

THE NAVIGATOR

OLD AGE SECURITY AND OTHER GOVERNMENT INCOME SOURCES

Frequently Asked Questions

As you approach 65 years of age, you may have several questions surrounding the Old Age Security Program. This article discusses the benefits you may be entitled to receive, changes to the program and other issues surrounding when you may be subject to clawbacks and how you can minimize them. This article also explains some of the other government income sources that may be available.

WHAT IS OLD AGE SECURITY?

Old Age Security (OAS) is a monthly federal retirement benefit payable for life to people age 65 and older. You do not have to make OAS contributions in order to receive OAS retirement benefits. This program is funded through general tax revenues paid to the Government of Canada.

HOW DO I RECEIVE OAS?

In order to receive OAS, you must apply. You can apply for OAS no earlier than one year before you become eligible (i.e. turn 65 years of age). You can apply to OAS later, however retroactive payments are limited to 11 months after age 65.

In order to receive OAS as soon as possible, the application should be done at least six months prior to when you turn 65. To obtain an application kit, you can print one from the Service Canada website (<http://www.servicecanada.gc.ca>) or contact Service Canada.

[servicecanada.gc.ca](http://www.servicecanada.gc.ca)) or contact Service Canada.

HOW MUCH OAS CAN I EXPECT TO RECEIVE?

To find out the maximum OAS available to you, please visit the Service Canada website. This amount may be adjusted quarterly to reflect increases in the cost of living as measured by the Consumer Price Index.

WHAT ARE THE ELIGIBILITY REQUIREMENTS IN ORDER TO RECEIVE FULL OAS?

You are eligible to receive full OAS if you meet the criteria under one of the following two categories:

- 1) If you lived in Canada for at least 40 years after turning 18; or
- 2) You reached the age of 25 on or before July 1, 1977, and at that time:
 - a. you lived in Canada, or;

- b. you did not live in Canada but you had some residence in Canada after the age of 18, or;
- c. you were in possession of a valid Canadian Immigration Visa; and
- d. you lived in Canada for the 10 years immediately before the approval of your OAS application.

If you didn't live in Canada for the 10 years immediately before the approval of your OAS application, you may still qualify for full OAS pension if you lived in Canada for the entire year immediately before the approval of your application **AND** since you turned 18, you lived in Canada for at least three years for every one year of absence from Canada during these last 10 years. If you don't fall in any of these categories, a partial OAS pension may still be available.



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WHAT IS THE OAS CLAWBACK AND HOW DOES IT WORK?

If you earn income over a certain threshold amount and receive an OAS pension, you may have to repay part or your entire OAS pension. For the purposes of this clawback, your income is calculated as follows:

- the amount from line 234 of your personal tax return; **minus**
- the amounts reported on lines 117 and 125; **plus**
- the amounts deducted on line 213 and the amount for a repayment of registered disability savings plans income included on line 232.

This OAS clawback begins once income exceeds a certain threshold and is equal to 15% of income that exceeds that threshold. Once your income reaches a maximum threshold amount, your OAS will be fully clawed back. To find out what these income thresholds are, please visit the Service Canada website.

ARE THERE ANY STRATEGIES TO MINIMIZE THE CLAWBACK?

The following strategies could be implemented in order to minimize the OAS clawback.

- Make spousal RRSP contributions to equalize taxable retirement income of both spouses or common-law partners.
 - For example, instead of 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 RRSP effectively.
 - This strategy can reduce your family's retirement tax burden

and can avoid or minimize OAS clawback.

- Split your pension with your spouse or common-law partner
 - The pension income splitting rules provide an opportunity to reallocate eligible pension income from one spouse to another in order to reduce or eliminate the impact of the OAS clawback for the higher income spouse.
 - For more details, please ask your RBC advisor for the article titled "Pension Income Splitting"
- Create an alter-ego or joint-partner trust to earn investment income.
 - These are special types of inter vivos trusts that can only be created by individuals 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.
- 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 may be higher than the top personal tax rates in some provinces and territories and as such, there may be a tax cost of leaving the income in the corporation.
- Invest in a Tax-Free Savings Account (TFSA).

- Income you earn in a TFSA or withdrawals you make from a TFSA are not taxable income and not considered in determining whether part or your entire OAS pension should be clawed back.

- Invest in Corporate Class Funds
 - These funds are structured such that you can switch between funds in the same class of funds without triggering any capital gains or losses.
 - Distributions of income are minimized in order to reduce your tax liability.
 - This investment provides you with the opportunity to control when you realize gains and losses. This can be used to minimize the OAS clawback.

Prior to implementing any strategy, you should obtain professional advice from a qualified tax and legal advisor to ensure your own circumstances have been considered.

WHAT IS THE GUARANTEED INCOME SUPPLEMENT (GIS)?

The GIS is a monthly non-taxable payment to low-income OAS recipients living in Canada. To receive this benefit, you must be receiving an Old Age Security pension. Your yearly income or, in the case of a couple, you and your spouse or common law partner's combined income cannot exceed certain limits. To find out the maximum GIS payment available, please visit the Service Canada website.

IS THERE A GIS INCOME LEVEL CUT-OFF?

For an individual, GIS cannot be received if his or her income is equal to or greater than a certain threshold. For a spouse or common-law partner

The 2012 federal budget increased the age of eligibility for Old Age Security and Guaranteed Income Supplement from 65 to 67 years of age.

of someone who is already receiving an OAS pension, the total income for the couple cannot be greater than a certain amount in order for a spouse to receive GIS. To determine these amounts, please visit the Service Canada website.

WHAT ARE THE ALLOWANCE PROGRAM AND ALLOWANCE FOR THE SURVIVOR PROGRAMS?

The Allowance is a monthly benefit for low-income seniors (aged 60-64) whose spouse or common-law partner is eligible for, or currently receiving, the Old Age Security (OAS) pension and the Guaranteed Income Supplement (GIS).

You may qualify for the Allowance for the survivor if your spouse or common-law partner has died, and you have not remarried or entered into a new common-law relationship for more than 12 months.

WHAT ARE THE OTHER REQUIREMENTS TO RECEIVE THE ALLOWANCE OR ALLOWANCE FOR SURVIVOR PAYMENT?

To qualify for the Allowance or the Allowance for the survivor, you must:

- 1) be 60 to 64 years old;
- 2) be a Canadian citizen or legal resident when your benefit is approved (or have been one when you last lived in Canada); and
- 3) have lived in Canada for at least 10 years after turning 18 (or you may qualify if you lived or worked in a

country that has a social security agreement with Canada); and

- 4) have an annual income below a prescribed limit

For additional information on the Allowance and Allowance for Survivor program, please see the Service Canada website.

HOW DID THE 2012 FEDERAL BUDGET CHANGE OAS?

The 2012 federal budget increased the age of eligibility for Old Age Security and Guaranteed Income Supplement from 65 to 67 years of age. This is to be gradually implemented beginning April 1, 2023. Thus, individuals who were born on March 31, 1958 or earlier will not be affected. Those who were born on or after February 1, 1962 will have an age of eligibility of 67.

Starting on July 1, 2013, individuals are allowed to postpone receiving their OAS payments for up to five years. Those who take their OAS at a later time will receive a higher OAS payment.

In line with the increase in age of OAS/GIS eligibility, the ages at which the Allowance and the Allowance for the Survivor are provided will also gradually increase from 60-64 today to 62-66, starting in April 2023.

The 2012 federal budget also eased the administrative application process. The government will put in place a

proactive enrolment process that will eliminate the need for many seniors to apply for OAS and GIS. Proactive enrolment will be implemented in a phased-in approach from 2013 to 2016.

ARE OAS, GIS AND ALLOWANCE PAYMENTS TAXABLE?

Like most other retirement income, your basic Old Age Security pension is taxable income. Your GIS benefit, allowance and allowance for the survivor, however, are not taxable income. However, you must still report them on your tax return.

WHAT HAPPENS TO MY OAS PENSION IF I LEAVE CANADA?

If you have been approved for an OAS pension, you can still receive it if you leave Canada provided you lived in Canada for at least 20 years after turning 18 years of age or you lived and worked in a country that has a social security agreement with Canada and you meet the 20 year residence requirement under the provisions of the social security agreement.

If you do not meet one of these requirements, you can receive the OAS pension only for the month of your departure from Canada and six additional months. The Guaranteed Income Supplement, Allowance and Allowance for the Survivor can only be paid outside Canada for only six months after the month in which you leave Canada.

Please contact us for more information about the topics discussed in this article.

Service Canada has published an FAQ regarding foreign payments, which can be found at the Service Canada website.

WHAT IS THE INTERNATIONAL BENEFITS PROGRAM?

This program may provide benefits to eligible individuals who have lived or worked in another country, or the surviving spouse, common-law partner or children of eligible individuals who have lived or worked in another country.

To be eligible, the country in which you worked in must have a social security agreement with Canada which co-ordinates the pension programs of both countries for individuals who have either lived or worked in both countries. To determine if Canada has a social security agreement with the country in which you worked, please visit the Service Canada website.

I LIVE OUTSIDE OF CANADA, WILL MY OAS PAYMENTS BE SUBJECT TO NON-RESIDENT WITHHOLDING TAX?

If OAS is paid to a non-resident, there will be a non-resident withholding tax of 25%, subject to any tax treaty reduction. Note that U.S. recipients of OAS will not be subject to any Canadian non-resident withholding tax and will have to report only 85% of the OAS benefit on their U.S. tax return.

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