RBC Investments

Financial Planning Quick Tip

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SUBJECT: Government Income Sources Cheat Sheet

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Canada Pension Plan (CPP)/Quebec Pension Plan (QPP)

Basic Facts

- CPP and QPP are similar government pension plans with minor differences.
- CPP is for people who work in Canada outside of Quebec and QPP is for people who work in Quebec.
- Mandatory contributions for everyone age 18 or over and earning annual employment or self-employment income above $3,500 (2007 value).
- Employer matches employee's contribution.
- CPP/QPP retirement benefit is taxable to the recipient, indexed and payable for life.
- Not income tested.
- CPP/QPP retirement benefit can be split between spouses or common-law partners for income splitting purposes, but only when younger spouse is eligible for CPP/QPP.
- Parents that stayed at home caring for children under the age of 7 can apply to increase their CPP/QPP retirement benefit (the Child Rearing Drop-Out Provision).
- Maximum 2007 CPP/QPP retirement benefit at age 65 - $863.75 per month.
- Maximum 2007 CPP/QPP retirement benefit at age 60 - $604.63 per month.
- The Service Canada website has more information about CPP – http://www.hrsdc.gc.ca/asp/gateway.asp?hr=en/isp/cpp/cpptoc.shtml&hs=cpr
- The Régie des rentes du Québec website has more information about QPP - http://www.rrq.gouv.qc.ca/en/retraite/rrq/

CPP/QPP Calculator

Speak to your advisor regarding the calculator on the advisor's intranet for estimating your CPP/QPP retirement benefit and to determine if it is better to take CPP/QPP early or late.

CPP/QPP estimator

- Calculator will estimate the CPP/QPP retirement benefit based on number of contributory years and average annual salary of employee during contributory years.
- Alternatively, you can contact 1-800-277-9914 (or 1-800-277-9915 for service in French) for your own personal CPP estimate or 1-800-463-5185 for your own personal QPP estimates.

Should I take CPP/QPP early or late?

- CPP/QPP is generally payable at age 65 without penalty, however it can be taken as early as age 60 if you have low or no employment or self-employment earnings.
- If taken prior to age 65, then the CPP/QPP benefit is reduced by 0.5% per month for every month prior to age 65. This reduced payment continues for your lifetime.
- The calculator can determine if you are better off taking CPP/QPP prior to age 65 (if you qualify) or at age 65, using certain financial assumptions such as life expectancy, inflation rate, investment return and marginal tax rates.
- Typically, people who expect longer than normal life expectancy would prefer to take CPP/QPP later.
- Other considerations must be taken into account to determine if CPP/QPP should be taken prior to age 65 or at 65 irrespective of the calculator results. For example, if you have high expenses prior to age 65, you may consider taking CPP/QPP to help pay for these expenses.

Old Age Security (OAS)

Basic Facts

- OAS is a federal retirement benefit payable for life to people age 65 and older.
- You do not have to contribute to OAS directly like CPP/QPP.
- The government of Canada pays OAS benefits through general tax revenues.
- The OAS benefit is taxable to the recipient and is indexed on a quarterly basis.
- Maximum OAS benefit for the first quarter of 2007 - $491.93 per month.
- Low-income individuals receiving OAS can also receive a tax-free supplement called the Guaranteed Income Supplement (GIS).
- The Service Canada website has more information about OAS– http://www.hrsdc.gc.ca/asp/gateway.asp?hr=en/isp/oas/oastoc.shtml&hs=ozs

Eligibility

- Category 1. If you have lived in Canada for at least 40 years after turning age 18, you will receive the full OAS benefit.
- Category 2. You could also receive the full OAS benefit if you met the following three conditions: you lived in Canada for the 10 years before your OAS application was approved **AND** you were born on or before July 1, 1952 **AND** you lived in Canada for some period of time between the time you turned age 18 and July 1, 1977.
- Category 3. You may still qualify for a full pension if you meet the following two conditions: you lived in Canada for the year immediately before your application was approved **AND** prior to these last 10 years, you lived in Canada after age 18 at least 3 times as long as the total of your absences during the last 10 years.
- If you do not fall into any of the above categories, then a partial OAS pension may still be received.

Clawback

- The OAS benefit is income tested and clawed back starting at net income of $63,511 (2007 value and is indexed).
- If your net income is greater than $63,511, the OAS benefit is clawed back at the rate of $0.15 for every $1 above $63,511.
- Income clawback threshold is based on your personal net income and not your family's net income.
- If someone was receiving the maximum OAS, then OAS is fully clawed back at net income of approximately $102, 865.

Strategies to Minimize OAS Clawback

- Make spousal RSP contributions to equalize taxable retirement income of both spouses or common-law partners.
    - For example, instead of you receiving $80,000 of retirement income and your spouse or common-law partner receiving little or no retirement income, it may be possible for each of you to receive $40,000 of retirement income if you use a spousal RSP effectively.
    - This strategy can reduce your family's retirement tax burden and can avoid or minimize OAS clawback.
- Create an alter-ego or joint-partner trust to earn investment income.
    - Special type of inter-vivos trust that can only be created by people age 65 or over.
    - If structured properly, income can be earned and retained in the trust and taxed on the trust tax return instead of on your personal tax return—thus avoiding or minimizing OAS clawback.
    - Legal and accounting fees will be incurred to set up and maintain the trust.
- Earn investment income through an investment holding company.
    - Investment income can be retained in the corporation to keep the net income of the shareholder below the OAS clawback thresholds.
    - However, corporate investment tax rates are slightly higher than the top personal tax rates—so there is a tax cost of leaving the income in the corporation.
    - Additional costs and complexities of maintaining a corporation.

If you have any questions or require clarification of any of the issues discussed in this document, do not hesitate to discuss these with your advisor.

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are subject to change.

Using borrowed money to finance the purchase of securities, including mutual fund securities, involves greater risk than a purchase using cash resources only. Should you borrow money to purchase securities, your responsibility to repay the loan as required by its terms remains the same even if the value of the securities purchased declines. Unless otherwise indicated, securities purchased from or through the Member Companies are not insured by a government deposit insurer, or guaranteed by Royal Bank of Canada, Royal Trust Corporation of Canada or The Royal Trust Company and may fluctuate in value.