Government Pensions and Retirement Planning

Nov 13 2017

Canadian couples rely upon Government pensions, CPP and Old Age Security (OAS) for a significant portion of their total retirement income planning, which can equal 20% to 50% or more, of their actual or projected total retirement incomes. Corporate and personal pensions (such as RRSPs [1] and TFSAs [2] and other savings) are other sources of retirement income from a planning perspective.

The maximum CPP benefit is earned by Canadians earning $55,300 or more for 2017. They will qualify for the maximum monthly CPP benefit of $1,114.27 for 2017 if they have always qualified for the YMPE (yearly maximum pensionable earnings) during their working lives. In addition, Canadians will, by virtue of being a Canadian resident for 40 years, qualify for the monthly maximum OAS pension of $583.74 (as of Q3 2017) in 2017 for a married individual. Tax changes introduced in December of 2016 will impact the contribution rates and benefits for younger Canadians but the focus of this article is on those individuals who are within five years or so from retirement or who are already in retirement. The recent enhancements to CPP will not greatly affect their retirement planning.

Many Canadians are unaware of the impact on household income when one spouse dies and how survivor benefits for both types of pensions are impacted. The OAS ceases where one partner predeceases the other partner reducing monthly household by their actual OAS payment. In addition, where both partners are receiving CPP, a reduction occurs in the amount payable to the surviving spouse. In the event that both partners were receiving the maximum CPP payment of $1,114.27 then the total household entitlement would be cut in half. CPP has a rule that the total amount of survivor’s CPP benefit is limited to the maximum amount payable to an individual or $1,114.27.

This means that a household enjoying the maximum pensions for CPP and OAS could see their incomes drop approximately by half or just around $20,000 annually. Depending upon any other incomes they have, this could represent a significant cash flow impact for the surviving spouse. This little-known scenario is something that needs to be reviewed and discussed ahead of time with your personal financial advisor for strategies to make up for this lost income to maintain and cover the lifestyle expenses and needs of the surviving partner.

This reduction in Government Pensions impacts many Canadians. Pension and retirement expert Lea Koiv reports that there are currently 1.1 million Canadians who are receiving survivor benefits. The 27th Actuarial Report on the Canada Pension Plan, prepared as of December 31, 2015, forecasted about 77,000 new survivor pensions for 2017: 22,000 new survivors younger than 65, and 55,000 new survivors aged 65 and older*.

She also notes that Service Canada found that for the average monthly survivor pensions starting in March 2017, those younger than 65 received $429.33 (approx. $5,200 annually), whereas those 65 and older received $315.77 (approx. $3,800 annually). In comparison, a 65-year-old qualifying for maximum CPP in 2017 would start receiving $1,114.17 per month (approx. $13,400 annually).

The foregoing is a basic review of the impact of Government Pensions on your retirement planning. Other factors will include who legally qualifies as a “Survivor” as well as a number of other eligibility conditions. Please call our office today for a review of your retirement income planning [3] to see what impact the loss of a spouse during or close to retirement will have on your household cash flow and lifestyle.

***Advisor.ca,** *Shedding Light on the CPP Survivor Benefit* **[4]. Retrieved on October 18, 2017.**

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