

## THE STAN CLARK FINANCIAL TEAM'S

## P E R S P E C T I V E S

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## Financial &amp; Estate Planning

## OAS: TO DEFER OR NOT? AND FOR SENIORS 75+, AN INCREASE

By Sylvia Ellis, Senior Estate Planning Advisor

Many of you are aware that the Old Age Security pension (OAS) is available to Canadian residents 65 years or older. And that, to collect OAS, they must have lived in Canada for at least 10 years since the age of 18.

Unlike the Canada Pension Plan (CPP), the government does not consider your employment history in determining your eligibility for OAS. Whether you've worked or not is irrelevant. What they do consider, however, is the extent of your residency. You will qualify for a full OAS pension if you have resided in Canada for at least 40 years after age 18. If not, the government calculates your benefit based on your number of years as a resident divided by 40.

All OAS benefits are indexed on a quarterly basis, ensuring they maintain their value over time. The increases are calculated using the Consumer Price Index (CPI), which measures changes in prices paid by Canadian consumers for goods and services.

**OAS benefits do not decrease. They either increase or stay the same.**

What's the current maximum you can receive? In July 2022, the maximum OAS benefit increased by 2.8% to \$8,001.96 per year. Retiring Canadians can further maximize their benefit by delaying their OAS from age 65 to 70. Delaying by one year would increase your benefit by 7.2% for the rest of your life. Delaying until age 70 would increase your OAS benefits by 36%. As noted above, you cannot access your OAS earlier than age 65.

Let's not forget clawbacks. If your taxable income is over a specified threshold, your OAS amount will be reduced by 15% for every dollar over the threshold. The threshold for 2022 is \$81,761. If your 2022 income is \$95,000, then your repayment would be 15% of the difference between \$95,000 and \$81,761, for the July 2023 to June 2024 period. A full clawback would apply when net income reaches \$134,253.

On July 1, 2022, a major change occurred. The Canadian government increased OAS for those age 75 and over by 10 per cent. It was a significant move: the first permanent raise to the pension (other than CPI increases) in nearly 50 years.

**Take OAS now, or defer it?**

One planning question to consider as you near age 65 is: "Should I start taking OAS now or should I defer it?"

Let's start by doing the math. Say you expect to live to normal life expectancy. Assuming there are no substantial changes to the clawback tests, it makes sense to defer uptake until age 70. The 10% increase introduced this year makes the case even stronger for doing so.

According to an analysis by Bonnie-Jeanne MacDonald at the National Institute of Aging, the average Canadian is giving up \$13,000 in lifetime income – \$9,000 for men and \$17,000 for women, in today's dollars – by *not* delaying benefits. In her calculations, MacDonald took the extra payments you receive from age 70 onward (including the 10% boost), and subtracted the five years of payments you miss by not deferring.

Another advantage to deferring is that it will add to your residency requirement. Say by age 65 you have fewer than 40 years of residency. After age 18, you will receive a prorated partial payment. You can benefit from postponing OAS to extend your period of residency (but not beyond age 70).

Now for the drawbacks in deferring OAS. The percentage benefit of deferring it is less than for delaying CPP, which adds 42% (vs. 36%) at age 70. If you defer both CPP and OAS, you might need to draw down on your other assets to support your living needs. Then there's the emotional – and not unreasonable – perspective, i.e., "I want to ensure I get something from OAS, so I better take it as soon as possible."

And maybe the partial or full clawback based on your income level will increase over time. We just don't know what changes lie ahead. CPP is much less likely to be affected by future tax increases because pensioners have contributed to CPP and have a stronger entitlement to it. So, it makes much more sense to defer CPP than OAS. But for some people it might make sense to defer both.

As you can see, there's no concise answer to deciding whether to defer OAS. As always, we highly recommend discussing this topic with your financial advisor or accountant to determine what is best for you.



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