

2019 Edition

Pension Planning Plus

for the Federal Public Service



This booklet is not intended to portray a complete analysis of all aspects of retirement planning nor to constitute advice to any particular federal employee. Accordingly, employees are urged to consult their own tax professionals with respect to their retirement planning.

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Preface

Since 1960, Tradex has been dedicated to helping members of the federal public service make the most of their financial resources. Self-directed RRSPs and selected commission-free mutual funds were recently added as services to complement the low-cost, no-load Tradex mutual funds and no cost professional financial planning.

While retirement planning courses have long been offered throughout the federal public service, there is a need for a brief, readable and authoritative guide to the complex financial aspects of retiring. The greatest financial asset for most public servants is often their accumulated credits in the Public Service Superannuation Plan and this has been reflected in the strong demand for the previous editions of this booklet.

Please keep in mind that this booklet has deliberately been kept short, but should provide a starting point for detailed discussions with financial planning and tax professionals on your particular situation. Our intention is to update the text periodically, and we would welcome your comments for future editions.

Andrew Billingsley

Former President Tradex Management Inc. Ottawa March, 2001

Introduction

This booklet provides answers to numerous questions federal government employees may have about their retirement: when best to retire, what kind of income they might expect, how to minimize income taxes... in short, **how to ease concerns about financial security in retirement.**

Whereas some federal Crown corporations participate in the Public Service Superannuation Plan (PSSP), others sponsor a separate plan for their employees. Since these plans are only marginally different from the PSSP, however, this document is relevant for employees of all federal government departments, Crown corporations and agencies. Crown corporation employees concerned about possible differences between their pension plan and the PSSP should contact their Human Resources Branches.

Furthermore, while civilian employees of the Department of National Defense are members of the PSSP, Canadian Forces personnel and all employees of the Royal Canadian Mountain Police participate in separate plans. For a description of the differences in these plans, see Appendix B.

Each employee's work history and each person's retirement savings pattern are unique. Therefore, some individuals may not identify totally with the information and examples presented.

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The Public Service Superannuation Plan

How well do public servants know their pension plan?

Do public servants have any idea what the value is of their accumulated benefits, at what age it would be most advantageous for them to retire, and how much pension they can expect to receive? If they were to leave the public service well before retirement, what would they be entitled to?

For many Public Service Superannuation Plan members, the greatest single asset is often their accumulated pension credits. For example, a male worker retiring at age 55 with an annual non-indexed pension of \$30,000 can count on about \$800,000 in total benefits, assuming normal life expectancy. For a female employee, moreover, the total is some \$900,000. Indexed at 3% per year, this man's pension will yield over \$1 million in total payments and the woman's \$1.4 million. For recent data on life expectancy at age 55 and other ages see Table 1.

From a total-payment-over-time perspective, it is not advantageous to postpone retirement past age 55, as long as one has at least 30 years of pensionable service. There is no magic in having 35 years of service, the maximum number. Deciding when to retire and determining how much the monthly benefit will be is what really matters.

Table 1
Life Expectancy at Selected Ages by Sex, Canada

Age now	Years remaining	
	Male	Female
45	36.2	39.8
50	31.6	35.1
55	27.1	30.5
60	22.8	26.0
65	18.8	21.7

Source: Statistics Canada 2013.

How much pension?

PSSP pensions are based on the employee's salary close to retirement, the number of years (or part- years) of participation in the plan and age at retirement. The formula used to calculate benefits differs before and after age 65. Someone retiring before age 65 (assuming participation in the plan on or before December 31, 2012. If you participated in the plan on or after January 1, 2013 see page 15) will initially receive 2% for each year of service, times his or her average salary of the five years of highest earnings (most often the last five years). For example, someone retiring after 30 years of service with an average salary in the last five years of \$60,000 will receive an initial annual pension of \$36,000 or \$3,000 per month, and someone with a \$30,000 average salary will receive \$18,000 annually or \$1,500 per month. Each year, this benefit is indexed in keeping with increases in the Consumer Price Index, as measured by Statistics Canada. For example, as of January 2019, pensions were increased by 2.2%.

However, just as the member's contributions to the PSSP, while working, are integrated with the Canada and Quebec Pension Plan (C/QPP) contributions, so benefits are reduced because of the C/QPP pension. But, even though C/QPP retirement benefits are now available as early as age 60, albeit at a lower level, the reduction in PSSP pensions still comes into effect only at age 65.

PSSP payments are nearly always reduced at age 65 by an amount based on the year's maximum pensionable earnings (YMPE). The YMPE is intended to reflect the average of wages and salaries in Canada, and is adjusted annually to reflect changes in that average. Table 2 shows the YMPE for recent years.

Table 2

Year's Maximum Pensionable Earnings for 2015-2019

Year	\$	Year	\$
2015	53,600	2018	55,900
2016	54,900	2019	57,400
2017	55,300		

The reduction amounts to 0.625% of the average YMPE in the year of retirement and in the four previous years, for each year of pensionable service for plan members reaching age 65 after 2011. The above pensioner, therefore, retiring in 2019 with 30 years of service and a final average salary of \$60,000, will face a pension reduction at age 65 of 18.75% (0.625% for each of the 30 years) of \$55,420 (the average of the 2015 to 2019 YMPE), or \$10,391 annually. If this pensioner had only 10 years of service, the accrued annual pension of \$12,000 (20% of \$60,000) would be reduced by 6.25% of \$55,420 or \$3,464 at 65.

The pensioner who had average best earnings of only \$30,000 will see a pension reduction not based on the AMPE, but rather on the \$30,000, since this amount is less than the average YMPE. That person will receive an annual reduction at age 65 of 18.75% of \$30,000 or \$5,625. Similarly, if the pensioner had only 10 years of service the reduction would be 6.25% of \$30,000 or \$1,875. These decreases, though smaller in dollar terms than those incurred by the higher income pensioner are much more significant in relative terms. C/QPP integration tends to impact more heavily on pensioners with a low earnings base and on those with relatively few years of service, as is evident in the selections presented in Table 3.

Table 3
Percentage Decrease in Annual PSSP Pension at Age 65 for Pensioners Retiring in 2019 with 10 and 30 Years of Service

Final Average Salary	10 Years of Service		30 Years of Service		Percentage Reduction for both 10 and 30 years
	Pre-65 Pension	Post-65 Pension	Pre-65 Pension	Post-65 Pension	
\$ 30,000	\$ 6,000	\$ 4,125	\$ 18,000	\$ 12,375	31
45,000	9,000	6,188	27,000	18,563	31
60,000	12,000	8,536	36,000	25,609	29
75,000	15,000	11,536	45,000	34,609	23

The earliest age to retire without a penalty is 55, as long as the member has 30 years of service. With less than 30 years, the earliest possible age to retire without penalty is 60¹. However, a pension can be received as early as age 50 with only two years of service, but that early benefit is reduced to reflect the younger age or the insufficient years of service. (For a snapshot of benefits at various ages see **What benefits and when? - A summary**, on page 12)

At 50, someone with 25 or more years of service, will see their accrued pension reduced by 5% for each year (or part year) the person is away from age 55, or away from 30 years of pensionable service.¹ If the person lacks both the minimum age and minimum service, the greatest gap is used to calculate the reduction. For example, someone aged 53 with 27 years of service will have the pension of 54% times his or her final average salary (2% times 27 years) reduced by another 15% (5% for each year short of the 30 year minimum) to 45.9% of final average salary. If the person was 51 years of age, that reduction would be 20%, 5% for each year away from mandatory age 55¹.

Someone with less than 25 years of service will see an even greater reduction. The pension will be reduced by 5% for each year away from age 60. For example, a 50-year-old person with 24 years of service will be subject to a 50% reduction of the accrued pension (5% for each year away from age 60).¹

To avoid a reduction, the early retiree can postpone the commencement of benefit until age 65, that is he or she can elect a deferred pension payable at age 60. The above employee with 27 years of service will, therefore, be entitled to a deferred pension of 54% of final average salary and the one with 24 years, 48%, at age 60. Furthermore, deferred pensions are indexed annually, and may be considerably greater than the initial benefit by the time the former employee reaches age 60.¹

It is generally not expedient to retire when a reduction is still applicable; although, in terms of total expected payments, for someone with more than 25 years of service it may still be advantageous to take the early, reduced pension rather than the deferred, age 60 benefit. Which

¹ Assuming participation in the plan on or before December 31, 2012. If you participated in the plan on or after January 1, 2013 see page 14.

option to choose may depend on individual circumstances.

What if insufficient years of service?

Those who started their public service career late or had a break in service may be able to add to their pensionable service if they had one or more periods of full-time employment, either in the public service or with another employer. Eligibility conditions for such periods of “elective service” vary considerably and costs may be steep, but it may still be expedient. Payment is amortized over many years and need not be cleared by retirement. They will continue through deductions from the monthly pension. Interested persons should direct their requests for information on eligibility and the calculation of costs to their Human Resources Branch.

PSSP members may also be eligible to transfer pension credits from pension plans of previous employer(s). The President of the Treasury Board has entered into reciprocal pension transfer agreements with many employers providing pension plans for their workers. The conditions and calculation of credited service vary extensively. Again, requests should be directed to the appropriate departmental Human Resources Branch.

Wait until maximum pension?

While minimum service is essential for an unreduced pension, there is no magic in having 35 years. In fact, the rate of pension accrual is negative after meeting the 55 and 30 requirements. The total expected payments received after age 55 with 30 years, under normal life expectancy circumstances, is greater than that received if retirement is postponed to accrue the additional five years of service. Receiving five extra years of benefit (with no C/QPP integration) will generate higher total payments, even though the pension is based on fewer years of service.

Retirement will, no doubt, result in a lowering of income even with 35 years of pensionable service. However, this reduction is much less than most workers anticipate, simply because they tend to think in terms of gross income. On a net basis, the pension will be much closer to the net pre-retirement salary, because deductions from pension benefits are far fewer than those incurred while still working. For example, contributions to the PSSP and C/QPP, premiums for employment insurance and union dues will cease at retirement, while the tax rate might be lower.

In fact, someone retiring with 30 years of pensionable service may well receive about 75% of final salary on a net basis.

As a result of the 2007 Federal Budget, Canadian residents now have the opportunity to split 50% of their pension income with their Canadian resident spouse or common-law partner in order to lessen their tax burden. For retirees with a spouse receiving lower taxable income, the tax impact may result in closer to 90% of final salary on a net basis.

In addition, consideration must be given to a change in living costs. Unless the pensioner makes significant changes in expenditure patterns, monthly disbursements likely drop after retirement. Such costs as transportation charges (public transit, parking, etc.), clothing allowances and meal purchases are apt to decrease.

All this means is that having the maximum number of years of service should not determine the retirement date. For more information on post-retirement budgeting, and the calculation of retirement savings needed to afford a certain level of expenditures, see Appendix A.

What about early departure?

Even after only two years of participation in the PSSP, members leaving the public service are entitled to some form of pension. They have a right to the full value of pension accrued during that time, but they cannot withdraw it. Anyone 50 years of age or older will have no choice but to take a deferred pension or apply for an immediate pension on a reduced basis. However, if under age 50, they have three options: they can leave their pension savings with the PSSP for a deferred benefit at age 60; they can request to have the value of that benefit transferred to a locked-in RRSP or to another pension plan; or they are entitled to an annual allowance payable as early as age 50 and before 60.²

Under a locked-in RRSP, the financial institution holding the funds must deny lump sum withdrawals, but can permit conversion to an immediate pension or annuity at any time. A word of caution. A PSSP transfer does have some drawbacks. Most particularly, it results in the loss of the right to future membership in the Public Service Health Care and Dental Plans.

² Assuming participation in the plan on or before December 31, 2012. If you participated in the plan on or after January 1, 2013 see page 14.

What happens in case of death?

The PSSP provides for immediate spouse's and children's pensions on death, after two years of service while employed, or after beginning retirement. The spouse's allowance is usually one-half and the orphan's benefit (for each eligible child) one-fifth of the member's accrued pension. If there is no surviving spouse, eligible children receive two-fifths of the basic pension. To be eligible, spouses must have been married at least one year before death and children must be under 18 years of age or under 25 if attending school full-time. A spouse's pension does not cease on remarriage.

If the pensioner marries after retirement from the public service, he or she is eligible to provide an optional form of survivor benefit coverage for the new spouse with a reduction in the pensioner's benefit. Application for this coverage must be made within one year of marriage.

The PSSP also provides a supplementary death benefit for most members. The amount is equal to two years' salary at the time of death while employed, or at retirement. It starts to decline at a rate of 10% per year after age 65 to a minimum of \$10,000.

What benefits and when? - A summary

For plan members who were participating in the plan on or before December 31, 2012.

<u>Age and service</u>	<u>Entitlements</u>
Under two years of service (any age)	Refund of employee contributions
Under age 50 and two or more years of service	Choice of deferred pension at age 60 or a pension at age 50, reduced by 5% for the greater of: each year away from age 55 or each year away from 30 years of service or transfer value
Age 50 to 59 and two to 24 years of service	Choice of deferred pension at age 60 or immediate pension reduced by 5% per year age away from age 60

Age 50 to 54 and 25 years or more of service

Choice of deferred pension at age 60 or immediate pension reduced by 5% for the greater of: each year away from age 55 or each year away from 30 years of service

Age 55 to 59 and 25 to 29 years of service

Choice of deferred pension at age 60 or immediate pension reduced by 5% for the lesser of: each year away from age 60 or each year away from 30 years of service

Age 55 to 59 (age 60-64 if you began participating in the plan on or after January 1, 2013) and 30 or more years of service

Immediate, unreduced pension

Age 60 (age 65 if you began participating in the plan on or after January 1, 2013) or older and two or more years of service

Immediate, unreduced pension

For plan members who were participating in the plan on or after January 1, 2013.

Age and service

Entitlements

Under two years of service (any age)

Refund of employee contributions

Under age 55 and two or more years of service

Choice of deferred pension at age 65 or immediate pension reduced by 5% for the lesser of: each year away from age 65 or each year away from 30 years of service or transfer value

Age 55 to 64 and two to 24 years of service

Choice of deferred pension at age 65 or immediate pension reduced by 5% per year age away from age 65

Age 55 to 59 and 25 years or more of service

Choice of deferred pension at age 65 or immediate pension reduced by 5% for the greater of: each year away from age 60 or each year away from 30 years of service

Age 60 to 64 and 25 to 29 years of service

Choice of deferred pension at age 65 or immediate pension reduced by 5% for the lesser of: each year away from age 65 or each year away from 30 years of service

Age 60 to 64 and 30 or more years of service

Immediate, unreduced pension

Age 65 or older and two or more years of service

Immediate, unreduced pension

The Canada and Quebec Pension Plan

The Canada and Quebec Pension Plan (C/QPP) was designed to provide a basic level of pension income on retirement, about 25% of pre-retirement earnings, up to the average of Canadian wages and salaries. The 2019 maximum benefit, payable to someone retiring that year at age 65 and meeting the contribution requirements (for an explanation, see page 10), is \$1,154.58 per month (\$13,854.96 per annum). C/QPP benefits are accessible as early as age 60, but are reduced by 0.60% for each month that the beneficiary is away from age 65. Similarly, the start of pensions can be postponed to age 70 and are increased by 0.70% for each month. C/QPP pensions are indexed annually in keeping with changes in the Consumer Price Index.

To obtain an application form for CPP retirement pensions and for any information on the CPP, individuals should contact their local office of Income Security Programs, Human Resources Development Canada, call 1-800-277-9914 or visit <http://www.esdc.gc.ca/en/cpp/index.page?> . Quebec employees should direct their requests for application forms and other enquiries on the QPP to their local service centre of the Régie des rentes du Québec, call 1-800-463-5185 or visit www.rrq.gouv.qc.ca. It is recommended that application for benefits be made six months before the expected retirement date.

Although not considerable, C/QPP pensions still form an important part of overall retirement income, and the maximum C/QPP pension is nearly always greater than the reduction in PSSP pension at age 65. For example, public servants who retired in 2019 at age 64 with 30 years of service will likely see their monthly superannuation benefit reduced by nearly \$865 in 2019 but at that time, they may well start to receive the full C/QPP monthly pension of \$1,154. For a description of the superannuation reduction at age 65 see page 8.

How is the pension calculated?

C/QPP retirement benefits are based on the pensionable earnings level at the time of retirement and the applicant's contributory service. The earnings base is the average of the YMPE for the year of retirement and the four preceding years. So someone retiring in 2019 at age 65 with full contributory service and adequate earnings will receive 25% of the average YMPE for 2015 to 2019. For the YMPE in recent years see Table 2.

The required contribution period is that from January 1, 1966 or the member's 18th birthday (whichever is later) until the start of retirement benefits. For each of those years, contributions must be made on earnings up to the annual YMPE (less a basic exemption amount). However, years of zero or low earnings, resulting from raising children under the age of seven, can be removed from parents' contributory periods. A further allowance is made for other spans of low or zero income, periods of unemployment or education, for example. If these spans amount to 17% or less of the contributory period, there is no loss in pension. Any amount above the permitted percentage, however, does affect the benefits.

How can a person find out his or her contributory service?

Statements of Contributions for the C/QPP are sent each year to all contributors. Each one lists the member's annual contributions made since 1966 (or the year of the 18th birthday). It identifies the years of maximum contributions and, by default, permits one to determine the number of years' contributions were lower than the maximum. It provides a preliminary estimate of the monthly pension the contributor would receive if age 65 today. It does not acknowledge years of child rearing, however. That information can only be included in the calculations when actual application for benefits is made.

Will retirement before age 60 result in a penalty?

Although application for benefit cannot be made until age 60, someone retiring as early as age 55 and making no further C/QPP contributions may not necessarily suffer a penalty when applying for retirement benefits. For example, someone who took an early retirement at age 55 in 2019, with full contributory service since 1979 but no further contributions, will not be penalized when applying for benefit at age 60 in 2024, since 17% of the period from 1979 to 2019 exceeds five years.

Are CPP and QPP benefits interchangeable?

With few exceptions, contributions are made to the CPP or QPP based on place of employment, not residence. A Quebec resident working in Ottawa, for example, would therefore contribute to the CPP and vice versa. When retirement takes place, the pension will be paid out by the CPP, if

the Quebec resident had contributed to the CPP only during his or her years of employment. But, if that person had contributed to both the CPP and QPP, the QPP would provide the pension. The reverse would happen for residents outside Quebec, who had contributed to the QPP during their working years. Dual contributors would receive their pension from the CPP and contributors to the QPP only would be paid their benefits by the QPP.

At what age is it best to apply for C/QPP retirement benefits?

To be eligible to receive a retirement pension, a contributor must be at least age 60. As described on page 7, a former public servant in receipt of an early PSSP benefit will experience a significant reduction in the PSSP pension at age 65. To offset this reduction, he or she might consider postponing the start of the C/QPP pension until age 65. However, the years of zero contributions (from the time of retirement to age 65) may exceed the amount covered off by the 17% drop-out provision and result in a partial loss of C/QPP pension.

From a total payment perspective, will the additional years of pension with the earlier start compensate for the reduction of 0.60% for each month away from age 65? Not likely, but it may still be advisable. Having higher income later on in retirement may not be as attractive as having C/QPP income at an age when one is apt to have good health and a greater desire to travel or be involved in diverse leisure activities. Deciding when to apply for a pension is very much a personal decision, and should be done in concert with other revenues and anticipated expenditures.

Are there benefits on death?

The CPP and QPP provide lump sum death payments, surviving spouses' pensions and orphan benefits to eligible children in case of death either before or after retirement. The amounts vary widely since they are dependent on such conditions as members' ages, contributory service and pensions, and, for spouses, personal retirement pensions. Inquiries should be directed to the appropriate CPP or QPP offices.

Registered Retirement Savings Plans and Registered Retirement Income Funds

Should public servants have RRSPs?

Public servants have an excellent pension plan. Also, most earn RRSP “contribution room” each year. Do they need to use this room and annually put money in RRSPs?

Even those with considerable pension accruals may find contributing to RRSPs advantageous, for a number of reasons. First, they are one of the few remaining opportunities to save on income taxes. Someone with a marginal tax rate of 40% who invests \$3,000 in a mutual fund earning 8% saves \$1,200 immediately and shelters a further \$96 of investment income from taxes in the first year. They are ideal for persons saving income not needed for every day expenses. They can be as accessible as non-registered savings, since withdrawals can be made at any time and for whatever reason. However, it must be remembered that such removals may incur significant tax obligations and other charges.

A second reason for wanting to contribute despite considerable pension savings relates to the reduction in superannuation income at age 65. Drawing on RRSP savings at age 65 may be an ideal way of neutralizing that reduction, particularly if the pensioner is already in receipt of C/QPP benefits. Just as the reduction in monthly pension can easily be determined, the amount of savings required to maintain a constant income level can be calculated.

Finally, long-term public servants whose spouses do not have significant pension accruals or other savings should consider taking advantage of one of the few remaining income-averaging opportunities left in the tax system—spousal RRSPs. Employees can claim the deduction on their tax return, while the savings are credited to their spouse. This practice may generate significant tax savings after retirement. For details on the advantages of spousal RRSPs see page 21.

One little known aspect of the tax assistance opportunities provided by RRSPs, is the opportunity to obtain “advance” tax savings, in lieu of waiting for the normal post-filing refund. To receive this entitlement, the contributor must file a Source Deduction form with the Canada Revenue

Agency (CRA) with the appropriate documentation, and must be making regular contributions through payroll deductions or pre-authorized withdrawals from a financial institution.

How much can be contributed?

Public servants can annually contribute 18% of their previous year's "earned income" up to a maximum of \$26,500 (2019 limit) less their "pension adjustment" (PA). Earned income is essentially their employment income, but with some adjustments. Rental income can be included, but not income from other types of investments. The PA is a calculated value of their previous year's pension savings under the Public Service Superannuation Plan. This tally results in their annual deduction limit or RRSP room. High PAs and the \$26,500 ceiling preclude some public servants from earning annual RRSP room.

Those who do receive RRSP room, but make no use of it, can carry this unused room forward to future years. The CRA provides each tax filer with the total room available on the annual Notice of Assessment, the form that confirms (and, if necessary, corrects) the information provided by the tax filer on the previous year's tax return. Anyone unable to locate their most recent Notice can obtain this information from the CRA by calling the Tax Information Phone Service (TIPS) number 1-800-267-6999.

New room can easily be calculated each year without waiting for the Notice of Assessment. It is not necessary even to wait for the annual T4 slip. For most public servants, all the information required is on the previous year's final pay stub. For those who over-calculate their room, there is a \$2,000 cushion or over-contribution concession. Tradex staff annually assist public servants in determining their new room long before the arrival of their Notice of Assessment.

What investments can be made?

RRSP deposits can be invested in bonds, stocks, mortgages, mutual funds, a variety of short-term securities such as guaranteed investment certificates (GICs) and even real estate. An investor can buy GIC's from a bank, credit union or life insurance company, invest in mutual funds or set up a self-directed RRSP, an umbrella plan that permits the individual to hold investments from a variety of institutions.

Can other incomes be transferred to RRSPs?

Public servants receiving lump sum payments at termination or retirement can transfer or roll over some of these amounts to their RRSP. Severance pay (one week's salary for each year of service, prior to 2012 or such period as contract permitted, up to a maximum number of weeks for most public servants) which was left to be collected at retirement is eligible for roll over, but such sums as payment for unused annual leave are ineligible. The transfers must be made directly to the RRSP to avoid the withholding of tax at source and, unless the amounts are invested in an RRSP within 60 days of the following calendar year, the rollover opportunity is forfeited. It is, therefore, critical that the retiree designate the RRSP registration number and fund manager or financial institution before retirement.

The amount eligible for rollover is \$2,000 for each year of service before 1996. Post-1995 service is not eligible. For example, someone retiring in 2019 with 30 years of service would be able to roll over as much as \$18,000 (\$2,000 for each year from 1986-1995). Only if the retiree received an amount in excess of \$18,000 would he or she be confined by the rollover ceiling. Rollovers to spousal RRSPs are not permitted and no rollover amount can be used to reduce an over-contribution for which the contributor has insufficient room.

In addition to this rollover opportunity, persons leaving the public service before retirement age may be permitted to transfer the value of their pension savings to a locked-in RRSP. See page 7 for more details.

What happens if money is needed before retirement?

With the exception of locked-in RRSP funds, RRSP savings are accessible any time, but not without cost. Whenever someone cashes in all or part of their investments, a portion must be withheld by the financial institution or fund administrator and additional tax may become due when the next tax return is filed. For more information, see page 21.

What happens to the RRSP on retirement?

A pensioner with RRSP room can continue to contribute to a personal RRSP until age 71 and to a spousal RRSP until the spouse turns 71. At that age, or actually by December 31 of that year,

the RRSPs, unless cashed in, must be converted to a pay-out product, either an annuity or a registered retirement income fund (RRIF). This maximum age requirement does not preclude making that conversion earlier.

An annuity is a monthly benefit purchased with the RRSP assets. It requires liquidating the investments. A RRIF, on the other hand, does not require selling off the assets. It is, in a sense, the reverse of an RRSP. While RRSPs receive contributions, RRIFs cannot, but must have regular minimum withdrawals. The minimum amount varies with the age of the investor or the spouse. For example, at age 71, the percentage that must be collected is 5.28%; at age 72, it is 5.40%; and at age 73, it is 5.53%. The proportion continues to increase with age, reaching 20% at age 94 and remaining at that level after that.

Unlike annuities, which are relatively inflexible, an RRIF can have a personalized withdrawal schedule designed to meet the specific needs of the beneficiary. Withdrawals can be made on an annual, semi-annual, quarterly or monthly basis, and on any day.

Taxing of Retirement Income

Retirement income is taxed by the Canada Revenue Agency (CRA) essentially the same way as pre-retirement income, but there are some differences that apply to persons aged 65 and older. Currently, Canadian seniors are entitled to certain tax credits and, depending on their income, to benefits from government pension programs such as Old Age Security (OAS).

What tax credits are available to retired public servants?

At age 65, pensioners may be able to reduce their federal taxes by an age credit of as much as \$1,100 and a pension income credit of up to \$300. In 2018, the maximum age credit was available to those with net income less than \$36,976. It was reduced on a graduated basis reaching zero, for those with \$85,863 in income. The pension income credit was available to all pensioners and was reduced from the \$300 maximum only if the combined income from the PSSP, RRSP, annuity or RRIF was under \$2,000.

Both the age and pension income credits can be transferred in total or in part to a spouse, if not needed to reduce federal income tax to zero. In addition to these federal tax cutbacks, provincial taxes, which must be calculated on the federal tax return by Canadians outside Quebec and by Quebecers on separate provincial returns, may similarly be reduced.

Who is entitled to Old Age Security?

Currently, all persons aged 65 and older, who meet minimum standards of residency and whose income from all sources is less than a calculated annual maximum, are entitled to all or part of the Government of Canada's OAS.

The 2012 Federal Budget revised the age of eligibility for receipt of the OAS to 67, starting in April 2023, however the 2016 Federal Budget cancelled these provisions.

This pension, which is indexed quarterly, will amount to \$601.45 per month in the 1st quarter of 2019. While low income individuals can apply for additional tax-free benefits such as the federal Guaranteed Income Supplement (GIS) and provincial supplements, high income persons have all or part of their OAS retained through the OAS "claw back".

In 2019, anyone with less than \$77,580 in total income (including OAS) will receive the full benefit. It will be reduced by 15 cents for every additional dollar of income, dwindling to zero at about \$125,696. In 2019, both eligibility and amount of benefit is dependent on the pensioner's 2018 income. If the portion withheld is not sufficient, the difference will have to be repaid when filing the 2019 return.

How are benefits from RRSPs taxed?

While RRIF payments and RRSP cash withdrawals are taxed just as income from any other source, they may also incur withholding taxes at source. For example, an Ontario resident withdrawing \$4,000 in cash from his or her RRSP will receive only \$3,600. The remaining \$400 is sent by the administrator of the RRSP to the CRA. To receive \$4,000, the RRSP holder would have to cash in \$4,444. Although a credit will be granted for the amount withheld, the individual will be taxed for the withdrawal at his or her marginal tax rate when filing the annual return.

Similar withholding taxes apply to larger than minimum withdrawals from RRIFs. Table 4 shows the different rates by amounts withdrawn.

Exceptions to the imposition of taxes on RRSP withdrawals are the use of the funds as a down payment to purchase a home for the first time and/or to finance full-time training or education. For more information on these programs, consult the CRA pamphlets *Home Buyers' Plan and Life Long Learning Plan*.

Table 4

Current RRSP withholding taxes

Amount withdrawn	Proportion withheld*	
	Quebec %	Other %
Less than \$5,001	21	10
\$5,001 to \$15,000	26	20
\$15,001 or more	31	30

* *The Quebec rate is different, since, unlike other provinces whose taxes are collected by the Canada Revenue Agency, it collects its own income tax. CRA forms and bulletins listed in this document can be obtained by calling 1-800-959-2221 or visiting www.cra-arc.gc.ca. Quebec residents can obtain similar forms from the Ministère du revenu de Québec at 1-800-267-6299.*

What about spousal RRSPs?

Spousal RRSPs can be an excellent instrument to reduce taxes. It is ideal for the public servant with many years of pensionable service under the PSSP, and a spouse with little or no such pension credits. Whereas the contributor receives the tax deduction advantages, the RRSP investments are credited to the spouse, who, upon retirement, will likely have less taxable income than the contributor and possibly a lower marginal tax rate.

Spousal RRSPs may provide additional tax savings through the pension income tax credit. The spouse with no pension or other RRSP savings may not be able to claim this credit, but having income from an annuity or RRIF resulting from spousal contributions will provide the spouse with the opportunity to reduce federal taxes at age 65 by as much as \$300, plus additional

savings on provincial taxes. If you can pension split, these withdrawals are not required.

However, when withdrawals are made from an RRSP or an RRIF that contain spousal contributions, it must be demonstrated that the amount withdrawn does not include contributions made by the spouse during the current and two previous calendar years. Such contributions are attributed to the contributor, not the beneficiary. For example, in the case of withdrawals made in 2019 by a beneficiary, who had received spousal contributions as long ago as January 2017, these payments might have to be reported on the contributor's tax return, not on that of the beneficiary. To determine this requirement, the beneficiary must complete the CRA form T2205, Calculating Amounts from a Spousal RRSP or RRIF to Include in Income.

Can other retirement income be transferred to a spouse?

Public Service Superannuation benefits cannot be directly split between spouses, but Canada and Quebec Pension Plan benefits can be shared. To be eligible, both spouses must be at least aged 60 and have applied for retirement pensions. Upon application for this "assignment of retirement pensions" each will receive an equal share of the pension earned by both parties during their life together. In addition, effective 2007 tax year, you are able to elect with your spouse or common law partner to split pension annuity, RRIF, LIF and RRSP annuity payments transferring up to 50% at the time you complete your tax returns. This income-averaging action might result in considerable tax savings.

What are tax installment payments and how can they be avoided?

Pensioners who owe income tax in excess of \$3,000 (\$1,800 if a resident of Quebec) at the time of filing a federal tax return in the current and either of the last or second last year, are obligated to make installment payments on March 15, June 15, September 15 and December 15. The CRA will advise the tax filer of the amount, although an individual can calculate the figure him or herself using the worksheet in the CRA pamphlet Paying Your Income Tax by Installments. What may be more advantageous and certainly less onerous would be to arrange for additional taxes to be withdrawn from income at source. Pensioners can arrange to have additional taxes withheld from their superannuation benefit by completing Form TD3 Request for Income Tax Deduction on Non-Employment Income, obtainable from the CRA.

Is pension income from other countries taxable?

Pensions from other countries must be reported in Canadian dollars on line 115 of the Revenue Canada tax return, but often this income is tax free under tax treaties secured with other countries. For example, some foreign government pensions are tax free in Canada. They must be reported as income, but a deduction can be claimed on line 256 of the above return to avert tax. Under a recent amendment to the Canada/U.S. Tax Treaty, Canadian residents receiving U.S. Social Security benefits are now required to report 85% of this benefit as taxable income with 15% being tax free.

Taxes paid to foreign countries on income received there may result in a federal foreign tax credit. This credit is subject to certain restrictions and the existence and conditions of a tax treaty with that country. For more information, see the CRA Bulletin IT-270 Foreign Tax Credit.

Tax free Savings Accounts

The 2008 federal budget established TFSA accounts as registered savings account that allows taxpayers to earn investment income tax-free inside the account. Contributions to the account are not deductible for tax purposes, and withdrawals of contributions and earnings from the account are not taxable. These accounts became available in 2009 with initial contribution limits of \$5,000 per calendar year and with indexing, subsequent annual limits have fluctuated as outlined in the table below.

Year	Contribution limit		
2009	\$5,000	2015	\$10,000
2010	\$5,000	2016	\$5,500
2011	\$5,000	2017	\$5,500
2012	\$5,000	2018	\$5,500
2013	\$5,500	2019	\$6,000
2014	\$5,500	Total	\$63,500

Appendix A -Budgeting

How much money will I need in retirement?

As indicated in the earlier section on the Public Service Superannuation Plan, expenditures in retirement should significantly decrease, assuming no dramatic changes in lifestyle. After drawing up a schedule of actual pre-retirement expenditures, one can prepare a comparable budget for post-retirement expenses, eliminating or reducing certain expenditures. Calculations may include additional expenses for greater amounts of travel and other leisure costs along with contingencies for health and family support concerns. If home down-sizing is a consideration, adjustments can be made accordingly. In the case of couples, retirement dates may differ and a change in costs may occur more than once. Calculations may be made using the different retirement dates.

How much in savings should I have on retirement?

Having calculated a reasonable estimate of funds required to maintain the lifestyle visualized, the following questions remain: Will my expected pension payments, supplemented with income from my savings be adequate to meet these needs? Should I be concerned that I will run out of funds long before I (and my spouse) die?

Tradex staff can assist you in determining whether your future flow of income will be adequate, using a financial planning program called RRIFMETIC, personalized to your (and your spouse's) specific financial situation. Its flexibility can take into account any unusual income or withdrawal amounts.

The accompanying Table demonstrates the effectiveness of this application. The example presented has deliberately been kept as simple as possible. It shows the income flow of a single male public servant, born in 1960 and retired in Ontario on January 1, 2020 at age 60. His final average annual salary was \$60,000. He had 30 years of pensionable service and a consequent starting PSSP benefit of \$36,000, indexed at an assumed rate of 2% annually and reduced at age 65 to take into account C/QPP integration. He elected to take the early CPP pension at age 60 and it is also assumed to be indexed at 2% annually.

Table**Example of Projected Retirement Income, Selected Years**

Year	RRSP investments	Tax Free Savings	Net income all sources	
	\$	\$	\$	2019 \$
2019	Pre-retirement	Pre-retirement	45,808	45,808
2020	72,080	10,600	39,308	38,538
2025	86,526	10,795	46,584	38,538
2030	87,212	10,078	49,432	38,538
2035	85,259	9,118	53,507	38,538
2040	78,933	7,883	57,918	38,538
2045	66,369	6,114	62,692	38,538
2050	43,931	3,814	67,860	38,538
2055	8,909	735	79,509	38,538

Note: Columns one to three are actual amounts, while column four is adjusted for inflation to a constant 2019 level.

At retirement he had \$10,000 in tax free savings accounts (TFSA), which is assumed to be invested in equities, and \$50,000 in RRSP investments. In addition, he rolled over \$18,000 severance pay into RRSPs. It is assumed RRSP holdings will generate a rate of return of 6% annually and TFSA 8%. His RRSP investments are converted to an RRIF at age 71 and annual payments are credited as income.

The possibility of incurring income from unusual sources, such as the sale of a home, for example, is not considered. Similarly, no allowance is made for unusual withdrawals, but such one-time withdrawals can be incorporated into an income projection, if desired. Finally, income tax payable and deducted from savings is based on current legislation and rates. Under normal non-smoking life expectancy conditions, he is expected to live to age 82 or until 2040, but he wants to ensure constant annual income until age 95, maximizing after-tax, after-inflation income till then.

Only limited information is shown here. Although the program can present annual income from each source individually, only total net income from all sources is shown. Income tax has been deducted, but not presented here. Also, whereas the program can calculate and print earnings and withdrawal flows in detail for RRSP investments and non-registered savings, only the holdings are shown here. Finally, only selected years are presented in this Table, even though all years from 2018 to 2053 are available.

The Table shows that the retired public sector employee can expect a constant flow of after-tax income of \$38,538 in 2019 dollars, depleting his RRSP and other holdings by 2055, the year he would turn 95. During his initial retirement years, before RRIF income and eligibility for Old Age Security, the non-registered savings are depleted. Combined with registered withdrawals the retiree has an after tax net income of almost 85% of pre-retirement net income, in constant dollar terms. As he ages, reliance in RRIF income increases.

This example is simplistic to the extreme. It can be modified to include a variety of situations. Tradex will gladly assist public sector employees in determining their future retirement income possibilities by imputing their unique characteristics into the program. All information provided and assistance given will be held in strict confidence

Appendix B -Canadian Forces and Royal Canadian Mountain Police Superannuation Plans

Members in the Canadian Forces and RCMP have contribution and benefit rates identical to those described in the section on the Public Service Superannuation Plan. However, their retirement ages and eligibility conditions for both reduced and unreduced pensions are considerably different.

When are Canadian Forces personnel able to retire?

The vast majority of Canada's military personnel have a compulsory release age of 55. At that age, those who have 20 or more years of service receive an immediate, unreduced pension based on their years of service; those with more than 10 and less than 20 years have the option of either a deferred pension at age 60 or a refund of their contributions; and those with less than 10 years receive a refund. Someone leaving before age 55 and with 20 or more years of service is likely entitled to an immediate, but reduced pension. The reduction varies since it is dependent on a number of factors such as rank. Members should direct enquiries about their personal situation to the Director, Accounts Processing of Pay and Pensions, National Defense Headquarters at 1-800-267-0325

What about members of the RCMP?

The maximum age for service in the RCMP is 60 for virtually all personnel, but pension eligibility is driven solely by the number of years of service. Anyone with more than 24 years of service is entitled to an immediate, unreduced pension. A member with more than 20 but no more than 24 years can receive an immediate pension with a reduction to reflect the shortfall. Those with more than 10 but no more than 20 have the option of a deferred benefit at age 60 or a refund of contributions. Finally, those with 10 or fewer years have no option but to receive a refund.

Civilian employees of the RCMP participate in the same plan, but their retirement conditions are the same as those of members of the PSSP. They do not, however, have the same rights to

employer contributions and their pension accruals are not locked in as early. They are also not able to claim the transfer values that the PSSP members are entitled to. Pension inquiries should be directed to the appropriate provincial compensation unit or the National Compensation Policy Centre.