OAS changes mean rethinking **retirement income planning**

Eligible Canadians will receive more financial assistance this summer from their Old Age Security (OAS). Starting in July, people aged 75-plus will receive a 10% increase to their monthly OAS payment.

It might seem like an inconsequential change, particularly for workplace pension plan sponsors. After all, most plan members are well into retirement by the time the increase occurs. Yet the OAS tweak could involve more complexity than it appears.

With the increase, plan sponsors and plan providers like Sun Life will likely be answering more questions. Members may wonder how government pensions, such as the Canada Pension Plan (CPP), fit with their workplace pensions to fund their retirements.

Government retirement sources are just one aspect of retirement income. But keeping plan sponsors informed of these changes demonstrates the farsighted support Sun Life provides. Licensed retirement consultants[1] can help members navigate how these changes may affect their retirement plans.

"That speaks to the heart of the role of workplace plan sponsors: educating members, and offering them basic facts about how this increase is really an advantage," says Eric Monteiro, Senior Vice-President, Group Retirement Services at Sun Life.

The boost of guaranteed income of $770 annually—indexed to inflation—equates to about $64 extra per month to pensioners who qualify.

The current full monthly benefit is $642 for individuals who elected to receive their OAS at 65 (the first year of eligibility). For those who delay OAS beyond 65, the base monthly benefit is even higher. Their 10% increase at age 75 will be more too, $277 extra per year.

[1] *Registered as Financial Security Advisors in the province of Quebec.*

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2022 Old Age Security changes

Monthly benefits for those aged 75 and over

	Until July 2022*	As of July 2022	Change
Full OAS benefits	$642.25*	$706.48*	+ $64.25
Full OAS benefits for recipients who delayed pension until age 70	$873.46*	$960.80*	+ $87.35

Does it pay to delay OAS?

That's already a nuanced question pension plan sponsors field from members facing retirement, says Kate Nazar, Vice-President, Strategy and Market Development, Group Retirement Services at Sun Life.

"They must figure out how to integrate OAS decisions, among other considerations with their plan, to see how it affects their own bucket of savings," Nazar says.

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Those buckets include workplace pensions, and likely Registered Retirement Savings Plans (RRSPs) and Tax-Free Savings Accounts (TFSAs).

Canadians add an extra 0.6% to their benefit for every month they delay OAS, to a maximum of 36% until age 70 (the latest they can defer). Delaying receipt for maximum benefit can be smart.

"But it depends on a member's personal situation, and what income level they're trying to achieve in retirement," Nazar says.

Potential for reductions

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"Some high-income earners in retirement may not even receive any benefit from the 10% increase, because it would be clawed back," says Jacks, who provides professional development for financial advisors.

The OAS pension recovery tax is commonly called a claw-back. It starts reducing the monthly benefit once a recipient's net annual income exceeds $81,761. The benefit disappears completely when net income exceeds $131,141.

Fortunately, retirees can generally use several strategies when planning to reduce net income to maximize their OAS benefit, Jacks notes. That includes splitting their workplace pension income with their spouses. One challenge is making members aware of the implications of their decisions around OAS and CPP.

"These aren't one-and-done transactions," Jacks says. "They need a strategic withdrawal plan. Each income source drawn upon in that plan often impacts another source of income."

There's much to consider: when to draw on OAS and CPP, how to mitigate claw-backs, and how to adjust for the 10% increase at 75. It may not be incumbent upon plan sponsors to build a retirement plan that accounts for everything.

Still, working with the suite of resources from plan providers, sponsors can at least explain to members that there are different ways to do this, says Monteiro.

“Beyond raising awareness of their options, encourage them to seek professional planning advice to help make the best decision for their situation,” Monteiro says.

Sun Life workplace savings plan members have access to retirement consultants. They can help to consider these decisions and create a retirement income plan that suits them.

One advanced retirement planning tool, launching in 2022, is Sun Life One Plan. It facilitates comparisons of various scenarios, such as beginning government pensions at different ages.

Others prefer the flexibility of a LIF. It offers control over investments inside the account, and the amount of income they want to receive; appropriate levels of risk to hedge against inflation; and the ability for what remains upon death to be part of the estate.

Plan sponsors can help enlighten members on available investment strategies for the LIF, as well as on rules regarding annual minimum and maximum withdrawals.

Drawing on CPP

Among those decisions: CPP timing. Taking CPP early reduces its benefit by 0.6% per month to a maximum of 36%. That’s if individuals elect to receive it at age 60 (the earliest they can start the government pension).

Like OAS, delaying drawing on CPP after age 65 increases the benefit. In this case, the payment increases by 0.7% per month for a maximum increase of 42% if delayed until age 70.

Nazar says plan sponsors should note the potential advantage of deferring CPP. Members may not have considered all their options thoroughly.

Why do some members consider taking both government pensions as soon as possible? One reason: retirees are concerned with living long enough to benefit from increased payments.

“Many assume they will draw on CPP and OAS at 65 or earlier because either they feel they can’t afford to wait, or they just don’t understand the benefits of deferral,” Nazar says.

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Yet retirees are living longer. Nazar says if you take a couple at age 65 today, there is a 50% chance one will live into their 90s. Drawing on pensions later can make sense.

When would plan members be ahead? Let’s do the math. Consider someone who started receiving benefits at age 65. The question is when they would have received an equivalent amount from their plan by delaying it to, say, age 70.

Nazar notes that it would take a retiree starting CPP and OAS at 70 until about age 83 to hit the “break-even point.” That’s when they’d get the equivalent sum of payments they would have received had they started at 65.

Another member concern is that delaying CPP and OAS may mean relying more on their workplace pension. The fear is running out of pension money later in retirement. Here too, plan sponsors can offer perspective.

“They can look at it like this: members only have to manage drawing additional income from their investments—workplace pension included—from 65 to 70, for example,” says Nazar. “Then, they can reduce their reliance on that asset later in retirement, because they’re receiving more inflation adjusted guaranteed income from CPP and OAS.”

Manage taxes wisely

Critical to decisions is taxation. Workplace pensions, registered savings, CPP and OAS monies are fully taxable. If their combined sum is too high, members could face claw-backs of OAS, and even other benefits like the Guaranteed Income Supplement (GIS).

A TFSA is one tool to help manage taxes in retirement. Monteiro says many employers now offer workplace TFSA plans. These often come with typically lower fees compared to similarly managed mutual funds available on a retail basis.

In any case, sponsors should highlight to members how they can use a TFSA to pay for unforeseen large expenses, for example. Withdrawals are tax-free. So they don't affect income-tested benefits such as OAS and GIS.

"There are all these different types of income to draw from, and many ways to design plans around them," Monteiro says.

"Most members have no idea how they all work or will work together," he adds. "So there is a tremendous opportunity for plan sponsors and providers to help members understand the options. All while underscoring the importance of seeking professional financial advice."

Next up, how do the various sources of retirement income address retirement risk and readiness? We'll examine that in the fifth instalment of this decumulation series.

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