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Government Pensions- How Much will I Get?

By Clinton Orr

There are two main government pension programs in Canada: Canada Pension Plan (CPP) and Old Age Security (OAS). Both are administered by the federal government and are amended regularly. I spend the bulk of my day working with retirees and soon to be retirees, government pensions are a frequent topic of conversation. There seems to be quite a bit of confusion surrounding the programs and most folks simply want to know: How much will I get?

Canada Pension Plan

CPP is a contributory program. You contribute 4.95% of your income to CPP (more if you are self-employed). Starting in 2019 the contribution rate will increase to 5.10%. Contributions will increase every year until 2023, at which point you will be contributing 5.95% of your income to CPP. If you have made at least one payment into CPP you qualify to collect a benefit. The more you pay into the program the larger the benefit you can collect. The standard start date for CPP is 65; however, you can collect as early as 60. If you collect early there is a penalty. The reduction is 0.6% for every month prior to your 65th birthday. If you collect at 60 there will be a 36% reduction in your pension benefit.

In 2018 the most you can collect from CPP, at 65, is \$1,134.17 per month. That number goes up every year, CPP is adjusted every January for cost of living. CPP caps how much you can contribute to the program in a year. In 2018 the maximum contribution is \$2,593.80, if your income is over \$55,900 you will contribute the max. If, for the majority of your career, you make the maximum annual contribution, you will receive the highest CPP benefit. Most folks do not receive the maximum benefit, in 2018 the average monthly benefit collected at 65 was \$673.10.

If you are already collecting CPP and are still working, you can continue to make CPP contributions. Prior to 65 the contributions are mandatory, after 65 they are optional. The additional CPP contributions will result in a post-retirement benefit. This benefit will be paid in addition to your regular CPP. In 2018 the maximum post-retirement benefit, at 65, is \$28.35 a month. The average, at 65, is \$10.35 a month.

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You can get an estimate of how much you will receive from CPP by checking your statement of contributions. To receive your CPP estimate call Services Canada 1-800-277-9914.

Old Age Security

The second government pension program is OAS. Unlike CPP no one directly pays into OAS, it is funded by the federal government's general tax revenues. OAS provides a monthly benefit to anyone 65 years of age or older. Every quarter the OAS benefits are adjusted for cost of living. The current maximum is \$600.85. Similar to CPP, OAS is taxable. Unlike CPP most folks qualify for the maximum monthly benefit. The amount of your pension is determined by how long you have lived in Canada after the age of 18, at 40 years you qualify for the maximum pension. I tell most retirees to expect the maximum benefit.

Unfortunately, OAS has a little wrinkle called recovery tax; it is better known as the claw back. If your income is above a threshold your OAS will be reduced. In 2018 if your income is above \$75,910 your OAS will be reduced. Once your income is above \$123,386 your OAS will be completely clawed back.

OAS is supposed to be automatic; you should not have to apply. However, if there is an issue you can call Services Canada at the number listed above.

The OAS program also includes additional payments for low income retirees. Both the Guaranteed Income Supplement (GIS) and the Allowance provide benefits to low income retirees. For example, if you and your spouse have a combined annual income of less than \$24,048 you will receive an extra \$540.23 per month. GIS and Allowance payments are not taxable. For detailed information on these topics you can visit: servicecanada.gc.ca

As you can see how much you get from government pensions depends on a few factors. In my view the government pensions supplement your retirement income, for most retirees the pensions are not enough to cover all their retirement needs. Government pensions are only one piece of your overall retirement plan.

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