Wealth Management

INVESTMENT, TAX AND LIFESTYLE PERSPECTIVES FROM RBC WEALTH MANAGEMENT SERVICES

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 Old Age Security pension and related benefits you may be entitled to receive, when you may be subject to clawback of these benefits and strategies for how you can minimize any clawback. Any reference to a "spouse" in this article also refers to a common-law partner.

This article outlines several strategies, not all of which will apply to your particular financial circumstances. The information in this article is not intended to provide legal or tax advice. To ensure that your own circumstances have been properly considered and that action is taken based on the latest information available, you should obtain professional advice from a qualified tax advisor before acting on any of the information in this article.

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

What is Old Age Security?

Old Age Security (OAS) is a monthly federal retirement benefit payable for life to individuals 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?

You must apply in writing to receive OAS unless you receive a letter from Service Canada informing you that you are automatically enrolled in the program. If you have been automatically enrolled, you will receive a notification letter from Service Canada the month after you turn 64. You will not have to apply for OAS provided that the information in the letter is accurate.

The earliest you can apply for OAS is 11 months before your 65th birthday (i.e., the month after you turn 64). If you have already reached 65 and you want your OAS pension to start immediately, you should apply as soon as possible since Service Canada can only provide you with retroactive payments for up to a maximum of 11 months from the date they received your application.

To apply, you must complete, sign and mail the *Application for the Old Age Security Pension* form as well as any necessary documents to the

Generally, if your net income before adjustments exceeds a certain minimum threshold amount, you may have to repay all or part of your OAS pension on your tax return for that year.

Service Canada location nearest you. You can obtain the application form on Service Canada's website.

How much OAS can I expect to receive?

The amount of your OAS pension will be determined by how long you have lived in Canada after age 18.

Full Pension

You are eligible to receive a full OAS pension if you are age 65 or older and meet the criteria under one of the following two categories:

1) You have lived in Canada for at least 40 years after turning 18; or
2) You were born on or before July 1, 1952, and on July 1, 1977:
    a. you lived in Canada, or;
    b. you did not live in Canada but you resided in Canada for a period of time prior to July 1, 1977, or;
    c. you were in possession of a valid Canadian Immigration Visa.

In addition, you must have lived in Canada for the 10 years immediately before the approval of your OAS application. If you did not live in Canada for the 10 years immediately before the approval of your OAS application, you may still qualify for a full OAS pension if you lived in Canada for at least one year immediately before the approval of your OAS 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.

Partial Pension

If you do not qualify for the full OAS pension, you may still qualify for a partial OAS pension. To qualify for a partial OAS pension, you must have lived in Canada for at least 10 years after you turned 18 and you must be living in Canada when you receive your OAS pension.

A partial OAS pension is calculated as 1/40th of the full OAS pension for each complete year you lived in Canada after age 18. For example, if you lived in Canada for 20 years after your 18th birthday, you may qualify to receive 20/40ths or half of the full OAS pension.

What is the OAS clawback and how does it work?

Generally, if your net income before adjustments (on line 234 of your personal income tax return) exceeds a certain minimum threshold amount, you may have to repay all or part of your OAS pension on your tax return for that year, this is also known as OAS clawback. The repayment amount is equal to 15% of your income that exceeds the minimum threshold amount for the year. 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.

If you are subject to OAS clawback for the current year, that repayment amount is divided monthly and deducted from your future OAS pension payments as a recovery tax starting with your July OAS payment of the following year. This way, you will have your OAS recovery tax spread over 12 monthly pension payments instead of paying back a lump sum amount.

If you expect your net income for the following year to be substantially lower than your income for the current year, you can submit a request to the CRA to have Service Canada reduce the recovery tax withheld on your OAS pension payments beginning July of the following year. You can submit the request by completing CRA *Form T1213 (OAS), Request to Reduce Old Age Security Recovery Tax at Source.*

Are there any strategies to minimize OAS clawback?

Implementing the following strategies may help you minimize OAS clawback:

- **Consider earning capital gains instead of dividends**

  Only 50% of capital gains are included in your taxable income while public company dividends are generally grossed-up by 38%. This gross-up increases your taxable income, and as a result, it may also increase your OAS clawback. Earning capital gains instead of dividends would therefore help keep your income to a minimum, and minimize your OAS clawback. However, it is important to first consider the investment merits of the securities that will generate capital gains versus dividends before looking at the tax benefit. Generally, securities that generate capital gains have a higher level of risk than securities that generate dividends. Speak to your advisor about the suitability of the investments in your portfolio.

- **Consider mutual funds that have Return of Capital (ROC) distributions**

  Mutual funds that have high ROC distributions may provide a steady payment stream and because ROC distributions are not considered taxable income, these distributions do not trigger OAS clawback. ROC distributions will reduce the adjusted cost base of your investment which has the potential to generate capital gains tax when you eventually sell the investment. Please note that the mutual fund may also distribute some taxable income (e.g. interest or dividends) which may trigger OAS clawback.

- **Consider making Registered Retirement Saving Plan (RRSP) contributions**

  If you have RRSP room and are 71 years old or younger, consider making an RRSP contribution. This contribution will provide you with a deduction against your income and effectively reduce your OAS clawback.

- **Consider making spousal RRSP contributions**

  If you have RRSP room, and your spouse is 71 years old or younger, consider making a spousal RRSP contribution. This contribution will not only provide you with a deduction against your income, it may also help you equalize the taxable retirement income for both you and your spouse in the future. For example, instead of you receiving $80,000 of retirement income and your spouse 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 may reduce your family's retirement tax burden and may help you avoid or minimize OAS clawback.

- **Consider pension income splitting with your spouse**

  The pension income splitting rules provide an opportunity to reallocate eligible pension income from one spouse to another. This reallocation of income may help you reduce or eliminate the impact of the OAS clawback for the higher income spouse. Eligible pension income includes payments from a registered pension plan, certain annuity payments, and in the case where you are 65 years or older, payments from a RRIF.

Mutual funds that have high ROC distributions may provide a steady payment stream and because ROC distributions are not considered taxable income, these distributions do not trigger OAS clawback.

Income you earn in a TFSA or withdrawals you make from a TFSA are not taxable income and are not considered in determining OAS clawback.

- **Consider pension sharing with your spouse**

  If you and your spouse are both at least 60 years old, you can elect to share your Canada Pension Plan (CPP) or Québec Pension Plan (QPP) retirement pension benefits. By electing to share the pension, a portion of the higher spouse's retirement pension may be received by the lower income spouse and taxed in the lower income spouse's hands. Please note that in order to share the benefits, if you and your spouse both contributed to CPP/QPP, you must both start taking CPP/QPP and the combined pension will be shared. If only one of you contributed to CPP/QPP, then you will share the one pension.

- **Consider earning investment income through an investment holding company**

  If you are a shareholder of a holding company, consider holding investments in your corporation. This way, income earned on the investments can be taxed in the corporation instead of on your personal tax return allowing you to keep your personal net income below the OAS clawback threshold. However, corporate investment tax rates may be higher than your marginal tax rate so there may be a tax cost to leaving the income in the corporation.

- **Consider investing 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 are not considered in determining OAS clawback.

- **Consider withdrawing from your RRSP before age 65**

  If you are retiring early or have low income in the years before you turn 65, consider withdrawing from your RRSP before age 65 in order to minimize your OAS clawback in future years when you are required to convert your RRSP to a RRIF and begin withdrawing from your RRIF.

- **Consider realizing capital gains before age 65**

  If you are planning on selling an asset that could trigger large capital gains (i.e., a rental property, a business, a cottage, or investments with large accrued gains) consider realizing these capital gains before you turn 65. Triggering these gains after age 65 may result in OAS clawback.

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

What is the Guaranteed Income Supplement benefit?

The Guaranteed Income Supplement (GIS) is a monthly benefit provided to low-income OAS recipients living in Canada. To receive this benefit, you must be receiving an OAS pension. Your annual income or, in the case of a couple, you and your spouse's combined annual income, cannot exceed certain limits. To find out the maximum GIS payment available, please visit the Service Canada website.

You can postpone receiving your OAS pension for a higher OAS monthly benefit for up to five years after the date you become eligible for OAS.

What are the Allowance and the Allowance for the Survivor benefits?

The Allowance is a monthly benefit for low-income seniors whose spouse is eligible for, or is currently receiving, OAS and GIS. The Allowance for the Survivor is for low-income seniors whose spouse has died and who have not remarried or entered into a new common-law relationship.

To qualify for these benefits, you must:

1. be 60 to 64 years old (includes the month of your 65th birthday);
2. be a Canadian citizen or legal resident when your benefit is approved; and
3. currently live and 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 (combined with your spouse's income in the case of the Allowance) below a maximum annual threshold.

The Allowance and the Allowance for the Survivor stop the month after your 65th birthday, when you may become eligible for the OAS pension and possibly the GIS. For additional information on the Allowance and Allowance for Survivor programs, please refer to the Service Canada website.

Can OAS be deferred?

You can postpone receiving your OAS pension for a higher OAS monthly benefit for up to five years after the date you become eligible for OAS. Your monthly OAS pension payment will be increased by 0.6% for every month you delay receiving it, up to a maximum of 36% at age 70. There is no financial advantage in deferring OAS after the age of 70.

If you defer your OAS pension, you will not be eligible for GIS, and your spouse will not be eligible for the Allowance benefit for the period you are delaying your OAS pension.

If you receive a letter from Service Canada informing you that you have been automatically enrolled to receive OAS but you would like to defer it, you should inform Service Canada of your decision to defer either by:

- Accessing your "My Service Canada" account and indicating your choice on the Service Canada website, or
- Returning the automatic enrolment letter with your choice to defer OAS by mail.

If you do not receive the automatic enrolment letter, the earliest you can apply for deferred OAS is 11 months before the date you would like to start receiving it.

Your basic OAS pension is taxable. Other OAS benefits (i.e., GIS, Allowance and Allowance for the Survivor) are not taxable.

Who benefits from deferring OAS?

If you choose to continue working and do not need the OAS pension benefits, you may want to consider taking your OAS pension at a later date (e.g. when you stop working). By deferring OAS until you have lower income, you may be able to reduce any OAS clawback and keep more of your pension. In addition, your monthly OAS pension amount will be higher because of your deferral. In deciding whether to defer OAS, you should also consider your current and future sources of income, your health, and your plans for retirement.

Are OAS, GIS and Allowance payments taxable?

Your basic OAS pension is taxable. Other OAS benefits (i.e., GIS, Allowance and Allowance for the Survivor) are not taxable, however, you must still report these benefits on your income tax return.

Living outside Canada

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 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 that 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 after that. GIS, the Allowance and Allowance for the Survivor can only be paid outside Canada for six months after the month in which you leave Canada.

For additional information on receiving payments outside of Canada, please refer to the Service Canada website.

If I lived or worked in Canada and in another country, am I still eligible for the OAS pension and benefits?

If you lived or worked in Canada and in another country, or are the survivor of someone who has lived or worked in Canada and in another country, you may still be eligible to receive the OAS pension and benefits from Canada and/or from the other country. To be eligible, the other country in which you lived or worked in must have a social security agreement with Canada. The social security agreement 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.

If OAS is paid to you as a non-resident, there will be a non-resident withholding tax of 25%.

I live outside of Canada. Will my OAS payments be subject to non-resident withholding tax?

If OAS is paid to you as 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.

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