

# Low Income Retirement Planning

**Four things  
to think about**



## Canada's retirement income system has three parts:

- 1. Old Age Security (OAS):** If you meet the residence requirements, you can get a modest monthly benefit at age 65. People with little or no income other than OAS pension may get an extra monthly benefit called the **Guaranteed Income Supplement (GIS)**.

There is also a monthly **Allowance** for low-income spouses and common-law partners of OAS pensioners. All widows and widowers can receive the **Allowance for the Survivor**. These spousal benefits are available from age 60 to age 64.

- 2. The Canada Pension Plan (CPP):** If you paid into CPP during your working life, you can get a monthly pension as early as age 60.

- 3. Private pensions and savings:** If you have a pension through work and/or have saved for retirement, this is the third part of your retirement income.

Adapted from:  
[http://www.totrov.com/english/pension\\_system.htm](http://www.totrov.com/english/pension_system.htm)

## What is a 'low-income'?

What will your family picture be when you are age 65?	As of June 2012,* you will be low income if your income (not counting Old Age Security) is under:
Single person	<b>\$16,512</b>
Couple, both getting Old Age Security (OAS pension)	<b>\$21,840</b>
Couple, only one partner getting OAS, other partner is under 60	<b>\$39,600</b>
Couple, one partner getting OAS, other partner is 60-64 and getting the Allowance	<b>\$30,576</b>

\* These figures can rise on a quarterly basis. You can get updated figures from Service Canada at:  
[www.servicecanada.gc.ca/eng/isp/oas/tabrates/tabmain.shtml](http://www.servicecanada.gc.ca/eng/isp/oas/tabrates/tabmain.shtml)

- The income limits in the chart apply to seniors who qualify for **full** Old Age Security (OAS).
- This means that you have lived in Canada at least 40 of the 47 years between your 18<sup>th</sup> and 65<sup>th</sup> birthdays
- You can get partial OAS pension if you have lived fewer years in Canada. In these cases, the income limits may be higher.

Open this flap to see a chart that explains what a 'low income' is.

Prepared by  
John Stapleton, Open Policy Ontario

# Low Income Retirement Planning

PAGE  
2

How do I get the Guaranteed Income Supplement?

PAGE  
4

Does CPP early retirement make sense for me?

PAGE  
9

What's the smartest way to save before I turn 65?

PAGE  
13

A smart way to save between ages 65 and 71.



# How do I get the Guaranteed Income Supplement?

## Questions

1. What is the Guaranteed Income Supplement (GIS)?
2. Who qualifies for it?
3. What do you mean by 'low income'?
4. Who qualifies for Old Age Security?
5. I want to apply. How do I get started?

## 1. What is the Guaranteed Income Supplement?

At age 65, people with little or no income other than OAS pension may get an extra monthly benefit called the **Guaranteed Income Supplement (GIS)**.

## 2. Who qualifies for the Guaranteed Income Supplement (GIS)?

- You can apply for it when you turn 65.
- You can get it if:
  - your income is low enough **and**
  - you qualify for Old Age Security.

## 3. What do you mean by 'low income'?

- Look at the table at the beginning of this booklet.
- Will your income (not counting Old Age Security pension) be under the level shown when you turn 65?

## 4. Who qualifies for Old Age Security?

- The income limits in the table apply to seniors who qualify for **full** Old Age Security (OAS).
- This means that you have lived in Canada at least 40 of the 47 years between your 18<sup>th</sup> and 65<sup>th</sup> birthdays.
- You can get partial OAS if you have lived fewer years in Canada. In these cases, the income limits may be higher.
- Low-income people who will get partial OAS **should also apply for GIS!** They may get extra GIS benefits to make up for their partial OAS pension.

## 5. I want to apply. How do I get started?

You only have to apply once for GIS. After that, all you have to do is file an annual tax return. This tells the government if you are still eligible.

### Before you start:

View and update your personal information:

<http://www.servicecanada.gc.ca/eng/isp/common/proceed/vupiinfo.shtml>

Calculate your retirement income:

<http://www.servicecanada.gc.ca/eng/isp/common/cricinfo.shtml>

### Apply for Old Age Security:

Download the application form :

[http://www.servicecanada.gc.ca/eforms/forms/sc-isp-3000\(2012-01-11\)e.pdf](http://www.servicecanada.gc.ca/eforms/forms/sc-isp-3000(2012-01-11)e.pdf)

Download the information sheet:

[http://www.servicecanada.gc.ca/eforms/forms/sc-isp-3000a\(2012-01-11\)e.pdf](http://www.servicecanada.gc.ca/eforms/forms/sc-isp-3000a(2012-01-11)e.pdf)

### Apply for the Guaranteed Income Supplement:

Download the application form:

[http://www.servicecanada.gc.ca/eforms/forms/sc-isp-3025\(11-12\)\(2011-11-15\)e.pdf](http://www.servicecanada.gc.ca/eforms/forms/sc-isp-3025(11-12)(2011-11-15)e.pdf)

Download the instruction sheet:

[http://www.servicecanada.gc.ca/eforms/forms/sc-isp-3025-3026a\(2011-11-15\)e.pdf](http://www.servicecanada.gc.ca/eforms/forms/sc-isp-3025-3026a(2011-11-15)e.pdf)

### Learn more:

<http://www.servicecanada.gc.ca/eng/isp/pub/oas/gismain.shtml#b>

# Does CPP early retirement make sense for me?

## Questions

1. What is CPP early retirement?
2. What do you mean by 'low income'?
3. Will you qualify for Old Age Security?
4. Why should a low-income person take CPP early retirement?
5. Does it make sense to do this if I am on social assistance?
6. Why do I get told to wait until age 65?
7. I want to apply. How do I get started?

## 1. What is CPP early retirement?

- CPP stands for Canada Pension Plan. If you paid into the Canada Pension Plan while you were working, you get a pension.
- Most people start to get their CPP at age 65. You can apply when you are 60. This is called CPP early retirement.
- You will get less money than if you apply at 65. **But if you will have little or no income other than OAS pension after age 65, it is better to take CPP early.**

## 2. What do you mean by 'low income'?

- We mean low enough to qualify for the Guaranteed Income Supplement (GIS).
- Look at the table at the beginning of this booklet. Will your income (not counting Old Age Security pension) be under the level shown when you turn 65?

## 3. Will you qualify for Old Age Security (OAS)?

- Low-income people who qualify for OAS can apply for the Guaranteed Income Supplement (GIS).
- The income limits in the table apply to seniors who qualify for **full** OAS pension. Full OAS means that you have lived in Canada at least 40 of the 47 years between your 18<sup>th</sup> and 65<sup>th</sup> birthdays.
- You can get **partial** OAS if you have lived fewer years in Canada. In these cases, the income limits may be higher.
- Low-income people who will get partial OAS pension should **also** apply for early CPP at age 60 and for GIS at age 65!



## 4. Why should a low-income person take early CPP?

- You will start getting some money now.
- You will likely get the Guaranteed Income Supplement (GIS) at age 65. This can be worth a lot for a senior with little or no income other than the OAS pension.
- CPP benefits reduce your GIS by 50 cents on the dollar. Since you took CPP early, you are getting less, so they can't reduce your GIS by as much.
- **You will be better off than if you waited until age 65.**

## 5. Does it make sense to do this if I am on social assistance?

**No**, for two reasons.

1. The government will just reduce your social assistance money.
2. You will likely qualify for the Guaranteed Income Supplement when you turn 65 anyway.

## 6. Why do I get told to wait until 65?

- Because most financial advice is aimed at people with higher incomes.
- People with higher incomes might choose to wait so that their CPP will be higher over the rest of their lifetimes.
- But people with higher incomes will not qualify for GIS.
- People with low incomes are often better off if they take CPP sooner.



## Case Study: Not yet retired

Lisa is 59 and on her own. She would like to take CPP early retirement at age 60. But Lisa also wants to keep working past age 60 – maybe even past 65.

### Can she do it?

#### Answer: Yes!

- Starting January 1, 2012, you can collect Canada Pension as soon as you turn 60.
- You do not have to stop working.
- THE CATCH: You have to keep paying into CPP while you are working.
- THE GOOD NEWS: Your future benefits increase because you are still paying in.
- **Learn more at:**  
<http://retirehappyblog.ca/four-reasons-why-you-should-still-take-cpp-early-post-2011-rules>

## Case Study: Disabled

George is 60 and single. He has just moved from Ontario Works onto Ontario Disability Support (ODSP).

### Should he take CPP early retirement?

#### Answer: No!

- The Canada Pension Plan also has disability benefits. George will be eligible for CPP disability, rather than a retirement pension. If ODSP asks George to apply for CPP disability, he must do so.
- George's ODSP benefits will be reduced by the amount of his Canada Pension. So George is no further ahead.
- At age 65, George's CPP disability pension will become a CPP retirement pension. He will be off ODSP, so they can no longer reduce it.

## Case Study: Receiving Ontario Works

Lois is 60 and single. She is receiving Ontario Works of \$599 a month.

### Should she take CPP early retirement?

**Answer: There are pros and cons.**

- Ontario Works (OW) is reduced dollar for dollar by Canada Pension.
- But Ontario Works is only \$599 a month. Early CPP can be as high as \$724 a month. Lois needs to find out if it would be worth it for her.
- Lois would lose her Ontario Works drug card if she went on CPP.
- On the other hand, by taking early CPP, Lois makes her CPP payments lower over her lifetime. When she turns 65, she could get more GIS – up to \$131 more a month.

### Lois has some thinking to do:

- Lois needs to find out how much she would get from CPP.
- She should compare this to what she gets from Ontario Works.
- She also needs to factor in the value of her OW drug card.

## 7. I want to apply. How do I get started?

- View and update your personal information:  
<http://www.servicecanada.gc.ca/eng/isp/common/proceed/vupiinfo.shtml>
- Find out how much you have contributed to CPP:  
<http://www.servicecanada.gc.ca/eng/isp/common/proceed/socinfo.shtml>
- Calculate your retirement income:  
<http://www.servicecanada.gc.ca/eng/isp/common/cricinfo.shtml>
- Apply for Canada Pension:  
<http://www.servicecanada.gc.ca/eng/isp/common/rtrinfo.shtml>

## What's the smartest way to save before I turn 65?

### Questions

1. What do you mean by 'low income'?
2. Who qualifies for Old Age Security?
3. Is an RRSP a good way for a low-income person to save for retirement?
4. Why would an RRSP hurt me later?
5. What's a better way for a low-income person to save?
6. What does the federal government say about Tax Free Savings Accounts?
7. How do I get started?

## 1. What do you mean by 'low income'?

- We mean low enough to qualify for the Guaranteed Income Supplement (GIS).
- Look at the table at the beginning of this booklet. Will your income (not counting Old Age Security pension) be under the level shown when you turn 65?



## 2. Who qualifies for Old Age Security?

- The income limits in the table apply to seniors who qualify for **full** Old Age Security (OAS).
- This means that you have lived in Canada at least 40 of the 47 years between your 18<sup>th</sup> and 65<sup>th</sup> birthdays.
- You can get partial OAS if you have lived fewer years in Canada. In these cases, the income limits may be higher.
- Low-income people who will get partial OAS **should also apply for GIS!** They may get extra GIS benefits to make up for their partial OAS.

## 3. Is an RRSP a good way for low-income adults to save for retirement?

### No!

- Registered Retirement Savings Plans (RRSPs) are a way of saving money and getting a tax break at the same time.
- As a low-income person, you pay very little or no tax. So the tax break is of no use to you.
- Plus, the RRSP might hurt you later.

## 4. Why would an RRSP hurt me later?

### When you retire, you might be better off than you are now.

As a low-income person, you will likely be getting:

- **Old Age Security (OAS pension)**
- **Canada Pension (CPP)**
- **Guaranteed Income Supplement (GIS)**
- The Guaranteed Income Supplement can be worth a lot for a senior with little or no income other than the OAS pension.
- If you have money in RRSPs, you have to start taking it out when you turn 71. For every dollar of RRSP you receive after age 65, your GIS goes down by 50 cents.

## 5. Is there a better way to save?

- Think about opening a Tax Free Savings Account (TFSA).
- This is a special account you can ask for at the bank.
- You can save up to \$5,000 in it each year.
- It will earn interest and grow and you will not be taxed on it.
- The government also does not tax you when you take out the money.
- The government will not take back one penny from your GIS.





## 6. What the federal government says:

### No Impact on Income-Tested Benefits

Neither income earned in a TFSA nor withdrawals will affect your eligibility for federal income-tested benefits and credits, such as the Guaranteed Income Supplement and the Canada Child Tax Benefit. **This will improve incentives for people with low and modest incomes to save.**

<http://www.tfsa.gc.ca/incometestedbenefits-eng.html>

### An example

#### Benefits for Low-and Modest-Income Canadians

Alexandre and Patricia, a modest-income couple, expect to receive the Guaranteed Income Supplement (GIS) in addition to Old Age Security and Canada Pension Plan benefits when they retire.

They have saved for a number of years in their TFSAs and now earn \$2,000 a year in interest income from their TFSA savings. Neither this income, nor any TFSA withdrawals, will affect the GIS benefits (or any other federal income-tested benefits and credits) they expect to receive.

If this \$2,000 were earned [outside of a TFSA], it would reduce their GIS benefits by \$1,000.

<http://www.tfsa.gc.ca/tfsapamphlet-eng.html>

## 7. How do I get started?

- If you are low-income, under 65, and have some money to save, choose a Tax Free Savings Account (TFSA), not an RRSP.
- If you are making contributions to an RRSP, stop.
- Consider 'melting down' your RRSP.

#### ■ Learn more:

<http://www.blue-collar-financial-planning.com/RRSP-meltdown.html>

- Go to the bank and open up a Tax Free Savings Account. You can put in up to \$5,000 a year.

# A smart way to save between ages 65 and 71

## Questions

1. Do I qualify for the Guaranteed Income Supplement?
2. What do you mean by 'low income'?
3. Who qualifies for Old Age Security?
4. My income is just above the limit for GIS. Is there anything I can do to qualify?
5. But I heard that you could only buy RRSPs **before** you retire. Is that true?
6. What happens when I turn 71?
7. Can you give me an example of how it works?

## 1. Do I qualify for the Guaranteed Income Supplement (GIS)?

- The supplement is extra money to help seniors with very low incomes.
- It can make a big difference for a low-income person.
- You can apply for it when you turn 65.
- You can get it if:
  - your income is low enough **and**
  - you qualify for Old Age Security.

## 2. What do you mean by 'low income'?

- Look at the table at the beginning of this booklet.
- Will your income (not counting Old Age Security pension) be under the level shown when you turn 65?

## 3. Who qualifies for Old Age Security?

- The income limits in the table apply to seniors who qualify for **full** Old Age Security (OAS).
- This means that you have lived in Canada at least 40 of the 47 years between your 18<sup>th</sup> and 65<sup>th</sup> birthdays.
- You can get partial OAS if you have lived fewer years in Canada. In these cases, the income limits may be higher.
- Low-income people who will get partial OAS **should also apply for GIS!** They may get extra GIS benefits to make up for their partial OAS.

## 4. My income is just above the limit for GIS. Is there anything I can do to qualify?

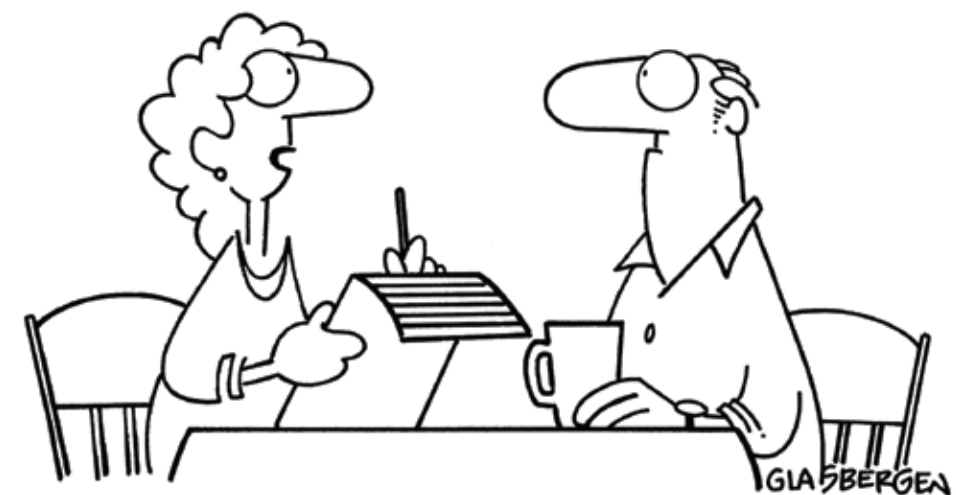
- **Yes.** You can lower your income by saving in a Registered Retirement Savings Plan (RRSP).
- Your Income Tax Notice of Assessment tells you how much you are allowed to put into RRSPs. This is called your 'deduction limit' or 'RRSP room'.
- If you are in the GIS 'zone', making an RRSP contribution can get your income under the limit so that you qualify for GIS.

## 5. But I heard that you could only buy RRSPs *before* you retire. Is that true?

- **No.** A person who has contribution 'room' can keep putting money into an RRSP until age 71.
- If you have to pay taxes, your RRSP contribution will help you pay less.
- If you qualify for GIS, making an RRSP contribution helps you to maximize your supplement.

## 6. What happens when I turn 71?

- The bank turns the RRSP into a Registered Retirement Income Fund (RRIF).
- You must take some money out of the RRIF each year.
- You may have to pay tax on the money you take out. It depends on how high your income is.
- For every dollar of RRIF you take out, your GIS supplement will go down by 50 cents.
- The government sets rules about how much of your RRIF you must take out each year after age 71. This will affect your GIS income.



"We can afford to retire in 20 years, but only if our credit cards retire in 10 years."

## 7. An example of how RRSPs work for a low-income person after 65

- When Mary turned 65, her yearly income was \$18,000. This was made up of CPP and a modest pension. She was also eligible for full OAS pension.
- Mary's income was too high to be eligible for GIS.
- Mary had \$60,000 in RRSP 'room'.
- Each year, from age 65 to 71, Mary took out a \$10,000 RRSP loan at low interest.
- The RRSP contributions reduced her taxable income to zero.
- Mary became eligible for partial GIS of \$346.76 a month.

### How it worked for Mary

- To pay back her loans, Mary used the GIS money and part of her RRIF after she turned 71.
- Mary will pay higher taxes after she turns 71, because she will be getting money from her RRIF. But the taxes will be far less than the extra money she got from GIS for 6 years.
- Mary will not qualify for GIS after she turns 71 because her income will be too high and she can no longer make RRSP contributions.
- However, Mary collected \$24,967 in GIS for 6 years, all because she contributed to an RRSP.
- Plus, during those years, Mary saved on taxes.

### A checklist on RRSPs for low-income people

- ☒ Are you between the ages of 65 and 70?
- ☒ Are you eligible for Old Age Security?
- ☒ Do you need further deductions from your income to be eligible for GIS, or to maximize GIS?
- ☒ Do you have RRSP 'room' showing on your income tax Notice of Assessment?
- ☒ Do you have money to contribute to the RRSP, or can you get an RRSP loan at your bank?

## What is...

### RRSP Registered Retirement Savings Plan

This is a way of saving for retirement that helps people lower their taxable income. This is not a smart way to save for most people whose incomes are so low that they pay little or no income tax.

### RRIF Registered Retirement Income Fund

When a person turns 71, the bank turns their RRSP into a Registered Retirement Income Fund or RRIF. They must take some money out of the RRIF each year. The money is taxable.

### Sponsor

Some people come to Canada as sponsored immigrants. This means that another person, often a family member, agrees to be responsible for them financially for 10 years.

### Spouse

A spouse is a person that you are married to or who is your common-law partner.

### TFSA Tax Free Savings Account

This is an account you set up at a bank. You can put in \$5,000 a year. If you earn interest on your savings, you do not have to pay tax on the interest. The interest does not count as income when you apply for the Guaranteed Income Supplement. This is a smart way to save for people who have very low incomes.

## What is...

### CPP Canada Pension Plan

If you paid into the Canada Pension Plan, through deductions on your payslip during your working life, you can get a monthly Canada Pension as early as age 60.

### GIS Guaranteed Income Supplement

At age 65, people with little or no income other than Old Age Security pension may get an extra monthly benefit called the Guaranteed Income Supplement (GIS).

### OAS Old Age Security

If you meet the residence requirements, you can get a modest monthly OAS pension, starting at age 65. There is also a monthly Allowance for low-income spouses and common-law partners of OAS pensioners. When the OAS pensioner dies, the spouse can receive the Allowance for the Survivor. The spousal benefits are available from age 60 to 64.

### ODSP Ontario Disability Support Program

This program provides benefits to people with disabilities in Ontario before they start receiving Canada Pension, Old Age Security pension, and the Guaranteed Income Supplement.

### OW Ontario Works

This program provides social assistance to low-income people in Ontario before they start receiving Canada Pension, Old Age Security pension, and the Guaranteed Income Supplement.