Retirement Planning – Age Milestones

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As we get older, certain milestones are important when preparing for retirement. If you are nearing the following age milestones, take note of these considerations as you look to maximize your retirement savings. Don't leave money on the table.

Age 60

Consider early Canada Pension Plan (CPP) payments. Although the standard age for starting CPP payments is 65, you have the choice of taking CPP as early as age 60. Under the new rules, you can still be employed and contributing towards CPP. The advantage of this approach is the increased future CPP benefit available to you after you retire. CPP Benefits will be permanently reduced if you begin early. In 2016, the reduction percentage is 0.6% per month for a total reduction of 36% if CPP benefits are started at age 60. Add in the trend that more and more people are retiring before the age of 65 and taking CPP early, you are seeing more people get less than the maximum amount ($1,114.17 at 65 years in 2017). You may also wish to defer CPP payments to receive an increased benefit if payments of 0.7%% per month between the ages of 65 and 70. (Please see page 2 for considerations.)

Age 65

Don't forget the federal Pension Income Tax Credit. The Pension Income Tax credit allows you to claim a tax credit equal to the lesser of your pension income or $2,000. Since this is a non-refundable tax credit, it cannot be carried forward.

Note that there are certain exceptions in which the Pension Income Tax Credit can be used before the age of 65, "including for those individuals 55 years of age or older who have certain qualifying types of pension income, or widow(er)s, so seek advice on your particular situation. In Quebec, the pension recipient must be 65 years old to split all types of pension income.

If you don't have a pension, one way to generate qualifying pension income at age 65 is by opening a Registered Retirement Income Fund (RRIF).

Consider pension income splitting. If your spouse/common-law partner has a lower marginal tax rate and/or available tax credits to provide tax savings, you may consider pension income splitting. An individual can allocate up to 50 percent of their eligible pension income to a spouse for tax purposes. (Note that pension income splitting may occur as young as age 55 for qualifying individuals.)

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Age 71

Convert your RRSP before year end.

You must convert your Registered Retirement Savings Plan (RRSP) before the end of the calendar year in which you turn 71 years old. The most common choice is to open an RRIF, but there are other options to consider, including purchasing an annuity or distributing funds as income. You can also elect to use your younger spouses age to set RRIF minimum withdrawal percentages to further reduce taxable retirement income.

Make final payments to an RRSP before year end. Consider catching up on any unused contribution room from previous years before the end of the year. You won't be able to contribute until the usual RRSP deadline (which is 60 days after the end of the calendar year), as your plan will need to be collapsed before year end.

Consider contributing to a spousal RRSP. If you have reached the age of 71, but have a younger spouse and have leftover RRSP contribution room (or are still generating RRSP contribution room if you are still at work), consider contributing to a spousal RRSP.

When to Take Canada Pension Plan (CPP) Benefits?

As you approach the age of 60, you should consider the timing for starting CPP payments. If you start as early as age 60, you will receive a reduced CPP pension by 0.6% per month to a maximum 36% reduction. The maximum available to a 60 year old Canadian in 2017 is $713.07 per month. You will receive an increased benefit by delaying CPP from the age of 65 up until the age of 70 of 0.7% per month. In 2017, at the age of 70, deferring CPP to the age of 70 can amount to $1,582.12 per month in benefits. Current indexing of these benefits are increased annually by 1.2%.

There are many factors to consider when making the decision, including life expectancy, current and future tax bracket, immediate and future income needs, and the effect of other income-tested benefits. If you would like to discuss how these factors may impact your own situation, please don't hesitate to call us and we can help you to frame the decision.

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