertise, our team of specialists will be there to deliver strategies that integrate with your plan.

While your circumstances may change and your goals may evolve, you will always have a plan, and ONE place to turn for your financial needs.

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DISCOVER OUR "SLEEP ON IT" PROCESS

We have designed this three step process to give you (and us) a framework for making an educated and informed decision about working together. For people who are potentially a good fit for our firm, there is no cost or obligation for this process as we want you to know exactly how we can help you before you pay us a single dollar in fees or trust us with a penny of your nest egg.

1

SCHEDULE 15-MIN CALL

A 15-minute phone call will give us both a chance to make sure your situation matches our expertise. After all, you wouldn't see a Cardiologist if you needed foot surgery!

2

TEAM MEETING

Like a doctor, it's important to diagnose before we prescribe.

The next step is meeting with our team (in our office or via Zoom). During this one-hour meeting, our team will get crystal clear on your financial goals, needs, and concerns.

3

REVIEW ASSESSMENT

With your **Retirement Assessmen**t complete, we will have a second meeting (in person or virtually via Zoom) to review our findings and recommendations.

In plain English, we will explain exactly what you can do to improve your retirement plan, lower taxes, optimize your investments and improve your estate.

SLEEP ON IT!

We are looking for long-term client relationships, not a quick transaction. It's important that you take as much time as needed to make a decision. If you decide that we aren't a good fit, we will happily help you find another professional with the right expertise. There is never a hard-sell or pressure to say "yes."

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Take the complexity out of public pensions.

Schedule your 15-minute call today.

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