



Preparing for Retirement

A Guide for Employees

2020

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Introduction

This booklet is intended as an overview of some of the key issues that most retirees face. We do not expect that it will answer all of your questions. We do hope that it will assist you in getting started in your planning and help you find the answers you need. For more in-depth information, please visit: <https://www.canada.ca/en/financial-consumer-agency/services/retirement-planning.html>

Disclaimer

The information contained in this booklet is not intended as a substitute for competent personalized professional advice. Planning for retirement is a complex and many faceted process. What is best for others may not be best for you given your personal situation.

While we have made every effort to ensure the accuracy of this information, changes happen frequently in the retirement and legal fields. This booklet is intended to help get you started by collecting together many sources of information.

We recommend that you consult with a competent financial planning professional before taking any action in your retirement planning.

Canada Pension Plan Retirement Benefits

The amount of your Canada Pension Plan (CPP) benefit depends on how much you and your employer will have contributed to the CPP and for how long. If you have contributed the maximum amount for 40 years or more, you will be eligible for the maximum pension. Even if you have not always contributed the maximum, you may still qualify for the maximum pension.

Note that the Canada Pension Plan and the Quebec Pension Plan are very similar and the benefits from them are coordinated. If you have contributed to both, your benefits are based on the contributions to both plans.

Your CPP pension is determined approximately as 25% of the earnings on which you have contributed over your career. Allowance is made to drop out certain years where your earnings may have been lower. This drop out period is a maximum of 8 years. That means that the CPP will not penalize you for having low or no earnings for up to a maximum of 8 years after age 18 and after January 1, 1966.

There is also a provision for earning CPP any time that you spent taking care of a child under the age of 7. This is designed so that people who stay home or take a lower paying job during the early child raising years are not penalized on their CPP. This provision is in addition to the drop out mentioned above.

The maximum pension payable to someone who retires at age 65 in 2020 is \$1,175.83 per month. This pension is payable starting at age 65 and is indexed each year to changes in the Consumer Price Index (CPI). Your CPP pension is subject to income tax.

You are eligible to start receiving CPP benefits as early as age 60. However, your pension will be reduced. For retirees in 2020, retirement pensions will decrease by .60% for each month that retirement precedes age 65.

Your surviving spouse will be eligible for survivor's benefits on your death if you have contributed to the CPP for at least three years, providing he or she meets certain eligibility requirements.

While you can estimate the amount of your CPP pension, the only way to know for sure what you will get is to ask the government for a retirement quote. You can do this by phoning 1-800-277-9914. For more information regarding the CPP, please refer to the following web site: <https://www.canada.ca/en/services/benefits/publicpensions>.

Old Age Security

The Old Age Security Program, which includes a basic Old Age Security pension, the Guaranteed Income Supplement and the Spouse's Allowance, guarantees a basic level of retirement income to all qualified seniors. All of these benefits are paid for out of the government's general revenues. You do not need to have been employed to get Old Age Security.

The Old Age Security (OAS) pension is a monthly benefit available, if applied for, to anyone 65 years of age or over who meets a residency requirement. The maximum OAS pension for January 2020 is \$613.53 per month. Benefits are indexed each quarter in line with inflation. All payments are subject to income tax.

OAS pensions are subject to a claw back tax. If your total income in the year exceeds a threshold, (about \$79,054 in 2020), some or all of the OAS benefits will be clawed back through a special additional tax. If your total net income exceeds about \$128,137, you will be required to repay all of the OAS benefit you have received.

Guaranteed Income Supplement (GIS) provides additional benefits to low-income seniors based on income and marital status and is included with the monthly OAS payment. In general, to be eligible for GIS, one must be receiving OAS and have all other income below approximately \$18,600 in 2020. A married couple is eligible for GIS if both partners are receiving OAS and all other income combined is less than approximately \$24,576 in 2020. There are some other conditions on which GIS would be payable as well. The maximum GIS payment for a single person is \$916.38 while the maximum amount for a married couple is \$551.63 per person in 2020.

Spouse's Allowance provides an income-tested benefit to low-income spouses of Old Age Security pensioners or widow/widowers age 60 to 64 who are Canadian citizens and have lived in Canada for at least 10 years. The maximum Spouse's Allowance is \$1,165.16 per month in 2020. The Spouse's Allowance reduces to zero if the combined income of both spouses is greater than approximately \$34,416.

Please refer to the following web site for more information on any of the OAS program benefits: <https://www.canada.ca/en/services/benefits/publicpensions> or you can phone 1-800-277-9914.

What is a Locked-In Benefit?

A “locked-in” benefit cannot be cashed out. Instead, it may only be used to provide you (and your spouse) with a lifetime pension income when you retire.

Locked-in benefits originate from a pension plan that is subject to provincial pension legislation. In BC, pension legislation was enacted in 1993. Benefits earned after that date are locked-in.

You may transfer locked-in monies from one locked-in account to another. This is generally referred to as portability. A locked-in benefit from a pension plan can be transferred to a locked-in RRSP, to an insurance company to purchase a lifetime annuity or it may be left in the pension plan until you decide to retire at which point the company plan will provide you with a pension.

Locked-in monies held in a locked-in RRSP can be transferred to a Life Income Fund (LIF), or to an insurance company to purchase an annuity. Further information on these options is provided on pages 9-12.

In general, locked-in benefits cannot be cashed out. BC does not allow cashing out for financial hardship.

Locking-in only places restrictions on cashing out your retirement savings. You will have the ability to direct how your money should be invested and the freedom to select when to start receiving a pension, provided it is after the age permitted under the pension plan from which the money originated and prior to the end of the calendar year in which you turn 71.

Spousal Pensions After you Die

If your retirement savings originated from a pension plan, (but not an RRSP), you are required in most situations to include a benefit for your spouse after your death. The amount of pension available to your spouse after your death depends on whether you die while a member of the pension plan or whether your death occurs after your pension has commenced. If you die before retirement, the benefits are governed by the pension plan – see your plan administrator for information.

However, if you have transferred your pension to a locked-in RRSP, the money in your account would be paid out (minus taxes) to your appointed beneficiary following your death. If your beneficiary is your spouse, the money could be transferred to your spouse's RRSP.

When you are ready to begin your pension, the law requires that for all locked-in pension money, you must make provision for your spouse to receive a survivor pension after your death. If you have a spouse on the day you start your pension, you must elect a joint and survivor annuity with a minimum of 60% payable to your spouse after your death.

This mandatory survivor benefit may be waived by your spouse, in which case another form of annuity may be elected. If you want to purchase a LIF instead of an annuity, in some provinces you may only do so if your spouse waives his or her right to the survivor pension protection. This requirement applies even if you have transferred your pension entitlement out of the pension plan and into a locked-in RRSP.

These survivor benefits are payable to the person who was your spouse on the date that you commenced your pension. If that spouse dies before you, you will not generally be able to name a new spouse.

Canada/Quebec Pension Plan

The pension you are receiving from the CPP or QPP will continue at a reduced level, to be paid to your spouse after your death. In addition, there is a lump sum death benefit equal to 6 times the monthly pension you were receiving, payable from the CPP or QPP. This amount is payable to your estate. If there is no will or estate, it is paid to whomever was responsible for your funeral expenses. For the CPP and QPP, it is your spouse on the day you die who is eligible for the benefits.

Old Age Security

Your OAS benefits stop upon your death. Any OAS payable to your spouse would continue to be paid. ¹

¹ "Spouse" is defined in the provincial pension benefits act, and generally includes a person to whom you are married, or person with whom you have lived for a specific period of time. It is the person who is your spouse at the time you start your pension who is entitled to a survivor pension.

Are you a member of the Pension Plan for Administrative/Union Staff?

What are your Formula Retirement Benefit Entitlements?

If you are a married staff member of the Simon Fraser University Pension Plan for Administrative/Union Staff and you opt to receive a monthly Formula Retirement Benefit, you may choose one the following retirement options. They are:

- **Joint & Last Survivor 50%** - payable for as long as you live, but in the event you predecease your spouse, they would receive 50% of your monthly benefit for life.
- **Joint & Last Survivor 50%, with a ten year guarantee** - payable for as long as you live. If you predecease your spouse before you have received ten years of payments, your full pension continues to your spouse for the remainder of the ten year period. After the initial ten year period, the pension reduces to 50% and is payable for your spouse's lifetime. However, if both you and your spouse die within the initial ten years, your designated beneficiary would receive the balance of payments to conclusion of the initial period.
- **Joint & Last Survivor 60%** - payable for as long as you live, but in the event you predecease your spouse, they would receive 60% of your monthly benefit for life.
- **Joint & Last Survivor 60%, with a ten year guarantee** - payable for as long as you live. If you predecease your spouse before you have received ten years of payments, your full pension continues to your spouse for the remainder of the ten year period. After the initial ten year period, the pension reduces to 60% and is payable for your spouse's lifetime. However, if both you and your spouse die within the initial ten years, your designated beneficiary would receive the balance of payments to the conclusion of the initial period.
- **Joint & Last Survivor 100%, with a ten year guarantee** - payable for as long as you live. If you predecease your spouse, your full pension continues to your spouse. However, if both you and your spouse die within the initial ten years, your designated beneficiary would receive the balance of payments to conclusion of the initial period.

In the event you are single at retirement, you may choose one the following Formula Retirement Benefit options. They are:

- **Single Life, with no guarantee** – payable for as long as you live and will cease with the last payment on the first of the month in which death occurs.
- **Single Life, with a ten year guarantee** – payable for as long as you live, but if you die within the initial ten year period, the balance of payments remaining in that period will be paid to your beneficiary/beneficiaries.

RRSPs – What are They?

Registered Retirement Savings Plan (RRSPs) were introduced by the government to encourage individuals to save for their retirement. Contributions made to an RRSP are tax deductible within certain limits. The maximum tax-deductible amount that can be paid into an RRSP each year is generally 18% of earnings subject to a dollar limit (\$27,230 in 2020).

Investment income earned on assets held within an RRSP also benefits from favorable tax treatment. All investment income accumulates on a tax-sheltered basis.

Assets held in an RRSP can be withdrawn at any time. However, taxes will be paid on those assets at the time they are withdrawn. (Note that taxes are paid at regular rates. Unlike other investments, there is no special treatment for dividends or capital gains earned by an RRSP).

An RRSP is used for retirement savings. When you are ready to start receiving the money as pension income, you must transfer the RRSP into a Registered Retirement Income Fund, (RRIF) or an annuity with an insurance company. A RRIF or annuity is used to provide you with regular monthly pension payments, and usually does not have a fee for these payments.

An RRSP must be closed out by the end of the calendar year in which you turn 71. This means that an RRSP holder must either purchase an annuity by that time or transfer the funds to a RRIF or take a lump sum payment, minus the taxes.

Locked-in pension benefits may only be transferred to a locked-in RRSP.

Locked-in RRSPs work just like an RRSP with a few exceptions. The money is locked-in and may only be paid out in the form of a lifetime pension. Monies transferred out of a locked-in RRSP must be transferred to a Life Income Fund (LIF) or used to purchase an annuity. Locked-in money may not be transferred to a RRIF.

RRIF and LIFs – What are They?

LIF's are basically the same as a RRIF with a few restrictions.

When you are ready to start receiving your retirement income from your RRSP, one of your options is to transfer the money into a RRIF or LIF. By the end of the calendar year in which a tax-payer attains age 71, assets in an RRSP must be used to purchase an annuity or be transferred to a Registered Retirement Income Fund.

A Registered Retirement Income Fund (RRIF) gets money from a regular RRSP, not locked-in money. The RRIF allows you to continue to tax shelter and invest your retirement assets with a stipulation that a minimum amount must be withdrawn each year. This minimum withdrawal each year is a specified percentage (based on your age or your spouse's age), of your total RRIF assets at the beginning of the year.

Locked-in monies may not be transferred to a RRIF. Instead they must be transferred to a LIF.

A Life Income Fund (LIF) is similar to a RRIF except that in addition to minimum annual withdrawals there are also maximum annual withdrawals. Having a maximum means that the LIF will always have some money and can continue to pay you something for as long as you live. The maximum withdrawal is the greater of (1) the value of the fund at the start of the year multiplied by a factor which depends on your age and current interest rates, and (2) the actual investment returns for the preceding year.

Annuities

A life annuity provides pension payments for the rest of your life. There are many different forms of life annuity. The basic form is a pension payable for as long as you live. It stops on your death. There are a number of options you can add to this basic form:

- A guarantee that a specified number of payments will be made, even if you die early. Common guarantees are for 60 months (five years), 120 months (ten years), and 180 months (15 years). Fifteen years is the maximum guarantee permitted under the Income Tax Act for pension money.
- A survivor benefit to be paid after your death. This type of annuity pays a set amount to you for your lifetime and following your death, it continues to pay an income to your spouse. The amount paid to your spouse could remain the same as you received, or it could be reduced and pay 60%, 66 2/3%, or 75% to your spouse after your death.
- Automatic indexing each year. You could select increases based on inflation, or a fixed percentage, such as 3% or 4% each year.

For locked-in pension money, most jurisdictions require that, if you have a spouse on the day you start your pension, you must elect a joint and last survivor annuity with a minimum of 60% payable to your spouse after your death.

This mandatory survivor benefit may be waived by the spouse, in which case another form of annuity may be purchased. If you want to purchase a LIF instead of an annuity, you will be required to get your spouse to waive their right to the survivor pension.

Once your pension has started, you cannot change the form. If you get a new spouse, or decide that you would rather have a different guarantee, there is no change permitted.

An annuity will provide a greater certainty of income than would a LIF or RRIF, since the insurance company assumes the investment risk and you are guaranteed a specified payment each month. The downside is that an annuity can be expensive to purchase when rates are low. Furthermore, once an annuity is purchased this action cannot be undone.

Considerations in LIF's and Annuities

Many people automatically dismiss the idea of purchasing an annuity because they are concerned that the insurance company will make a big profit from their money if they should die early. You can protect yourself from this by adding a guarantee to the annuity. But even so, annuities are not for everyone.

There are basically two choices available when converting your retirement savings into monthly income:

1. An annuity provides you with a guaranteed income for life, plus the option to continue benefits to your spouse following death.
2. A RRIF or LIF provides you with the flexibility to change your retirement income amount, but at the risk there may not be enough money left to withdraw what you need to maintain your lifestyle.

Annuities:

- There is no risk of outliving your assets. Payments will continue for as long as you (or your spouse) are living.
- An annuity transfers the investment risk to the insurance company. There is no need to worry about how to invest your assets.
- If there is a history of longevity in your family and you are in good health, an annuity may be an option you wish to consider.
- Annuities are inflexible. Once you purchase an annuity you cannot reverse the decision, nor can you change the form in which it is paid.

RRIFs and LIF's

- You will have the ability to manage your retirement assets and invest them the way you think is best. This includes using mutual funds or self-directed accounts. This provides greater uncertainty as the funds are subject to market fluctuations.
- Flexible payment amounts. Take more money if you need it.
- There is a risk you will not have enough money to withdraw what you need.
- With LIF's, you are guaranteed to leave an estate for your beneficiaries upon death.
- If your money is locked-in, you will have to get your spouse to sign a waiver for the required survivor pension before you can select the LIF.