



## Session #210: Retiring on a Low Income: Why it is Different....

Presented by: John Stapleton



## Agenda

- Part 1: What must I understand about the tax system?
  - The grocery store gift card/coupon analogues
- Part 2: Retiring on a low income
  - The 'Ted Talk' opener: Parallel Universe and the 'E' word barrier.
  - What is our income system for retirees in Ontario?
  - What do you mean by low income?
  - Top 10: Rogues' Gallery of Bad Advice
  - Why is mainstream financial advice wrong?
  - What can be done?



# What must I understand about the tax system?

## Part 1

Retiring on a low income



## Analogues for Exemptions, deductions, refundable & non-refundable credits

- Exemptions: The 'forget about it' card – you don't have to report exempted money
- Deductions: A special personalized 'coupon' since the value of deductions differs based on tax paid by individuals
- Non-Refundable credit: a general 'coupon' since the value of a credit of equal value is the same for everyone who pays tax and worthless for those who don't.
- Refundable credit: A 'gift card' redeemable for anything in the store – in this case, Canadian money.



forgetaboutit

the *NO-NEED-to-Report* Card



Government of Canada  
EXEMPTION

NO-NEED-to REPORT:

e.g.:

- racetrack winnings
- sale of a principal residence
- sale of your car
- garage sale proceeds
- reimbursed expenses

FOR John Doe

income coupon

Redeemable for a  
**DEDUCTION**  
in your income\*  
(\*not transferable)



Government of Canada

Deductions and Tax Free Amounts

DEDUCTIONS FROM INCOME	AMOUNT DEDUCTIBLE FROM INCOME
Child Care	• Depends on Expenses
RRSPs	• Depends on amount contributed based on income tax statement
TFSA:	• No deduction - income inside TFSA not subject to tax
RESPs	• No Deduction - income inside RESP not subject to tax but attracts Canada Learning Bond & Canada Education Savings Grants as a matching contribution.


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**taxcoupon**

Redeemable for  
**MONEY OFF**  
your taxes

**Non-Refundable Tax Credits (Coupon) can only be used to reduce taxes paid**

<b>Child fitness tax credit</b>	• A credit to reduce taxes on eligible child fitness expenses up to \$500 per child by parents to register a child in a prescribed program.
<b>Medical Expense tax credit</b>	• A credit to reduce taxes above a threshold based on allowable medical expenses.
<b>Education Tax Credit</b>	• A tax credit for full time postsecondary students
<b>Transit Pass Tax Credit</b>	• For a transit pass costing \$1.00, the amount you can claim would be \$1,200, resulting in a tax credit (coupon) of \$180.00
<b>Charity (Donations) tax credit</b>	• 5% Credit for under \$200 in donations
<b>Disability Tax Credit</b>	• Depends on expense paid out
<b>Spousal Tax Credit</b>	• For an adult with a low income spouse under 11,038
<b>Caregiver Tax Credit</b>	• Up to \$2,040

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**Government of Canada**

**giftcard**

Redeemable for  
**MONEY**

**Tax free Refundable tax credits (Gift Card) payable regardless of tax paid**

<b>GST/HST Credits</b>	• The GST/HST Tax credit is a tax-free quarterly payment
<b>Trillium Benefit (Ontario Property &amp; Energy Tax + sales tax credit)</b>	• A payment for low income people who own or rent a principal residence in Ontario.
<b>Working Income Tax Benefit</b>	• A payment to eligible working low income individuals and families
<b>Child Benefits (UCCB, CCTB, NCBS, OCB &amp; CDB)</b>	• Payments for children living with their parents

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## Line 260 of the Tax Form

- Any amount of taxable income reduces seniors' benefits
- Up to \$14,000, you pay no tax but....
  - GIS clawed back at 50%
  - GAINS-A clawed back at 50%
  - From \$0.00 for T4As
  - From \$3,500 for T\$ (employment).
    - The T4A trigger point is \$500.



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## Solutions? Low income turning 65 and CPP?

- Early CPP is age 60
- Normal is 65
- But you don't have to take until age 70
- Why would you do that?
  - If you are eligible for GAINS-A and CPP is less than \$2000 a year?
  - Clawback is 100%
  - Wait until age 70!



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## Solutions for T4A

- Stop collecting honoraria at \$499
- Got to another agency for next \$499
- RRSP room on your income tax statement?
  - Use it
  - Borrow it
  - Collect more GIS
  - Reduce clawback from earnings or honoraria



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## Advocacy

- Get agencies involved in the \$499 rule
- Think about the \$3,500 rules on GIS and earnings per year
- Different than the OW/ODSP rule of \$2,400 per year
- Workshops and presentations
- Advocacy to Government and seniors' advocacy agencies



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## Retiring on a low income: Why it is different.....

### Part 2

Retiring on a low income



## TED talk Opener

- Parallel Universe:

*“But there’s sort of an alternate universe that exists for lower-income seniors between 65 and 71”, says John Stapleton, a social policy consultant.”*

Preet Banerjee, Globe and Mail, Sept. 12, 2012

- The ‘E’ Word: (Entitlement)



## What is our income system for retirees in Ontario?

**1. Old Age Security (OAS):** People with little or no income other than OAS pension may get an extra monthly benefit called the **Guaranteed Income Supplement (GIS)**. The GIS is key

There is also a monthly **Allowance** for low-income spouses and common-law partners of OAS pensioners. All widows and widowers can receive the **Allowance for the Survivor**. These spousal benefits are available from age 60 age 64.

**2. The Canada Pension Plan (CPP):** If you paid into CPP during your working life, you can get a monthly pension as early as age 60.

**3. Private pensions, work and savings**

Adapted from: [http://www.totrov.com/english/pension\\_system.htm](http://www.totrov.com/english/pension_system.htm)



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## 2. What do you mean by 'low income'?

What will your family picture be when you are age 65?

Will you get GIS?

Your family picture when you are age 65:	As of April, 2013, you will be low income if your income is under:*
Single person	\$17,000
Couple , both getting Old Age Security (OAS pension)	\$22,200
Couple, only one partner getting OAS, other partner is under 60	\$40,000
Couple, one partner getting OAS pension, other partner is 60-64 and getting the Allowance	\$31,000



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## Top 10 Countdown: Rogues Gallery of Bad Advice to Low Income people planning retirement

10. The government will send you application forms for benefits
9. Working after age 65 is a good way to bring in extra money
8. Don't buy an RRSP after age 65
7. Don't buy a TFSA until your RRSP room is used up
6. Don't take Early CPP
5. Take early CPP
4. Don't bother applying for OAS if you're a sponsored immigrant
3. Wait until you have 10 years in Canada to apply for OAS
2. Don't bother planning for retirement if you have very little \$\$\$
1. Buy an RRSP (before age 65).



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## Why is mainstream financial advice wrong for low income retirees?

- Three fundamental assumptions about retirement planning and financial advice do not apply to low income retirees.
  - *That our post-retirement income will be less than our pre-retirement income; and*
  - *That our taxable income will be lower at 65.*
  - *That tax credits will help us realize higher income*
- For low income retirees, the opposite is true



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## Why is mainstream financial advice wrong for low income retirees?

- Most of us are told to buy RRSPs and wait to collect our CPP retirement benefits.
- The standard advice is to pay into an RRSP before registering for a TFSA.
- .....And almost no one advises registering for an RRSP after age 65.



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## Why is mainstream financial advice wrong for low income retirees?

- Many low income seniors receive **higher incomes** when they turn 65. Old Age Security, combined with CPP and the Guaranteed Income Supplement is often significantly higher than the social assistance, disability benefits, and the low earnings they realize in the years leading up to age 65.
- And **Old Age Security and CPP are taxable** while social assistance and some disability benefits are not. This situation results in higher taxation once they reach 65, not lower.



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## Why is mainstream financial advice wrong for low income retirees?

- It's almost as if potential low income retirees live in a different world where their situation is the polar opposite to what is faced by most retirees.
- This means low income retirees need very different advice than they get from the mainstream.
- But is this advice available? The answer is largely "no".
- ***One Reason: GIS is an entitlement, not a tax credit!***



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## What can be done for low income retirees?

- For the Low Income Retiree:
  - Take CPP early retirement ASAP
  - (unless receiving social assistance)
  - Avoid RRSP's until age 65
  - Buy a TFSA if savings are available
- For Financial Institutions:
  - Give proper information and advice
  - Train staff



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## What can be done for low income retirees?

- For the **Ontario Government**:
  - Advocate with the federal government for better information and regulation
  - Inform low income retirees
  - Ensure course materials with right information is taught to front line financial staff
  - Promote good advice: (mine....)

<http://openpolicyontario.com/retiring-on-a-low-income-3/>

