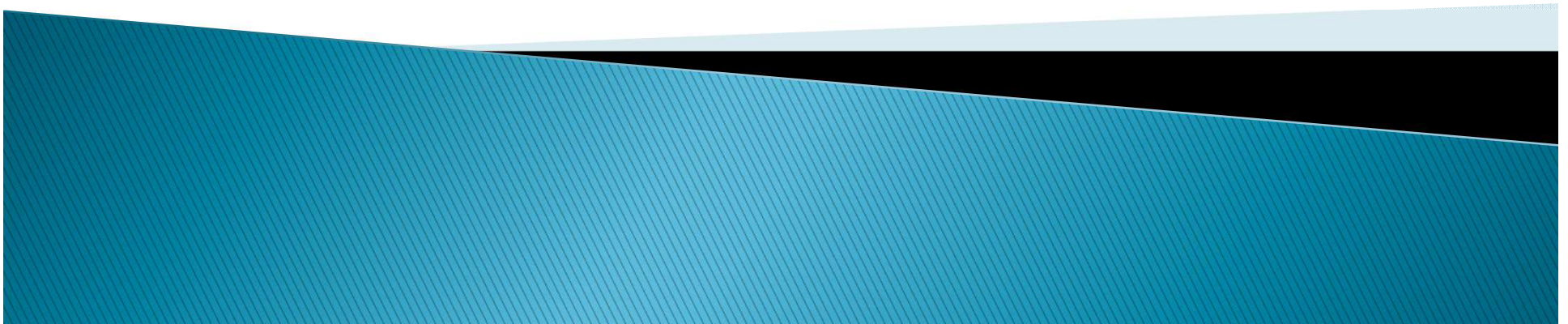


# Government Benefits and System of Retirement Payout

Presented by: Winson Lee



# Retirement

- ▶ When we consider retirement we need to take into account government benefits
- ▶ Anyone who worked in Canada before age 60 and subsequently retired and who has contributed to CPP will be entitled to a lifetime income



# CPP

## Criteria for getting CPP

1. Maximum contribution in time is 47 years age 18–65. At least 85% which is 40 years
2. Amount of contribution. You must contribute to the maximum each year on the Yearly Maximum Pensionable Earnings

2013 – \$51,100

2012 – \$50,100

2011 – \$48,300

2010 – \$47,700



# CPP

3. If you earn less than the maximum pensionable earnings and if you enter the workforce later in life, you will not get the maximum



# CPP

- ▶ For those of us who come from HK 20 years ago, we have only put in 20 years
- ▶ The average Canadian gets \$542 a month of CPP
- ▶ The maximum in 2013 is \$1,012



# CPP

- ▶ The earliest a person can take CPP is 60
- ▶ The optimum age is 65
- ▶ This means you will get 100% of the pension benefits at 65
- ▶ There is a 0.6% deduction each month you withdraw prior to your 65<sup>th</sup> birthday
- ▶ The calculation is
  - Ex. Age 60 for early withdrawal
  - $(0.6 \times 12 \text{ months} \times 5 \text{ years}) = 36\%$  reduction



# CPP

- ▶ You can also get 0.7% per month incentive if you withdraw after your 65<sup>th</sup> birthday
- ▶ This means
- ▶  $(0.7 \times 12 \text{ months} \times 5 \text{ years}) = 42\%$  extra at age 70
- ▶ There is no more benefits after 70 and you cannot contribute to CPP after age 70



# CPP

The most frequently asked question is when should I take my CPP?

- ▶ The answer depends on how long you are going to live
- ▶ If God says you are going before 77, you should take CPP at 60
- ▶ If God says you will be around until 112 you should take CPP at 70
- ▶ Who is really in control of your life?





# CPP

- ▶ What is \$500 a month?
- ▶ How much money do I need to invest to get \$500 a month of guaranteed income?
- ▶ At age 65, you buy an annuity 年金 for life
- ▶ You need to deposit \$95,000 to an insurance company to get this lifetime income
- ▶ The maximum benefit for CPP in 2013 is \$1,012 per month this translate to \$200,000 of investment dollars



# CPP

- ▶ CPP is contractual
- ▶ This means you have legal rights to get your income because you made contributions to it
- ▶ You can sue the government if they default on their obligations



# Old Age Security (OAS)

- ▶ This was passed in 1962 with Lester Pearson
- ▶ OAS can be gone because it is a voted benefit
- ▶ If the government is in trouble, the politicians can cancel this by getting majority votes



# OAS

- ▶ You must be living in Canada
- ▶ You must be 65 or older
- ▶ Be a Canadian citizen or legal resident when your OAS application is approved
- ▶ Have resided in Canada for at least 40 years after you turn 18



# OAS

- ▶ The age of eligibility has changed recently
- ▶ The set off point are people born in March 1958
- ▶ If you are born 1958 Feb you will get OAS at 65
- ▶ If you are born after March 1958 you will get OAS at 65 plus 1 month
- ▶ Until 1965 Feb then you get OAS at 67



# OAS

- ▶ \$546.07 is the maximum amount a person can get in 2013
- ▶ The amount is indexed to CPI every year
- ▶ You get the maximum if you have lived for 40 years or more in Canada
- ▶ You may receive partial OAS if you lived in Canada for 20 years, you get 50% of the benefit
  - The formula is  $1/40$  per year



# OAS

- ▶ OAS is income tested, which means if you earn too much money your benefits will be clawed back



# OAS

- ▶ The income threshold where clawback begins is:
  - ▶ \$70,954 - 2013
  - ▶ \$69,562 - 2012
  - ▶ \$67,668 - 2011
- ▶ For every dollar you make above the maximum, you lose 15 cents





# OAS

- ▶ In 2013 if you earn \$73,286 for the year
- ▶ You would be:
  - $\$73,286 - \$70,954 = \$2,332$  above the threshold
- ▶ You would lose \$389.80 per year or \$29.15 per month off the OAS benefit



# OAS

- ▶ If you and your spouse have a combined income of \$112,771.60 – 2011 you will have 100% claw back
- ▶ Only 5% of Canadians lose OAS from claw back and 2% would lose it all



# OAS

- ▶ You can now defer OAS until 70 as well
- ▶ You get 0.6% more per month of deferral
- ▶  $(0.6 \times 12 \times 5) = 36\%$  extra



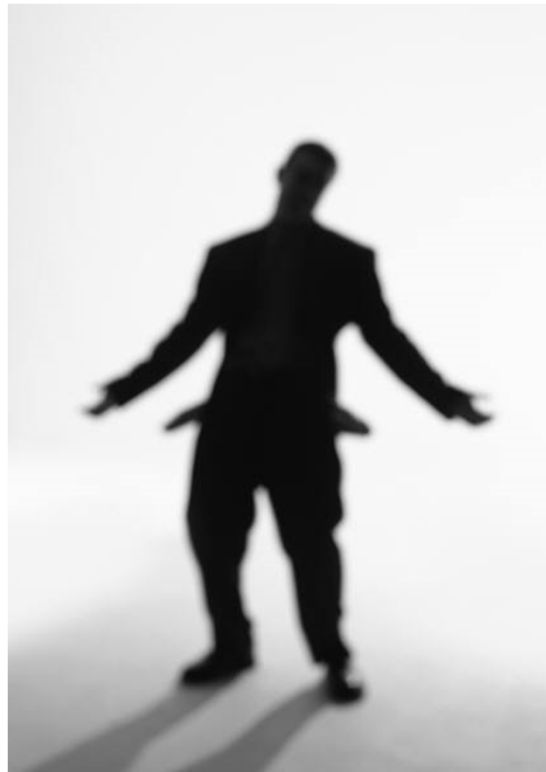
# Guaranteed Income Supplement

- ▶ What happens if your income is very small?
- ▶ The government can help you with Guaranteed Income Supplement (GIS)
- ▶ If you qualify for OAS at 65 and have been living in Canada for more than 10 years
  - If you make less than \$16,368 as a single person or \$21,648 as a couple
  - You are eligible for GIS



# Guaranteed Income Supplement

- ▶ The maximum you can get is \$8,788 per year for a single person or \$11,665 for a couple
- ▶ If a person makes \$16,368 or less, it is at the poverty level



# Guaranteed Income Supplement

- ▶ OAS benefits does not count in the qualification
- ▶ If you count OAS the qualification level is
  - \$22,849 single
  - \$34,610 couple
- ▶ You lose 50 cents of benefits per dollar of income above those levels
- ▶ Those in the middle are not getting much help



# Money

- ▶ Spiritual reminders about money
- ▶ Bible is against borrowing
- ▶ Proverb 6:1–5 20:16 22:7, 26–27



# Money

- ▶ Over and over the bible discourage the accumulation of wealth
- ▶ Instead encourage the seeking of spiritual wealth
- ▶ Proverb 28:20, 10:15, 11:4, 18:11, 23:5





# Money

- ▶ Proverb 6:6–11 tells us to work hard and avoid laziness
- ▶ Bible warned against obsessing with gaining money
- ▶ Ecclesiastes 5:10
- ▶ Timothy 6:6–11



# Two Types of Wealth Management

- ▶ Accumulation phase
- ▶ Two major tools
  - RRSP
  - TFSA



# RRSP vs TFSA

- ▶ Registered Retirement Savings Plan
- ▶ Tax-Free Savings Account
- ▶ 註冊退休信者蓄計劃
- ▶ 免稅信者蓄戶口
- ▶ Which is better?
- ▶ Which one should we buy? One or both?



# RRSP vs TFSA

- ▶ The answer is depends on your tax bracket
- ▶ Higher income earners – RRSP
- ▶ Lower income earners – TFSA



# Tax

- ▶ We need to know about our tax system
- ▶ In Canada, we have a progressive tax system
- ▶ 漸進式



# Tax

Income level	Federal Tax	Provincial Tax
\$0 – \$43,561	15%	10%
\$43,562 – \$87,123	22%	10%
\$87,124 – \$135,054	26%	10%
\$135,055 and up	29%	10%



# Tax

- ▶ If a person earns \$65,000 – \$85,000 a year
- ▶ Tax bracket is at 32%
- ▶ Retires with \$40,000 a year
- ▶ What is his tax rate?
- ▶ 25% or less he should buy RRSP because he earns less in retirement and income tax bracket drops



# Tax

- ▶ If a person earns \$40,000 a year before retirement and retires with \$30,000 a year
  - Buy TFSA
- ▶ Why no tax bracket drop?
  - Start at lowest tax bracket
  - Not much tax advantage





# RRSP

- ▶ RRSP is a registered plan that shelters tax before you retire with your contribution
- ▶ The deposits grow tax-free and tax deferred until retirement
- ▶ The withdrawal is taxed based on the tax rate at time of withdrawal



# TFSA

- ▶ There is no tax sheltering because deposits are all after-tax
- ▶ There is no tax to pay on earnings



# RRSP vs TFSA

- ▶ If you withdraw \$10,000 a year from RRSP you will likely get \$7,500 if your tax bracket is 25%
- ▶ If you withdraw \$10,000 a year from TFSA there is no tax to be paid



# Investments

- ▶ You can have GICs, mutual funds, stocks, annuities, guaranteed minimum withdrawal benefits (GMWB) for income
- ▶ GICs, annuities and GMWBs are guaranteed
- ▶ Mutual funds and stocks are not



# Investments

- ▶ During 1980's - 2000 mutual funds and stocks have done well
- ▶ 2000 - 2012 stocks have not done well
  - Market crash in 2008



# Investments

- ▶ The rise of guarantee income dominates the market today
- ▶ Annuity is a lifetime guaranteed income product that works exactly like a pension except that there is no indexing
- ▶ GMWB is a guaranteed lifetime income program that allows remaining funds to go to beneficiaries



- ▶ In the next class we will talk about how much is enough
- ▶ Different types of money how to give yourself a raise every few years so you will protect your income from inflation



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