The Council on Aging of Ottawa

Le Conseil sur le vieillissement d'Ottawa

Low Income Retirement in Canada

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Income Security Expert Panel

Low Income Retirement in Canada

In Canada, low-income seniors can be defined as those who receive (or who are eligible to receive) the Guaranteed Income Supplement (GIS). The GIS is a monthly, non-taxable (but tax reportable) supplement to the monthly Old Age Security (OAS) pension. The GIS is paid to seniors who have little or no income other than the OAS pension.

About 7.1 million seniors receive the OAS pension and about 2.2 million seniors receive the GIS.

The amount of GIS benefits depends on marital status and income. GIS benefit amounts are based on an individual's net annual income in the previous year, or in the case of couples, the combined net annual income of both members of the couple. To be eligible for the GIS, individual or combined income must be below a specified threshold.

Seniors with no income other than the OAS pension receive the maximum GIS. The GIS is then gradually reduced by $1 for every $2 of annual income, until it is completely phased out at a specified annual income threshold. Low-income seniors also include those who would be financially eligible for the GIS but cannot access it due to other forms of ineligibility. For example, those who are:

- Living on a low income but who are ineligible for the OAS pension; or
- Eligible for the OAS pension but who are sponsored immigrants under a sponsorship undertaking that is still in effect.

The GIS is comprised of the regular GIS and the GIS top-up. The GIS top-up is an additional amount, provided on top of the regular GIS, to the lowest-income seniors who have little or no income other than the OAS pension. The GIS top-up was introduced in 2011 and it was increased for single GIS recipients in 2016.

Single seniors with income below $2,000 (and couples with combined income below $4,000) receive the maximum GIS top-up. The GIS top-up is then gradually reduced by $1 for every $4 of annual income (above $2,000 for single seniors and above $4,000 in combined annual income for senior couples) until it is completely phased out at a specified combined annual income threshold.

This means that GIS benefits are reduced by 50% for every dollar of income, other than the OAS pension, until income reaches $2,000 for single seniors and $4,000 for couples, then by 75% for every dollar of other income between $2,000 and $9,872 for single seniors and $4,000 and $8,512 for couples (where both members are OAS pensioners). When income exceeds these amounts, GIS benefits are then again reduced by 50% for every dollar of other income until GIS benefits are completely phased out.

In addition, the *Old Age Security Act* provides a minimum income guarantee to all low-income seniors, including those who have insufficient residence to qualify for a full OAS pension. This means that partial OAS pensioners can receive an additional amount of GIS to compensate for their lower OAS pension. This additional GIS is equal to the difference between a full OAS pension and the individual's partial OAS.

Retirement planning for the 31% of seniors who are GIS recipients is very different from the planning that normally takes place for the 69% of seniors who receive the OAS pension but are ineligible for the GIS. The reason it is different (often contrary to mainstream planning) is that the amounts of GIS payments are reduced based on income other than the OAS pension paid to low-income seniors.

When provincial income supplements are included, total marginal reduction rates can exceed 100%, for example in Saskatchewan.[1]

In Ontario, the Ontario Government's Bill 85, which received Royal Assent on May 18, 2023, makes two major changes to the *Ontario Guaranteed Annual Income Act (GAINS)* effective July 2024. First, it reduces the reduction rate from 50% to 25%. Second, it provides for automatic indexing of the maximum benefit[2].

Low-income Canadian adults above age 50 who are likely to remain in low-income (i.e., they are GIS bound) at age 60 and 65 should be taking measures to maximize their GIS payments by reducing their exposure to income forms that would lower their GIS after age 65. There are just a few forms of income that do not lower GIS payments. These include:

- The Old Age Security (OAS) pension
- Tax Free Savings Account (TFSA) cash outs
- Registered Disability Income Plan (RDSP) payments; and,
- Refundable tax credits like the GST credit, the Canada Workers Benefit (CWB), Climate Action Payments and provincial and Territorial refundable tax credits like the Trillium credit in Ontario.

Most other forms of income paid to a senior will reduce GIS in real terms by at least 50% until GIS eligibility is exhausted. These incomes include:

- Canada Pension Plan (CPP) payments
- Pension plan payments
- Investment (dividend and interest) income
- RRSP and RRIF cash outs; and
- Net employment and self-employment earnings above $5,000 a year

In addition, under the GIS Earnings Exemption, GIS recipients who work can exempt some of their earnings from the income that is used to calculate their GIS benefit amount. Since July 2020, working GIS recipients can fully exempt $5,000 in employment and self-employment income per year. In addition, they can exempt 50% of the next $10,000 of employment and self-employment income.

1 Saskatchewan currently pays a maximum benefit of $360 per month, or $4,320 per year, to single seniors. This benefit is phased out at an annual income level of $4,560, meaning that the reduction rate for a single senior is 95% of income. This is without considering the GIS or GIS top-up. When these latter benefits are considered, the marginal combined reduction rate is 170% over the income range at which all three benefits are payable. Further information is available at https://www.saskatchewan.ca/residents/family-and-social-support/seniors-services/financial-help-for-seniors#benefits

2 https://www.ola.org/en/legislative-business/bills/parliament-43/session-1/bill-85 https://www.ontario.ca/laws/statute/90o17

This means that GIS recipients whose only income other than the OAS pension is employment and/or self-employment income up to $5,000 per year will not see any reduction in their GIS. They will receive the maximum GIS (including the maximum regular GIS and the maximum GIS top-up).

GIS recipients with income employment and/or self-employment income between $5,000 and $15,000 per year will see their regular GIS reduced. Combined with a 50% reduction rate for the regular GIS, this results in a 25% reduction on the amount of earnings in the range from $5,000 to $15,000.

The reduction rate on the full amount of earnings above $5,000 will vary depending on other income.

Adults who are 'GIS bound' in their early to late 50's should consider:

- Cashing out their RRSPs (RRSP withdrawals are subject to the GIS clawback), paying tax on the proceeds and placing the remaining funds – if available for savings – into a TFSA (which is not subject to the GIS clawback)
- Taking early CPP at age 60 to reduce the amount available for the GIS clawback at 65 and later while enjoying the benefits of early CPP between age 60 and 65.

Canadians who are 'GIS bound' at age 60-64 should move RRSP funds into a TFSA.

They should consider applying for CPP retirement benefits as early as age 60. If they have no other source of income, CPP can start at 60, but with significantly lower benefits (as much as 36% less). Those choosing to collect CPP at age 60 should consider that their overall benefits from CPP would be higher over their lifetime if they live past age 88. Those with significant assets but low income may wish to delay receiving CPP.

Canadians, in good health, who can afford to wait, should delay their CPP till age 70. They will be better off in the long run. That said, they need to have other sources of income, before they reach 70, such as employment and/or savings. Those on GIS, or those in poor health are less likely to live long enough to benefit from delayed CPP.

The increase in CPP benefits are offset by the GIS clawback. As well, increased CPP benefits can reduce access to income-tested benefits like social housing based on Rent-Geared-to-Income (RGI) policies.

All low-income retirees should apply for the OAS pension at age 65 – they should not wait until 70 - as GIS is only available to those collecting the OAS pension.

Low-income Canadians who have turned 65 but who are not yet age 71 should consider registering for an RRSP if they have RRSP 'room' as the RRSP deduction will lower the GIS clawback and provide them with more tax-free GIS.

The goal is to reach age 71 with RRSPs purchased between 65 and 71 along with a TFSA where funds can be withdrawn tax free.

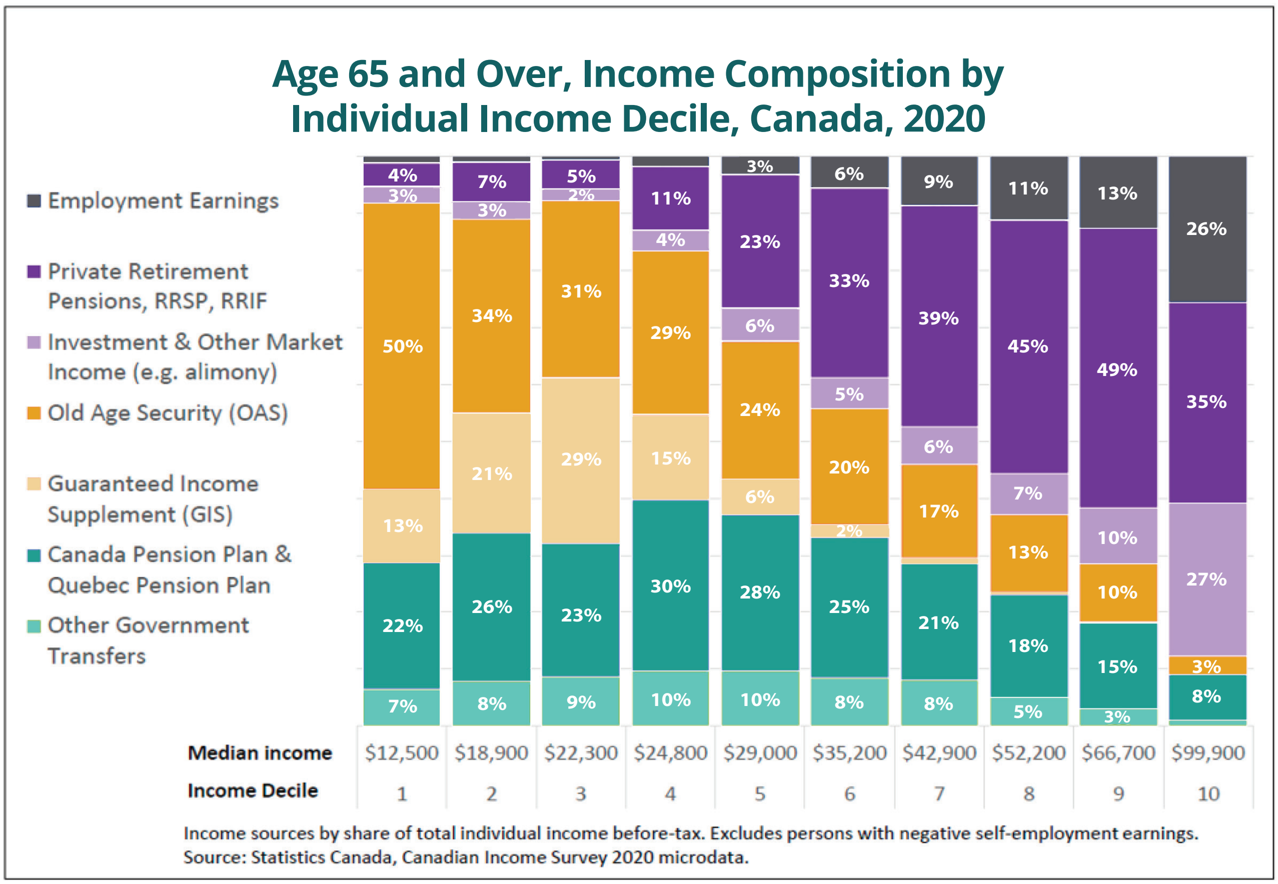
All low-income Canadians who turn 71 have no further planning options as they relate to maximizing GIS as they cannot purchase an RRSP and because their RRSPs all turn into RRIFs on a mandatory basis without exception.

Questions & Answers

1. What sources of income do seniors get in retirement and how does it differ by income level?

The chart below divides all Canadian seniors into ten equal groups (deciles) defined by the total individual (before tax) median income in each equal group:

- Lower income seniors get most of their income from government programs e.g. 93+% for lowest income decile but 84% for seniors in the 4th decile
- The richest seniors in the 10th decile only get 11% of their income from government sources
- GIS income is most significant in the third decile and is low or insignificant for 6 in 10 Canadian seniors in the highest income 6 deciles.



R. Maaranen, October 2023
openpolicyontario.com

Questions & Answers

2. Who is eligible for GIS?

GIS recipients must be at least 65 years of age and in receipt of the Old Age Security pension. They must live in Canada[3] and be permanent residents. Citizenship is not required for the GIS nor is there a work requirement to receive the OAS pension or the GIS.

Table 1[4]
What low-income seniors can receive in GIS payments when their income is low – January 1, 2024

Your situation	Your annual net income must be	Maximum monthly GIS payment amount
I am single, widowed or divorced	less than $21,624	$1,065.47
I have a spouse/common-law partner who receives a full OAS pension	less than $28,560 (combined income of couple)	$641.35 each
I have a spouse/common-law partner who receives the Allowance	less than $39,984 (combined income of couple)	$641.35 each
I have a spouse/common-law partner who does not receive an OAS pension or Allowance	less than $51,840 (combined income of couple)	$1,065.47

3. Who is NOT eligible for GIS?

- Sponsored immigrants under a sponsorship undertaking that is still in effect
- Persons residing outside of Canada[5]
- Visitors to Canada
- People over 65 who are ineligible for OAS; and
- Seniors whose income is higher than the amounts listed in Table 1 above

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3 For beneficiaries who leave the country on a temporary or permanent basis, the GIS continues to be paid for the month of departure and the following six months. Payment cease after six months. GIS payments may be reinstated once the individual resumes residence in Canada.

4 Adapted from the OAS website.For most up to date payments, go to https://www.canada.ca/en/services/benefits/publicpensions/cpp/old-age-security/payments.html. These amounts are indexted quarterly; Jan/Apr/July/Oct.

5 For beneficiaries who leave the country on a temporary or permanent basis, the GIS continues to be paid for the month of departure and the following six months. Payment cease after six months. GIS payments may be reinstated once the individual resumes residence in Canada.

Questions & Answers

4. Why is retirement planning different for GIS recipients and those who are 'GIS bound'?

- 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 income tax after they retire
- Most low-income people either don't pay tax or pay small amounts
- But low-income seniors may have to pay income tax when they start receiving CPP and OAS – while the GIS is non-taxable, most of their income sources after age 65 are taxable.

5. What are the six top tips for low-income retirees?

- File income tax returns on time (before April 30)– to avoid cancelled or delayed GIS benefits.
- Consider applying for early CPP if not receiving social or income assistance that deducts CPP as a matter of policy
- Apply for the OAS pension a year before turning 65
- Don't tick the box to refrain from applying for GIS on the OAS pension application form.
- Between age 65 and 71, buy RRSPs where there is available RRSP room if it would have the effect of increasing GIS
- Save in a Tax-Free savings Account (TFSA) before age 65 and after age 65 where the RRSP strategy (above) has been used.

Provincial and Territorial Seniors' Income Supplement Maximums

Provincial and Territorial Seniors' Income Supplement Maximums		
Province or Territory	**Benefit**	**Monthly Amounts**
Newfoundland & Labrador	Seniors' Benefit	$126.33 per person/couple
New Brunswick	Low Income Seniors' Benefit	$50 per household (includes Low Income Seniors' Benefit of $400/year plus Low-Income Seniors' Affordability Supplement of $200/year)
Ontario	GAINS	$83 per person
Manitoba	55 Plus, Senior component	$53.93 single/$57.97 each spouse in a couple
Saskatchewan	Seniors Income Plan	$360 single/$325 each spouse in a couple
Alberta	Seniors Benefit	$316 single/ $473.92 for a couple
British Columbia	Senior's Supplement	$99.30 single/$220.50 for a couple
Yukon	Seniors Income Supplement	$288.61
North West Territories	Seniors Citizen Supplementary Benefit	$196
Nunavut	Seniors Citizen Supplementary Benefit	$300

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