ATB WEALTH

RETIREMENT PLANNING

Understanding three main sources of retirement income

CPP

OAS

RRIF

If you are planning for retirement in 10 years or less, it is time to take stock of your available sources of income in retirement. According to the Profiles of Retirement survey conducted in January 2024 by the Ontario Securities Commission, among pre-retirees who know which sources of income they expect to rely on during retirement, 47% said they are planning to rely primarily on CPP or QPP, 30% will rely on OAS or GIS, followed closely by pension income (27%), personal savings or selling investments (25%) or investment income (21%). Lower income households, those without employer pensions, or those who do not own a home were more likely to say they expect to rely primarily on government benefits as their source of income during retirement.

There are many factors that may influence your decision on when to commence payments from government programs such as CPP and OAS and how to integrate that income with your personal retirement savings. For the many Canadians that do not have a workplace pension, the bulk of their retirement savings are held within RRSPs.

There are several options to choose from when the holder of an RRSP account is ready to start withdrawing funds for retirement. Converting RRSPs to RRIFs is currently the most common choice among Canadians. We will provide you with an overview of RRIF rules and considerations in concert with CPP and OAS benefits. We will also guide you through a list of questions you should ask yourself when determining when to commence payments from each.

TABLE OF CONTENTS

THE CANADA PENSION PLAN (CPP)

The CPP retirement pension is a taxable monthly benefit intended to replace part of your income when you retire. To qualify, you must be at least 60 years old and have made at least one contribution to the CPP. This section will focus on basic CPP benefits.

CPP CONTRIBUTIONS

Every Canadian age 18 to 65 who has pensionable earnings must contribute to CPP. Contributions are split equally between employers and employees. The combined contribution rate for basic CPP is 11.90% for 2025. Self-employed Canadians are required to remit both employer and employee contributions. Contributions are based on pensionable earnings, calculated as the difference between the minimum $3,500 and the year's maximum pensionable earnings (YMPE), which is adjusted annually ($71,300 for 2025).

The CPP program has been enhanced to increase the proportion of earned income replaced by the program. As a result employees will also contribute 4% of earnings between the first earnings ceiling and a second higher limit ($81,200 for 2025). For more information, please refer to our article CPP enhancements and your retirement.

CPP ENTITLEMENT

The maximum entitlement under the basic CPP program is designed to replace 25% of pre-retirement pensionable earnings up to the maximum contributory earnings limit. The enhanced CPP is designed to increase the amount to 33%. In order to receive the full enhanced benefit, you must contribute to the enhanced CPP for 40 years.

The amount a person is entitled to will be based on their earned income and number of years of contributions. The CPP program does provide dropout provisions for years of low income as follows:

- The first is the general dropout, which excludes the lowest 17%, or approximately eight years, of earnings. You must make maximum contributions for a period of 39 years to get the maximum benefit.
- The second dropout is a child rearing provision, which applies if you were the primary care-giver to a child under the age of seven. The program won't include the months in which a parent had low or no income resulting from raising young children. Importantly this dropout is not calculated automatically; you must apply for it at the time of your application for CPP.

You are recommended to get an estimate of your CPP retirement pension from My Service Canada Account (MSCA).

CPP BENEFITS

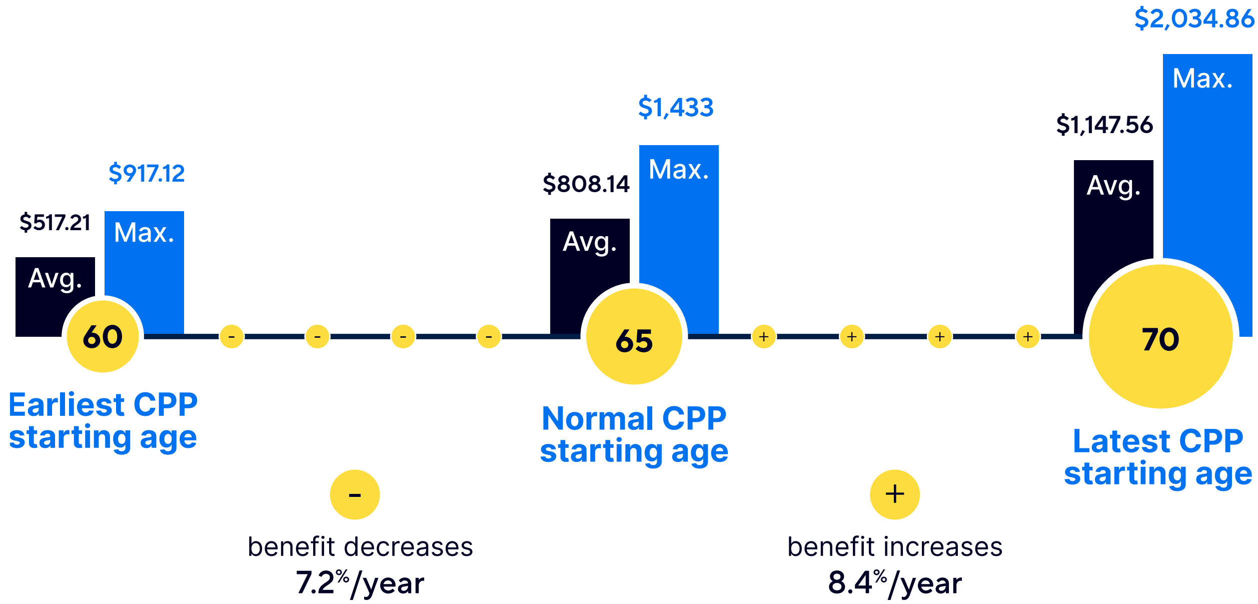
Normal retirement age, under the CPP program, is considered to be age 65. The maximum CPP benefit payable to a 65 year old is $1,433/month (2025). However, to receive this amount, you would generally have needed to contribute the maximum amount in at least 39 years since turning 18. Most Canadians do not receive the maximum amount, rather, the average monthly amount paid to a 65 year old pensioner was $808.14/month as at October 2024.

CPP benefits are indexed annually to the Consumer Price Index (CPI)

EARLY & LATE ELECTION TO RECEIVE CPP BENEFITS

Although the CPP retirement pension normally begins on your 65th birthday, it can be taken as early as age 60 or as late as age 70. For each month your CPP is received before age 65, the benefit entitlement will decrease by 0.6% (7.2% per year). For each month your CPP is postponed after age 65, the benefit entitlement will increase by 0.7% (8.4% per year)

EFFECT OF BENEFIT DECREASES AND INCREASES ON AVERAGE AND MAXIMUM BENEFITS



WHEN SHOULD I START COLLECTING CPP?

A number of factors should be considered when determining an appropriate age to start collecting CPP.

1. **Have you stopped working or partially retired?**

   Low-income years will become part of your contributory years and may reduce your benefit. This may occur if you have retired from full-time employment prior to age 65 and are no longer working, or are continuing to work on a part-time basis, with annual income less than the YMPE. If this is the case, you may wish to take CPP early. Although you will still have to contribute to CPP until age 65, these contributions will be applied to CPP's Post-Retirement Benefit.

2. **Do you need CPP income to pay for your lifestyle needs?**

   If you need to replace your earned income to pay for your basic lifestyle expenses, taking CPP early may be a necessity. Before doing so, consider all sources available to you, such as other pensions, RRSPs, TFSAs and savings. If you have sufficient other sources available for your lifestyle needs, waiting to collect CPP will increase your future monthly benefit.

3. **Can you invest the income and generate a return higher than the reduction in the benefit?**

   If the income is not needed, can you take the proceeds and invest them into a tax-sheltered environment, such as a TFSA? Keep in mind that when CPP is drawn prior to age 65, the reduction in benefits is 7.2% per year. Can you generate a higher rate of return than this to offset the loss?

4. **Taxation on benefits?**

   CPP income is fully taxable. If you are still working (or have other significant sources of taxable income), your CPP retirement pension could be subject to tax at a fairly high rate. CPP pension sharing with your spouse or common-law partner may provide an "at source" income-splitting opportunity. The portion of your pension that can be shared is based on the period that you and your spouse or common-law partner lived together during your joint contributory period.

5. **What is your life expectancy?**

   This is perhaps the most important factor in determining when to take CPP. This may also be the hardest question to answer. The chart on the following page illustrates the impact of taking CPP at various ages and the impact it has on the total level of income you receive from the program.

For illustrative purposes, we have assumed an annual benefit of $9,698 receivable by a 65 year old today. This is based on the average pensioner payment as of October 2024. We assume benefits will increase 2% per year once commenced, to reflect indexation of CPP benefits to CPI. Therefore, totals are expressed in future dollars.

CPP start age	Annual CPP benefit	Total received at age 75	Total received at age 80	Total received at age 85	Total received at age 90
60	$6,207	$115,685	$160,025	$208,979	$263,029
61	$6,905	$119,407	$167,767	$221,161	$280,112
62	$7,603	$121,450	$173,656	$231,297	$294,937
63	$8,301	$121,865	$177,748	$239,448	$307,570
64	$8,999	$120,701	$180,098	$245,676	$318,079
65	$9,698	$118,008	$180,758	$250,038	$326,530
66	$10,512	$115,107	$181,793	$255,421	$336,712
67	$11,327	$110,490	$180,935	$258,713	$344,585
68	$12,141	$104,210	$178,241	$259,977	$350,221
69	$12,956	$96,319	$173,768	$259,278	$353,688
70	$13,771	$86,867	$167,572	$256,676	$355,054

The highlighted fields indicate the maximum accumulated CPP benefit for each life expectancy assuming an individual is eligible for the average benefit at age 65.

OLD AGE SECURITY (OAS)

OAS is the government of Canada's largest pension program and it is funded from general tax revenues. Income is paid monthly to eligible Canadian citizens and legal residents age 65 and older. OAS eligibility is not based on contributions as with CPP but is based on the duration of residency in Canada.

OAS ELIGIBILITY

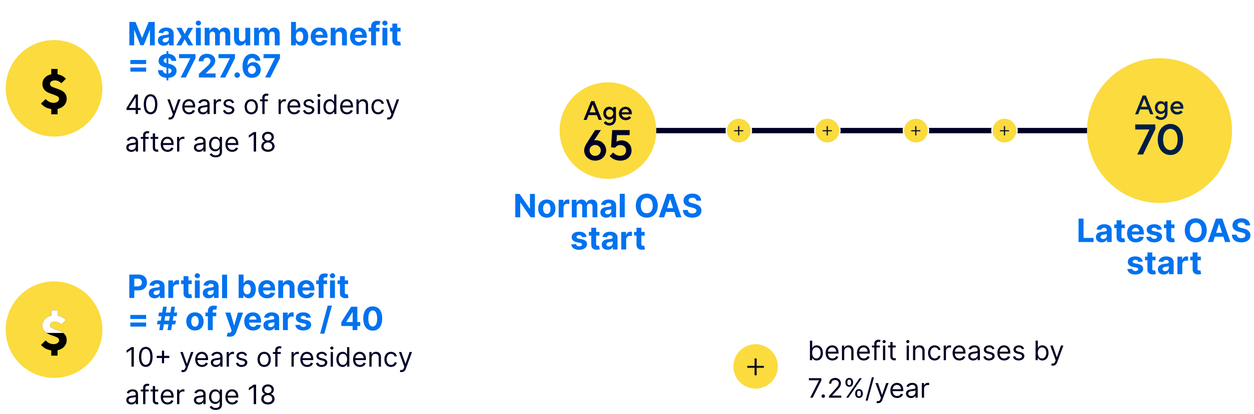
Generally, to be eligible for OAS when living in Canada at the time of application you must be age 65 or older, a Canadian citizen or legal resident at time of approval and resident in Canada for a minimum of 10 years after age 18. If you are living outside Canada at the time of application, you must have had a higher residency period of 20 years or greater after age 18.

OAS BENEFITS

If you have lived in Canada for at least 40 years after age 18, you are eligible to receive the maximum benefit. The maximum monthly payment for an individual who begins collecting OAS at age 65 is $727.67 as of January 2025. Once you turn 75 that payment is increased by 10%, $800.44 per month for those over 75 in 2025.

If you have not met the full residency requirement, you may be eligible for partial benefits provided you have a minimum residency of 10 years after age 18. Partial pension is calculated as the number of years resident divided by 40, to determine your prorated benefit.

Benefits can be deferred up to age 70 and your benefit will increase 0.6% per month (7.20% annually) for each month you defer past age 65.



WHEN SHOULD I START COLLECTING OAS?

1. **The OAS pension recovery tax**

   OAS benefits are subject to a pension recovery tax. Your OAS pension is reduced once your income exceeds $93,454 (2025). The reduction is calculated at a rate of 15 cents for every dollar in excess of the threshold. OAS benefits are fully clawed back once your income exceeds $151,668 (2025). For those aged 75 and over, the upper threshold is $157,490.

   - You may want to defer OAS benefits if you still anticipate working after age 65 or otherwise expect taxable income which is expected to exceed the minimum income recovery threshold.
   - You may not want to defer OAS past 65 if you expect high levels of income after age 70, such as RRIF payments commencing at age 72 in combination with CPP income and other taxable income. Keep in mind that pension income splitting for RRIF payments after age 65 may reduce your total income and therefore reduce the amount of clawback.

2. **Life expectancy**

   If your life expectancy is poor, you may not wish to defer. OAS pensions have no survivor benefits.

REGISTERED RETIREMENT INCOME FUND (RRIF)

A RRIF is effectively an extension of an RRSP. While RRSPs are a vehicle designed to help you save for retirement, a RRIF is designed to distribute your saved funds to you.

Your RRSPs mature December 31 of the year you turn 71. Upon maturity, or anytime sooner, you have three options for your RRSP: take the cash out, purchase a registered annuity, convert to a RRIF, or a combination thereof. RRIF conversion is currently the most common choice among Canadians. The conversion is not a taxable transaction. Taxes continue to be deferred on funds held in the RRIF.

RRIF annuitants are required to take mandatory minimum withdrawals from their RRIF each year, beginning the year after the RRIF is opened. The minimum can be based either on the annuitant's age or their spouse/common-law partner's age and the market value of the RRIF on December 31 yearly. Below is a table of RRIF minimums.

Age on January 1	Withdrawal (%)
65	4.00
66	4.17
67	4.35
68	4.55
69	4.76
70	5.00
71	5.28
72	5.40
73	5.53
74	5.67
75	5.82
76	5.98
77	6.17
78	6.36
79	6.58

Age on January 1	Withdrawal (%)
80	6.82
81	7.08
82	7.38
83	7.71
84	8.08
85	8.51
86	8.99
87	9.55
88	10.21
89	10.99
90	11.92
91	13.06
92	14.49
93	16.34
94	18.79
95 & over	20

FACTORS TO CONSIDER WITH RRIF WITHDRAWALS

1. **You do not have to wait until age 71 to convert your RRSP to a RRIF**

   Conversion to a RRIF can be completed at any age and prior to age 71. You can choose to convert a partial amount, or the full balance of your RRSPs. Drawing funds from your RRIF may allow you to defer collecting CPP, thereby increasing your CPP benefit. A disadvantage of early RRIF conversion and withdrawal is the loss of tax-deferred investment growth.

2. **Taxation on withdrawal of RRIF funds**

   All withdrawals from RRIFs are fully taxable. Ideally, you want withdrawals to occur in periods of lower marginal taxes. In evaluating when to convert an RRSP to a RRIF, or planning for RRIF withdrawals in excess of required annual minimums, you want to consider your anticipated taxable income from all sources, as well as available deductions and tax credits in the year.

3. **Utilize pension income splitting and the pension income tax credit**

   Unlike CPP and OAS, RRIF income is eligible for pension income splitting, when the RRIF annuitant is age 65 or older. Pension income splitting allows you to allocate up to 50% of your RRIF income to your spouse or common-law partner. The receiving spouse does not have to be 65. The election to pension income split is made on each spouse's tax return. This is a simple strategy to reduce the effective tax rate on RRIF withdrawals. If the effective tax rate on the split RRIF income is anticipated to be low, withdrawing more than the minimum or conversion to RRIF prior to 71 may be advisable.

   Also unlike CPP and OAS, RRIF income is considered eligible pension income for the purposes of the pension income tax credit when the annuitant is age 65 or older. By transferring enough to initiate a $2,000 RRIF withdrawal each year, a corresponding tax credit will be generated. This tax credit will offset some, if not all, of the tax payable on the $2,000 of income. If you are not taking advantage of this credit with other eligible pension income, consider at least a partial conversion of RRSP to RRIF, so you may withdraw $2,000 each year between 65 and 71 and utilize the credit. If your spouse or common-law partner is also 65 or older you can double up on this strategy by withdrawing $4,000/year and electing to split 50% with your spouse.

SUMMARY

Your CPP, OAS and RRIF income may provide a significant portion of your available sources of income in retirement. There are multiple factors you will need to consider deciding when to commence payments from each. Work with an ATB Wealth advisor to create a personal retirement plan that illustrates the impact of these benefits on your retirement finances.