Retirement 101

To retire comfortably, experts say you will need to replace about 60% to 80% of the income you had while you were working. Where will that money come from? The three main sources of retirement income are:

1. **workplace pension plans** (like the MSPP);
2. **government programs**; and
3. **personal savings**.

You will need to rely on all three sources.

1. Workplace pension plans

A workplace pension plan, like the MSPP, is an important source of retirement income. The amount you receive from the MSPP will depend on how much you and your employer(s) contribute and the pension formula(s) in effect while you have benefits in the Plan.

2. Government programs

Government programs include:

- Canada Pension Plan (CPP);
- Old Age Security (OAS); and
- Guaranteed Income Supplement (GIS) for low-income Canadians.

3. Personal savings

When combined with your workplace pension and government retirement benefits, your personal savings can help you reach your target retirement income. One of the best ways for you to save for retirement is using a tax-free savings account (TFSA). Registered Retirement Savings Plans (RRSPs) are also a good option. TFSA and RRSP accounts can be set up at all the major banks and many other financial institutions.

Canada Pension Plan (CPP)

CPP is a federal government program. All working Canadians over the age of 18 are required to contribute to the CPP if their annual pay is more than the basic exemption ($3,500 in 2020).

Your contributions are matched by your employer. You can start collecting your CPP benefits anytime between ages 60 and 70. If you start before age 65, however, your payments will be permanently reduced by 7.2% per year. For example, if you want to start CPP at age 60, your CPP benefits will be reduced by 36% (7.2% x 5 years).
While it may make sense for you to start collecting CPP early due to health or financial circumstances, you should keep this reduction in mind when deciding when to apply.

You can also delay collecting CPP until age 70. In this case, your CPP payments will increase by 8.4% for each year that you delay your benefits after age 65.

The pension that you receive from the CPP is paid in addition to any workplace pension(s). The amount of CPP pension you receive depends on how much you contributed, and for how long. In 2020, the maximum monthly pension you can get from the CPP at age 65 is about $1,175. However, most people receive less than the maximum. CPP is indexed for inflation, which means that CPP pensions are adjusted each January based on the increase in the Consumer Price Index.

You won't automatically receive CPP benefits. You must apply online or by mailing a completed application to Service Canada, along with required personal information. If you would like more information on CPP benefits, contact Service Canada at 1-800-277-9914 or go to **www.canada.ca/en/employment-social-development.html** **> Public Pensions** where you can download the forms directly.

Old Age Security (OAS)

OAS is another federal program. It provides a basic pension for almost every senior. If you were at least 25 years old on July 1, 1977, you need 10 years of Canadian residency to qualify. Otherwise, you need 40 years of residency after age 18 – but you may receive a partial OAS pension if you have lived in Canada for at least 10 years.

The earliest you can start to collect OAS is age 65. You may also choose to delay receiving your OAS benefits for up to five years, to age 70. If you do, you'll receive higher benefits when you begin to collect.

OAS benefits are adjusted each quarter. As of January 1, 2020, the maximum monthly OAS benefit was about $613. Anyone who receives OAS benefits and earns more than $79,054 (in 2020) will see their OAS benefits reduced due to their higher income.

You should receive a letter from Service Canada the month after you turn 64, letting you know that you will be automatically enrolled in the OAS program. If you don't receive this letter, you must apply for your OAS benefits in writing. If you would like more information on OAS benefits, contact Service Canada at 1-800-277-9914 or go to www.canada.ca/en/employment-social-development.html **> Public Pensions** where you can download the forms directly.

Guaranteed Income Supplement (GIS)

Guaranteed Income Supplement (GIS) is a government program that provides additional support to low-income individuals in Canada. People who receive OAS and have an income below a certain level ($18,600 for singles or a combined income of $24,576 for couples in 2020) can apply for this tax-free supplement.

You must apply for the GIS benefit and renew your application each year when you file your income tax return. If you would like more information on GIS benefits, contact Service Canada at 1-800-277-9914 or go to www.canada.ca/en/employment-social-development.html **> Public Pensions** where you can download the forms directly.

Tax-free savings account (TFSA)

All Canadian residents aged 18 or over can contribute up to $6,000 a year to a
TFSA. Like an RRSP, a TFSA lets you save and invest your money without having to pay tax on your investment income or capital gains.

Here are the main differences between a tax-free savings account and a registered retirement savings plan:

- You can take a tax deduction on the contributions you make to an RRSP, but withdrawals are counted as taxable income in the year you withdraw the money.
- You cannot take a tax deduction on any contributions you make to a TFSA, but withdrawals are tax free.
- When you make a withdrawal from a TFSA, contribution room equal to the withdrawal is restored the following year.

The $6,000 per year TFSA contribution limit will increase in line with inflation (in
$500 increments). Unused contribution room can be carried forward for as long as you wish.

Registered retirement savings plan (RRSP)

Another way to save for retirement is an RRSP. You can visit any major financial institution and ask to open an RRSP.

Any contributions you make to an RRSP come straight off your taxable income
(up to government limits) and can greatly reduce the amount of income tax you pay. The money in your RRSP, including investment income, grows tax free until it is withdrawn.