Preparing for Retirement

A Guide for Employees

2020

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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 in 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

What is a Locked-In Benefit?

A "locked-in"

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]

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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?

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RRSPs

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 taxpayer 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. (F)4 0 (R)8 (R1 Tw 0 -1.22 (.)7 ( )7 (CID 9 >>B

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.