Planning to retire on a low income: What you need to know

November 2, 2016 – 2:00

Lillian Smith Branch
Topics

1. What seniors get in Ontario
2. What does ‘low income’ mean?
3. What does ‘taxable income’ mean?
4. How to reduce taxable income or get money back – understanding the system
5. Protecting a low retirement income
6. Why didn’t I get this advice from the bank?
7. How do we spread the word?
What seniors get in Ontario monthly

Canada Pension (CPP): If you paid in, you can get a pension at age 60: $699.20. At 65: $1,092.50

Old Age Security (OAS): $578.53 Most people 65+ get this. There are also some benefits for low-income spouses not yet 65.

Guaranteed Income Supplement (GIS): $864.09 People 65+ with low incomes may get this.

Ontario Guaranteed Annual Income System (GAINS): $83. If you are getting GIS but are still below the province’s minimum income, you get extra money.

Income from savings: Money you put in an RRSP or TFSA

Private pensions: A pension from where you worked

Earnings: money from working for wages or ‘other’
2. What does ‘low income’ mean? Will you be eligible for GIS?

Select your family picture when you are age 65.  

<table>
<thead>
<tr>
<th></th>
<th>As of July, 2016, you will be low income if your yearly income (not counting OAS!) is under:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single person</td>
<td>$17,544</td>
</tr>
<tr>
<td>Couple, both getting Old Age Security (OAS pension)</td>
<td>$23,184</td>
</tr>
<tr>
<td>Couple, only one partner getting OAS, other partner is under 60</td>
<td>$42,048</td>
</tr>
<tr>
<td>Couple, one partner getting OAS, other partner is 60-64 and getting the Allowance</td>
<td>$32,448</td>
</tr>
</tbody>
</table>
GIS Tax-back or Claw-back

- 50% (to 94%) on all net income from:
- RRSP cashouts,
- Pensions
- CPP
- Investment INCOME
- Earnings (after $3,500)
- Honorariums
Example: Tina’s story

• Single mother on welfare from age 18 to 30.
• Went back to school. Worked as a part-time nurse’s assistant from age 30 to 50.
• Became disabled with MS and went on Ontario Disability (ODSP).
• Now she is turning 65.
### What will Tina have at age 65?

<table>
<thead>
<tr>
<th>Source</th>
<th>Average monthly income</th>
<th>Max. payout</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada Pension (CPP)</td>
<td>$364.00</td>
<td>$699.20</td>
</tr>
<tr>
<td>Guaranteed Income Supplement (GIS)</td>
<td>$541.60 (why?)</td>
<td>$864.09</td>
</tr>
<tr>
<td>Old Age Security (OAS)</td>
<td>$578.53</td>
<td>$578.53</td>
</tr>
<tr>
<td>Ontario Guaranteed Annual Income System (GAINS)</td>
<td>$0.00</td>
<td>$83.00</td>
</tr>
<tr>
<td>(Her net income for GIS is over $2,000.)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income from savings</td>
<td>$10.00</td>
<td>N/A</td>
</tr>
<tr>
<td>Private pension:</td>
<td>$90.00</td>
<td>N/A</td>
</tr>
<tr>
<td>Refundable tax credits</td>
<td>$95.92</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>Total average monthly income</strong></td>
<td><strong>$1,672.04</strong></td>
<td>N/A</td>
</tr>
<tr>
<td><strong>Total yearly income</strong></td>
<td><strong>$20,098.63</strong></td>
<td></td>
</tr>
</tbody>
</table>
Question 11 on the OAS Form

• If your Old Age Security Pension is approved, do you want to apply for the Guaranteed Income Supplement?

  – Yes: (X)
  – No: ( )
“Application for the Guaranteed Income Supplement or Statement of Income for Payment Period of July 2016 to June 2017”

ONTARIO
For postal codes beginning with "L, M or N"
Service Canada
PO Box 5100 Station D Scarborough ON M1R 5C8 CANADA

ONTARIO
For postal codes beginning with "K or P"
Service Canada
PO Box 2013 Station Main Timmins ON P4N 8C8 CANADA
GIS Application

• a tick box on the OAS Form
• If you are low income – tick the box
• If you are unsure – tick the box
• No need to worry…. Just tick the box~
3. What does ‘taxable income’ mean?

Taxable income is the amount on line 260 of your tax form.

You pay no tax if:

• Taxable income is $15,000 and you are under 65
• Taxable income is $21,000 and you are 65+.
4. How to reduce taxable income or get money back – understanding the system: A trip to the grocery store!

- Non-refundable tax credits
- Refundable credits
- Deductions and tax-free amounts
- Tax exemptions & Entitlements
Non-Refundable tax credits: Money off for those who pay tax. Worthless if your income is too low.
Refundable credits: A ‘gift card’ you can redeem for money

**Tax free Refundable tax credits (Gift Card)** payable regardless of tax paid

<table>
<thead>
<tr>
<th>GST/HST Credits</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trillium Benefit (Ontario Property &amp; Energy Tax + sales tax credit)</td>
<td>A payment for low income people who own or rent a principal residence in Ontario.</td>
</tr>
<tr>
<td>Working Income Tax Benefit</td>
<td>A payment to eligible working low income individuals and families</td>
</tr>
<tr>
<td>Child Benefits (UCCB, CCTB, NCBS, OCB &amp; CDB)</td>
<td>Payments for children living with their parents</td>
</tr>
</tbody>
</table>
Exemptions: The ‘forget about it’ card – you don’t have to report exempted money.

**NO-NEED-to REPORT:**
- racetrack winnings
- sale of a principal residence
- sale of your car
- garage sale proceeds
- reimbursed expenses
Deductions and tax-free amounts:
A special personalized ‘coupon’

**FOR John Doe**

Redeemable for a DEDUCTION in your income* (*not transferable)

**Government of Canada**

### Deductions and Tax Free Amounts

<table>
<thead>
<tr>
<th>DEDUCTION FROM INCOME</th>
<th>AMOUNT DEDUCTIBLE FROM INCOME</th>
</tr>
</thead>
<tbody>
<tr>
<td>Child Care</td>
<td>Depends on Expenses</td>
</tr>
<tr>
<td>RRSPs</td>
<td>Depends on amount contributed based on income tax statement</td>
</tr>
<tr>
<td>TFSAs</td>
<td>No deduction – income inside TFSA not subject to tax</td>
</tr>
<tr>
<td>RESPs</td>
<td>No Deduction – income inside RESP not subject to tax but attracts Canada Learning Bond &amp; Canada Education Savings Grants as a matching contribution.</td>
</tr>
</tbody>
</table>
CERTIFICATE OF POSSESSION

Documentary evidence of ownership/eligibility

(ENTITLEMENT CARD)
# Certificate of Possession

Documentary evidence of ownership/eligibility

**(Entitlement Card)**

<table>
<thead>
<tr>
<th>Examples</th>
<th>Entitlement Programs</th>
<th>More Entitlements</th>
<th>Rules</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vehicle Ownership</td>
<td>Old Age Security</td>
<td>Canada Learning Bond</td>
<td>• One must apply</td>
</tr>
<tr>
<td>Deed/Lease</td>
<td>Guaranteed Income Supplement</td>
<td>Canada Education Savings Grants</td>
<td>• Meet ongoing eligibility requirements</td>
</tr>
<tr>
<td>Bank Statement</td>
<td>EI/CPP</td>
<td>RDSP Disability bond</td>
<td>• File tax returns</td>
</tr>
<tr>
<td>Receipt</td>
<td>CPP</td>
<td>Disability grants</td>
<td>• Show documentation</td>
</tr>
<tr>
<td>Proof of Purchase card</td>
<td>Assistive Devices</td>
<td>Seniors Drug Card</td>
<td>• Update documentation</td>
</tr>
</tbody>
</table>
Your Thought Balloon!!

- Non-refundable Credits = Coupon
- Refundable Credit = Gift Card
- Deduction = Specialized coupon; everyone different
- Exemption = Forget about it
- Entitlement = You own it; it’s yours
5. Protecting a low retirement income

• Will the government tell you about everything you are entitled to?
• Should everyone apply for OAS?
• Should you work after 65?
• Should you take early CPP?
• Should you buy RRSPs?
• Should you save in a TFSA?
• Can you leave Canada and collect?
Will the government tell you about everything you are entitled to?

Don’t count on it.

• CPP and OAS: Get application forms from Service Canada.
• Tick the box for GIS on the OAS form.
• They will tell you if you qualify for GAINS.
• File your tax returns to make sure you get other credits and benefits.
Should everyone apply for OAS?

Yes. Do it as soon as you approach age 65.

Even if you have not been in Canada long, you may get some OAS.

If you qualify for OAS and you have a low income, you qualify for some GIS.
5. Protecting a low retirement income

• Will the government tell you about everything you are entitled to?
• Should everyone apply for OAS?
• Should you work after 65?
• Should you take early CPP?
• Should you buy RRSPs?
• Should you save in a TFSA?
EMPLOYMENT RATES AMONG PEOPLE IN THEIR 60S, 1984-2014

Source: Hicks (2015).
ANY net income reduces the benefits that low-income seniors get except $3,500 in net earnings.

- Low-income seniors get benefits from GIS and GAINS.
- Both get clawed back at 50% after you earn just $3,500 (T4 slip).
- Both get clawed back at 50% after the 1st DOLLAR of any other kind of gross income.
- Examples: Money you take from RRSP savings (T4RIF), or honoraria (T4A).
The St. Patrick’s Day Rule
The St. Patrick’s Day Rule

• Minimum wage of $11.40 an hour
• 10 weeks at 30-31 hours a week (hours common in fast food or retail)
• = $3,500
• After that every dollar is taxed back at 50% up to 74% and 92% over some income zones
• Think about working after St. Patrick’s Day if you are low income!
Example: Phillip’s story

- He’s a senior living on $1,000 a month.
- He volunteers to speak for the Dream Team.
- He received $1,490 in honoraria.
- GAINS clawed back 50%.
- GIS clawed back 50%.
- Phillip gets nothing.
Solutions for honoraria

• The T4A slip ‘trigger point’ is $500.
• Stop collecting honoraria at $499.
• Volunteer for another agency for next $499.
• Or, if it makes sense for you, reduce your taxable income by contributing to an RRSP. We get to this later....
Should you take early CPP?

- Early CPP is age 60. It is a little less money. But you may need it now.
- If you are on social assistance, don’t take it early. Your social assistance will be clawed back.
- The usual age to take CPP is 65.
- After age 65 you won’t have to worry about the clawback.
Exception: Should you take early CPP if you have really low income? under $2,000 a year?

• Wait until age 70 if:
  – You are eligible for GAINS and
  – Your CPP will be less than $2,000 a year.

• Why? Because the GAINS clawback is 100%.

• After age 70 there is no clawback.
The ‘parallel universe’ of low-income retirement
Parallel universe

• Most middle and high-income people have less income after they stop working.
• Most low-income people have more.
• Most middle and high-income people pay less tax after they retire.
• Most low-income people don’t pay tax.
• But they might have to when they start getting CPP and OAS.
When should you buy RRSPs?

• Only when your CPP, OAS and other income means you might have to pay tax.
• An RRSP can increase your GIS.
• Your lower taxable income might increase your GIS.
• You can buy RRSPs from age 65 to 71.
Your Notice of assessment is a gold mine!

Notice of Assessment

Think Gold Mine!!
Taxable income before and after retirement for low income people

• Before age 65:
  – Ontario Works is non-taxable; ODSP is non-taxable; Pain and suffering awards are non-taxable; Some settlements are non-taxable;
  – but earnings are taxable

• But After age 65:
  – OAS is taxable; CPP is taxable, RRSP cash outs are taxable; pensions are taxable, earnings are still taxable; investment income is taxable
Should you buy RRSPs?

• Registered Retirement Savings Plans are for people who pay taxes.
• They help to reduce the tax now, but you pay it when you take the money out.
• That makes sense for higher-income people.
• It makes no sense for low-income people until they start getting CPP and OAS.
## Net Income for GIS purposes

<table>
<thead>
<tr>
<th>9</th>
<th>Other Income</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Less other deductions</td>
</tr>
</tbody>
</table>

| 122 | Net partnership income |
| 128 | Support payments |
| 129 | RRSP income |
| 130 | Other income |
|   | minus |
| 207 | RPP deduction |
| 208 | RRSP deduction |
| 209 | Saskatchewan pension plan |
| 210 | Elected split pension income |
| 212 | Annual dues (i.e., union) |
| 214 | Child care expenses |
| 215 | Disability supports |
| 217 | Business investment loss |
| 219 | Moving expenses |
| 220 | Support payments made |
| 221 | Carrying charges |
| 223 | QPIP premiums |
| 224 | Exploration expenses |
| 229 | Other employment expenses |
| 231 | Clergy residence deduction |
| 232 | Other deductions |

Retiring on a low income
Should you save in a TFSA?

• Tax-free savings accounts are always a good way for low-income people to save.
• The interest you earn can’t be taxed.
• You don’t have to take it out until you want to.
• Money in a TFSA can’t be clawed back.
You can prevent the RRIF bear hug!

• When you turn 71, what happens to a TFSA?
  – Answer: Nothing! You take it out when you want – everything tax free

• What happens to an RRSP?
  – Answer: Your RRSP turns into a RRIF and you go into the RRIF ‘bear-hug’ where you must take out an increasing % per year from 5% to 20% all of it taxable!
## Table of RRIF Factors

<table>
<thead>
<tr>
<th>Age</th>
<th>All RRIFs 2015+</th>
<th>Post-1992 RRIFs prior to 2015</th>
<th>Pre-1993 RRIFs prior to 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RRIF Factor</td>
<td>RRIF Factor</td>
<td>RRIF Factor</td>
</tr>
<tr>
<td>71</td>
<td>0.0528</td>
<td>0.0738</td>
<td>0.0526</td>
</tr>
<tr>
<td>72</td>
<td>0.0540</td>
<td>0.0748</td>
<td>0.0556</td>
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<tr>
<td>73</td>
<td>0.0553</td>
<td>0.0759</td>
<td>0.0588</td>
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<tr>
<td>74</td>
<td>0.0567</td>
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<tr>
<td>75</td>
<td>0.0582</td>
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<td>76</td>
<td>0.0598</td>
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<td>88</td>
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<td>0.1449</td>
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<tr>
<td>93</td>
<td>0.1634</td>
<td>0.1792</td>
<td>0.1792</td>
</tr>
<tr>
<td>94</td>
<td>0.1879</td>
<td>0.2000</td>
<td>0.2000</td>
</tr>
<tr>
<td>95+</td>
<td>0.2000</td>
<td>0.2000</td>
<td>0.2000</td>
</tr>
</tbody>
</table>
Can you collect OAS if you leave Canada and live elsewhere?

• You can collect any form of Old Age benefits for 6 months. But it’s complicated after that!
• If you move elsewhere for more than 6 months:
  – You need to have lived in Canada for 20 years between your 18 and 65 birthday; or
  – Shorter (e.g. 18 months) if Canada has an agreement (there are 56) with the country you are going to:  [http://www.esdc.gc.ca/en/cpp/international/eligibility.page](http://www.esdc.gc.ca/en/cpp/international/eligibility.page)
6 top tips for retiring on a low income:

1. File your taxes (unless you have old debts).
2. Apply for early CPP if not on social assistance.
3. Apply for OAS a year before you turn 65.
4. Tick the box for GIS on the application form.
5. Between age 65 and 71, buy RRSPs only if you need to reduce taxable income.
6. Save in a tax-free savings account instead.
6. Why didn’t I get this advice from the bank?

• Banks don’t make much money off poor people, so they don’t invest in giving them good advice.

• Many people don’t like income support programs like GIS and don’t want to talk about them.

• Yet 32% Canadian seniors collect GIS.
7. How do we spread the word?

• Tell provincial and federal governments to give better information.
• Push financial institutions to train their staff to give good advice.
• Teach social agencies about the tax rules and income supports that affect low-income people.
Thank you

Learn more at:

http://openpolicyontario.com/retiring-on-a-low-income