THE EMPOWERED INVESTOR

TULETT, MATTHEWS & ASSOCIATES

Your CPP/QPP & OAS Benefits

Announcer: Welcome to the Empowered Investor Podcast. Have you ever felt overwhelmed by the sheer volume of choices and voices telling you how to plan or invest for your future? With a straightforward approach, host Keith Matthews of Tulett, Matthews & Associates cuts through the noise to help you create a winning action plan for you and your family. The decision-making framework discussed in this show can transform you and your investment experiences and will increase your odds of becoming financially secure. Learn more and subscribe today at TMA-invest.com.

Keith: Welcome to the Empowered Investor. My name is Keith Matthews and I'm joined by my co-host today, Edmund Fhima. Welcome, Edmund.

Edmond: Thank you. Nice to be here.

Keith: This is your first show on the Empowered Investor. Edmund, you're a licensed financial planner here at Tulett, Matthews & Associates. Welcome. Tell us a little bit about your background before we get into the CPP, QPP, and OAS show.

Edmond: Thank you. So I've been in the financial industry for over 30 years as a licensed fee-only financial planner. I've been helping people with estate matters, tax planning, insurance, attaining their objectives for retirement, and a whole other slew of investment advice and financial planning advice. Yeah, it's been over 30 years.

Keith: I know that you work with a lot of the clients in the firm on tax and planning, but as you mentioned, you're fee-only. Just for the audience, it's a bit of a unique concept. You have a practice where you can charge independently on an hourly basis for financial planning.

Edmond: That's correct. So when I meet with clients and I service them, I charge a fee based on time or based on the project that I'm going to be working on.

Keith: It's extremely unique. That is a growing industry in Canada, but it is definitely niche. We love having you on board because not only do you do that for individuals that come, but you really help so much with our existing clients and some of the challenges we face.

Edmond: It's always a pleasure working with you and your clients.

Keith: So, listen, let's get into today's show. It's a big one. So there's lots of details in today's episode. We are going to be reviewing and explaining how CPP works. We'll touch on the history of CPP and OAS. We'll review the reforms that have come in the last 20 to 30 years. We'll discuss one of the big questions that a lot of individuals have, which is should I take my CPP early or should I defer it? We'll review CPP survivor implications. We'll also discuss disability implications. And then finally, we'll do a review of OAS. So we'll be mixing up a lot of information in today's show.

Edmond: Like you said, it's a packed show with a lot of information. We're trying to give listeners some information about these programs. There's a lot more information, so we'll try to get through a lot of this in the time we have here today.

Keith: Okay, Edmund. So what is CPP and QPP?

Edmond: So CPP and QPP are essentially the same program. It's a contributory social insurance benefit program that was implemented by the government back in 1965. They're both very similar. But when we talk about QPP versus CPP, because it's provincially legislated and the provinces have a choice, back then Quebec was the only province that decided to opt out of the CPP program but follow basically the exact same model as CPP. So QPP in Quebec is the only province that is doing it on their own.

Keith: Great. Okay. So when you talk contributory, that means that individuals contribute throughout their working careers into this program and their employers contribute. We'll get into the details a little later, but at 65 they then receive a benefit. So what's the maximum benefit for QPP or CPP in Canada right now for a 65-year-old?

Edmond: So for a 65-year-old, it's exactly the same amount. We're talking about somebody who's contributed their whole career into the plan. They would be entitled to $1,253.59 per month, which represents about $15,000 in round numbers per year. Quite a significant amount.

Keith: Perfect. That is a significant amount. Now, that's the maximum. My understanding is that the average CPP payment in Canada is about $700. So there's what the average Canadian receives and then there's what the maximum individual can receive.

Edmond: And the reason that there's a difference between what an average Canadian will receive versus somebody who receives the maximum is because they might not have contributed for the whole period of time from age 18 to age 65. They might have had periods where they had low income or years where they did not work. But then there's some situations where a parent was taking time off because of a child. So those years they may not have worked, but the program is meant not to penalize them for that. So in essence, some people may not have worked their whole career at the maximum level or they may have not worked at all. And the plan, because it's based on contributions, they may not get the full amount.

Keith: Perfect. So what this is describing essentially is everybody has—it's almost like a unique DNA. Depending on your work history in Canada, how many years you worked, you will have a different number that you will be entitled to. Okay. So that's great. And that's the basics about CPP or QPP. So what is OAS?

Edmond: So OAS is another pension program offered by the federal government to help the elderly meet their retirement needs. So it's another plan that is funded by the government, not a contributory plan like the QPP. It depends on whether you qualify. It's payable at age 65 and there's a flat amount that everybody receives from that moment forward.

Keith: Perfect. What is that flat amount? If they can get their full benefit, what are they entitled to at the age of 65?

Edmond: At age 65 today, the amount would be $642 per month, which is $7,705 per year.

Keith: Okay. You know what I find is amazing is often individuals refer to the OAS as "my federal pension." They go, "my pension." What are you talking about? Are you talking about CPP or OAS? "My pension." So you've just highlighted the two main differences. One is a contributory plan and then one is a plan where you get the money no matter what. But there are guidelines on each one. We'll review that later in today's show. Let's switch gears, Edmund, and get into the history. Because it is fascinating to see how these plans have evolved. Let's spend about two to three minutes on the history: when they started, why they started, what were the parameters back then? And it's interesting to reflect and see where we're at today. So which one was first?

Edmond: That's a good question. Old Age Security was actually the first one to be introduced by the government. This was started—and people might not know this—back in 1927. The plan was there to support the elderly, but it's evolved quite a bit. Back then, it started for people who were age 70 and over. And then gradually it was brought down to age 65. So old age came in first; CPP and QPP came in later in 1965-1966.

Keith: What I find amazing about this history is that if you go back to the days you're talking about, the 20s, you received your payment at 70. Life expectancy was not as high as it is today. Now, what we do know is that life expectancy back then was in the high 60s from birth. But if you were 65, life expectancy was 77. So when these plans were first started, you got your payment at 70, and it lasted for seven years on average.

Edmond: Yeah, a lot different than today where you could start at age 65, and with life expectancy being a lot older than it was back then, the payments are for a longer period of time. It's quite a difference than when it was first started.

Keith: 100%. So today, if you're a healthy 65-year-old woman, your life expectancy is 88, and a male is in the mid-80s. So what you're talking about is a funding period way back then that was seven years to today, a funding period that is in excess of 20 years. And this is big. So this is part of one of the dilemmas I think that the government is going to have in the next 30 to 40 years is how do you fund all these programs?

Edmond: Right now, it's from taxes and from being taxed at the maximum. So a lot of the funding is drawn from that versus the QPP/CPP, which is a contributory plan. So there's a big difference between how the two plans are funded and how they'll meet their obligations in the future. But just going back to that point about OAS being "my federal pension," it's funny. I hear that all the time. They like to take ownership and they're proud to say, "I'm getting my federal pension." So it was just a little anecdote there.

Keith: And in doing my research for the show and reading on the history, it's interesting because you go back into the 20s and 30s, and people were receiving these. Part of them didn't want to receive them because they felt like they were relying on society. They wanted to be independent and not rely on a pension of any sort. So let's switch gears a little bit and get into the nuts and bolts now. We're going to start with CPP or QPP. Edmund, can you just review a little bit about how the process works? When you make your contributions, how does that contribution process work? And then we're going to lead up to the first set of reforms that occurred in the 1990s.

Edmond: So the CPP and QPP programs are, like you said, contributory. So it's through payroll, or if you're self-employed, you have to do it yourself through your tax returns, the contributions.

Keith: So when you say payroll, what you're referring to is every single paycheck a small amount comes off your pay as the working individual and then a small amount comes from the company.

Edmond: Exactly. But there is a first threshold to go over. So the first $3,500 that you earn are not assessed a contribution. So anybody who's 18 and over who's working and is making over $3,500 will contribute to the plan based on a fixed percentage. So the employee contributes into it and there's an equal match by the employer into it up to an annual maximum. And if we look at the annual maximum today, this is where a little bit of differences occur between the two, the CPP and QPP. Today in 2022, the maximum contribution by an employee, so what's coming out of your payroll if you're at the maximum, would be $3,500, round numbers, versus the QPP is $3,776. So there's a slight difference in amounts between all of Canada and Quebec.

Keith: Okay. So that's the employee puts that in and then the employer puts that in.

Edmond: Yeah, exactly.

Keith: Okay, so this is like a forced savings to some degree. And I believe initially the savings was an attempt to replace 25% of an income up to a certain threshold.

Edmond: That's correct. So there's what's called maximum pensionable earnings. So every year there's an amount that you would contribute up to the first $60,000. So in 2022, it would be $64,900. You would contribute a percentage up to that amount. And the plan is to allow people who have contributed the maximum to get about 25% to replace about 25% of that maximum pensionable earnings when they retire. That was like a forced savings program, like you said, through this contributory plan.

Keith: Okay. That's where you get about the $15,000 is 25% of $60,000 if you were making that throughout your lifetime. Now, Edmund, you're about the same age as me. Actually, I think you're a few years younger. I remember in the 1990s as a bond trader, everybody talking about—this would have been between '92 and '96—that the QPP or the CPP was underfunded and would be bankrupt in the future and we would not get our amounts. In fact, it was quite common for people to say, "Geez, you better make sure you do your RSP savings because don't rely on the government. Don't rely on the pensions." Now things have changed and major reforms came in to push up the sustainability of the plan. Can you talk about those reforms and when they occurred?

Edmond: Sure. So there were two big reforms that occurred. The first one was in 1996 that came in because of changing demographics. People were living longer, benefits were improving, and also the use of disability benefits was increasing. So people going on disability were also claiming more benefits, and that was putting a major drain on the system. So the government proposed to make changes both at the federal and provincial levels in 1997 to help reduce that pressure on the system and continue providing benefits in the future for future retirees. So what they did was increase contribution rates, which at the time were around 6%, up to 9.9% by 2003. So there was a push to increase contributions on a yearly basis from what it was in 1996, which was 6%, and then they let it go up to 9.9% by 2003.

Keith: All right. So hang on a sec. When you say 6%, that's 6% total?

Edmond: That's correct, total.

Keith: So 3% from the employee and 3% from the employer.

Edmond: Perfect. So what essentially you were talking about a little bit earlier is the employee puts in 5% to 6% today and the employer puts in 5% to 6%, which is about 10-11%. Way back in the 1990s, the contributions were essentially half that amount. So in order to make sure that this program was sustainable, they've essentially doubled the contributions.

Edmond: And they did that on a gradual basis. They obviously didn't want to shock every individual by doubling it up or making large leaps, so they increased it by 0.4% per year.

Keith: And that's why essentially today most people say that this is a fairly secure program and that they can count on that money coming in whenever they choose to, whether they choose to do it on an early basis or defer it. I recall when I first started working and seeing the tax returns, I recall seeing these numbers showing up in tax returns, and it really hit me that they're real numbers that individuals are receiving because I always used to think it wasn't going to happen. And they're real numbers, and you see them in tax returns. So if you do max out or get close to it and you've got a couple, there's a lot of different combinations of revenue streams coming in to support retirement. If each has a CPP and each has an OAS, that's four pensions between a couple that will come in. Okay. So let's handle reform number two a little bit later. Let's get into the technicalities about CPP. How do you actually apply? I guess first you have to make a decision as to do you take it early, do you take it at 65, or do you defer? But let's hold on to that for a second. How do you actually apply? Do you need to do something? Do you need to fill out forms or how does that work?

Edmond: Yeah, absolutely. You have to apply for it, and you can either do it online or download an application, a paper application, and mail it in. So the majority of people are given different options to do it, and the easiest way is to do it online.

Keith: Thank you, Edmund. Let's review probably the biggest question that we get as financial advisors and I'm sure the listeners want to know, which is: Do I take my CPP or QPP early? And by early, I mean at 60 because a person's allowed to take it as early as 60, or do I defer it not just to 65, but do I defer it from 65 to potentially 70? Can you walk us through the implications of these decisions?

Edmond: Absolutely. When it comes to pensions from QPP, like you said, Keith, you have a normal retirement age, which is 65, but everybody has the ability to apply for this as of age 60 if they've stopped working. But taking it five years earlier or four or three, there's a reduction that's calculated on the amount that you would have received if you waited to 65. That reduction on an annual basis is 7.2%. But if you wait and delay receiving it to age 70, you're given an enhancement of 8.4% per year for waiting to receive QPP or CPP. So if you look at the amounts, if you start at 60, you get a reduction of 36%. And then if you wait till 70, the maximum that you can get is another 42% over what you would have received if you got it at age 65. And that assumes that you've contributed the maximum and you've worked the maximum amount of years to receive these benefits.

Keith: Okay. And that makes sense from a math perspective. If you're going to take it early, theoretically, you're taking five more years of payments, so the government should pay you less. And if you defer it, you are taking less years theoretically at the beginning, so you should get more. So those are pretty big numbers on both sides.

Edmond: They are. And there's a different decision-making process to decide: Do I take it earlier? What are the advantages of taking it earlier? What are the disadvantages of taking it earlier or later? One of the things that I want to know is are the individuals in good health or not? Because if they are not, then it may be better to take it earlier and have at least a benefit from these QPP benefits or CPP benefits. But if they're in good health, if they're still working or if they have enough assets, then receiving the benefits at age 70 can give them a higher level of income for the rest of their lives, and that could be substantial.

Keith: And I guess it's a very unique—everybody has to review their circumstances in great detail and almost they need to reflect. They need to talk to advisors. They need to maybe talk to people they trust and try to get a sense as to what they should do.

Edmond: It's not an easy answer and it's not a one-answer-for-every-situation. Like you said, it's everybody who I meet, who I do planning for, who I do projections for, we get onto the subject. There's a list of questions that I go through with them to see if it makes sense to—but in reality, those decisions are done automatically later in life when you're getting close to applying for QPP/CPP at that time because you want to know what the situation of the individual is at that moment before making those decisions.

Keith: Yeah, fair enough. And I would assume that if you feel that your health is not great, you might take it earlier. And if you don't have the financial means and you actually need the money, then you're probably forced to take it when you need to take it. And contrarily, if you feel like your health is in great condition and you want to make sure you protect yourself against longevity or you have the financial resources that you can get capital from other spots, whether it's an investment portfolio or maybe even potential earnings, then you might delay it.

Edmond: Exactly.

Keith: Is that a fair assessment as to the trade-offs?

Edmond: Yeah, it's exactly that. And everybody's situation is different, so we want to review all of those things to give the client the best advice possible.

Keith: I think statistically, you look through the numbers and like I just look at the numbers of—if you're healthy at 65 as a male, you have a life expectancy of 86, and if you're healthy at 65 as a woman, you have a life expectancy of almost 89. Now those are past the break-even numbers that we often discuss, which would make sense to defer. Why is it that most Canadians aren't deferring? Because the actuarial studies that I've seen talk about really very small groups of individuals that are actually making that deferral decision. Why do you think more Canadians aren't deferring?

Edmond: Sometimes it's just a lack of understanding and seeing what the opportunity is in front of them to delay taking these benefits. So I think that's what it comes down to in my mind.

Keith: Okay, that's excellent. And I know the Actuarial Society speaks about things like by deferring, if you can, you actually get three levels of protection. The first level of protection is you get a guaranteed return, and that's hard to do in an investment portfolio. So you protect yourself against that. You actually protect yourself against inflation because if I'm not mistaken, if you delay and you get that extra 42%, then that portion is protected against inflation as well.

Edmond: Yes, because every year the amounts are inflated. So if you wait to apply for it, you're going to be receiving an enhanced benefit based on an index benefit at that point. So it's not on the number that you would have seen back at age 65. It's actually on what it's paying at age 70 that your benefits are going to be based on. It's quite a bit of a bump up for you just by waiting.

Keith: It's an incredible protection against inflation. And so we went for maybe 20-25 years with people not being that concerned about inflation. I can tell you in the last 12 months and with everything going on, there's a lot of concern about inflation. So this is a second layer of protection that the Actuarial Society speaks to and that you've just confirmed. And I guess the last one would be those people that defer protect against what we call longevity risk. The reality of what happens if you do live to 94, and that's a risk. At what risk? It's a beautiful thing, but at the same time, you need to have the financial resources to cover yourself.

Edmond: Yeah, exactly. Some people may have gone through all of their other assets, and this is a stream of income that they can bet on for the rest of their lives, even if they outlive the rest of their assets.

Keith: Okay, that's wonderful, Edmund. Thank you so much for that section. I think we've covered off the do you take it early, do you defer? The next major issue that we hear individuals asking questions on is survivor benefits. How do the calculations work if one person predeceases their partner but has earned the ability to have a CPP or QPP pension? How does it work?

Edmond: So depending on the age of the surviving spouse, there are certain payments that are going to be made to the surviving spouse based on what her deceased spouse was doing while he was contributing to the plan. So they'll get a benefit until they reach their own retirement age. And then at that point, they are also entitled to their own benefits. But the way the program is that people misunderstand is they don't get a survivor benefit plus their own benefit on top of it. So it's not a one plus one equals two type of thing. There's a formula—it's complicated and depends on everybody's situation—but there's a formula that will provide a pension before retirement age. And then after that, it's adjusted to take into account both your CPP benefit and the survivor benefit. And in the end, you cannot get more than what you would have been entitled to if you were at the maximum CPP amount.

Keith: Ah, I see. Okay. So it's two forks in the road. One depends on when you pass away. And the second one depends on what the surviving spouse is actually receiving already. Okay, so that's something that obviously we can't get too detailed in today's show because it's completely reliant on a person's unique situation. Suffice it to say that an individual should be looking in and understanding and speaking to individuals about that.

Edmond: Yeah. And here again, between the two plans of CPP and QPP, there's certain differences for survivor benefits. So it's not the exact same formula or qualification for both plans. And you should find out what it means to you if you're a surviving spouse in Quebec versus a surviving spouse in Ontario, for example.

Keith: Okay. Okay. Excellent. What about disability and orphan payments? How does that work? And I know that's a big topic. So roughly speaking, how does that work?

Edmond: Disability and orphan benefits in every plan that's relying on QPP benefits, it's based on the contributory—the person having contributed into the plan. So when it comes to disability, you get a flat amount or fixed amount of $524 plus a variable amount that together will give you a maximum benefit of $1,464 per month. Now, you'll get that if you've contributed yourself into the QPP or CPP for the maximum years before you became disabled. And so it's a combination. So some people may get more, some people may get less, depending on how much they've contributed before they became disabled. Once they go into retirement, they switch automatically into the retirement benefit and continue to get that for the rest of their lives. There's some calculations on what they're entitled to in retirement based on what they received in disability.

Keith: Okay, fair enough. And what about individuals who lose a parent? If you're 60 years old, I guess you could have a 30-year-old child or 35-year-old child. Does the 35-year-old receive any benefit if they lose a parent who's 60 or 65 who's been contributing their whole life into this plan?

Edmond: Unfortunately not. You would only be entitled to a benefit if you were under 18. So when we talk about the orphan benefit, it's for children who lost a parent while they were under 18 that the child would be entitled to a benefit. It's paid directly to the child. It's in the child's hands, but it would only go until age 18 and then it would stop. So anybody above 18 would not be entitled to it.

Keith: So really then you're dealing with probably somebody younger, unfortunately, who passes away. And if they've earned a benefit, a portion of that benefit gets paid to the minor only until the minor is 18.

Edmond: Again, the parent would have had to be eligible for QPP or not receiving QPP, but they contributed to the QPP before they passed away for the child to be also entitled to an orphan benefit. And that amount is a fixed amount for everybody in Canada, including Quebec, of $264 per month, and it's indexed until they're age 18.

Keith: Perfect. All right. Listen, we've covered off a lot of the details on CPP and QPP. One last detail that I'd like to review is the 2016 or 2017 reform. So we've covered off everything up to now. That new reform is kicking in. What are the enhancements that the new reform provides individuals?

Edmond: So when we were saying earlier that the plan was for CPP to provide a replacement of 25% of yearly maximum pensionable earnings, the government wanted to raise that bar to provide for more income. And through this reform, it was going to provide up to 33% for certain individuals versus 25%. And with a second enhancement, that could actually increase the benefits by up to 50% more. So the reforms that came in 2017 were meant to help increase the amount of retirement income coming out from these contributory plans, but in a more funded approach. So any new contributions going into this first and second enhancements were actually going to a separate account to cover the payments of these new enhancements down the road for individuals.

Keith: So question for you: When was that first payment put in by Canadians?

Edmond: It started in 2019. So the enhancement of the contributions started in 2019 and will continue until 2023. That means that from 2019 to 2023, you started contributing more on this enhancement by putting 0.3% all the way up to 2%, and we're talking about between employee and employer. So by 2023, you're adding an extra 1% into the plan. The employer is also putting another 1%. Now when we talk about the second enhancement, which will begin in 2024 and 2025, there's going to be a second level of contributions, which means you're going to be putting in another 4% into the plan. Your employer is going to put another 4%, but only if your pensionable earnings are within a certain band. The band right now would be $69,700 up to $79,400. So anybody earning between those two amounts is going to contribute an extra 4%, and that's going to enhance their benefits again. That's when I said you could go from 33% more to 50% more QPP/CPP benefits when you retire.

Keith: Gotcha. This is really something that we're just slowly starting to pay more into right now. And I presume by the fact that it's contributory, the individuals that get the biggest bang here are going to be those—I think you, we discussed this before offline—born in around the year 2000, which meant they've really put their full contributions in their whole lives.

Edmond: These plans, it's a new contributory plan that started recently. So anybody who's born earlier, like you and I, will not have as many years into this new enhanced program. So we will not benefit from this as greatly as somebody born in the year 2000, retiring in, let's say, 2065. They were at the maximum amount. So if you look at the CPP benefits, which would be, let's say, $15,000 today, these enhanced benefits would increase that retirement benefit from $15,000 all the way up to $22,600 and some change. So it's quite a significant increase and it's like a forced savings program. They're forcing you to contribute because it's not optional. But in the end, if you don't have the mechanism or the discipline to save on your own, this is...

Keith: I'm a big fan of it. I really am. And we see it, Edmond, you and I see it all the time where individuals unfortunately can't seem to get enough put aside to plan for their retirement. I think this is a wonderful program and it forces individuals and the federal bodies or the provincial bodies in Quebec that actually oversee the assets are doing a pretty good job managing money. They do it in an incredibly efficient way. And so this forced savings will allow the next generation behind us a little bit more security, an extra sort of retirement savings built up. I think it's wonderful. Actually, listen, let's go into the final section of today's episode: Old Age Security, or as a lot of our listeners refer to "my federal pension." We've covered off what it is and then we're going to—can you explain the parameters about the calculation of how many years do you have to live in Canada? How do you make that calculation?

Edmond: So to qualify, first of all, for old age security, you have to be 65 and older. You would have to be a Canadian resident or a legal resident and have resided at least 10 years from the age of 18 onwards. That's if you are a resident in Canada. If you reside outside of Canada, again, you have to be 65 and older. You would have had to have been a Canadian citizen or legal resident when you left Canada and you would have had to reside at least 20 years after the age of 18 to qualify. Now, everybody who has been in Canada since age 18 all the way to age 65 will get a maximum benefit. Because to get the maximum benefit, you would have had to live in Canada for 40 years. If you take an example of someone who qualifies, who let's say left Canada and qualified because they had 20 years, they would essentially get half of the benefit. So 20 divided by 40, they would get 50% of the old age security benefit. And like we said earlier, the maximum that you can get today is $642 per month or $7,700 per year.

Keith: Okay. So there's a couple of different twists about OAS. That's great. Thank you for the sort of the really good understanding of how you qualify and how you make the calculation. Can you get that one early?

Edmond: So unlike CPP, you cannot get it earlier than 65, but you can defer it to as late as age 70. So you can defer it as long as you've reached 65, you can delay it: 66, 67, all the way to age 70. And they've given you a benefit of deferring it just like with CPP. They're giving you a benefit of 7.2% per year to defer it. So it's not as much as CPP, which is 8.4% per year, which is 42% maximum. Here you can get another 36% by deferring it to age 70.

Keith: This is still a pretty big advantage for those who wish to defer. And that is a guaranteed rate. And then on top of that, once you reset your rate, that's inflation adjusted. Yeah, that's a pretty significant benefit. One of the big features of OAS is this concept of income testing and clawback. Can you speak a little bit about that? How does it work? And what are the implications?

Edmond: So old age security, of the two pensions between CPP and OAS, is the only one that is income tested. That means that if you're earning too much, the government will take some of that back. So you may be receiving a benefit, but anybody who's earning over $80,000—and I'm rounding my numbers—will start to repay part of their old age security to the government. And the repayment is calculated as 15% of every dollar you earn over that threshold. And once you reach about $130,000, you basically have to pay back everything to the government. So it's called clawback. This is an annual tested situation. So if, for example, you did qualify for old age security in one year and let's say you sold a rental property and had a big income that year, a big gain because of the sale of a property, and it puts you over $130,000, you might have to pay back the old age security that you received in that year. And it will also apply to your coming benefits until you do your tax return and see that things have normalized again. And then old age security will be adjusted upwards again. So it's a year-by-year test.

Keith: Okay. That's great. Do you apply for OAS? How does the application process work?

Edmond: So it's the same thing. You have to apply for it, but in this case, the government will send you a letter in most cases when you believe you should start receiving it one month after you turn 64 saying, "You are approaching 65, normal age of receiving old age security benefits. Please complete this application and let us know when you want to start receiving these benefits." Because at that point, you could decide, "Do I take my benefit right away at 65 or defer it?" So based on your situation, you might decide to defer it, but you do have to apply for it. It is something that you could either do online or, again, by sending an application form to the government.

Keith: Okay. Okay. And what would you do? What would you suggest to an individual who knows that their annual income will exceed that amount and it'll exceed that amount really from the get-go and they have very strong earnings? Would you still encourage them to apply or do they not apply? What would you recommend?

Edmond: So we're talking about a situation where an individual who's 65, going forward all the way past 70, knows that his income will be over the maximum threshold of over $130,000. I would definitely say you should apply. I would tell him to defer to age 70. So if they don't get their benefits, they don't get the benefits. But if they apply and they say, "I want to start receiving my benefits as of age 70," they will be in the system. The government will know that they are entitled to it, they have applied for it, and if their situation changes or the rules change about the old age security clawback, they may be entitled to something. They may do some tax planning where they reduce the amount of income they're getting from certain sources. They control the flow of their income using corporations, holding companies, etc. There might be ways of minimizing their income. They might be receiving capital gain income that's taxed lower. So there's different strategies that might help lower their income, and they might in the future benefit from it. So I would definitely apply for it. There may be an opportunity down the road that they'll receive it.

Keith: Thank you, Edmond. And your comments on this really show me anyway, and I'm sure the listeners, just how challenging it is to review everything and make sure you're on top of all these moving parts. CPP, QPP, OAS is a very personalized situation, and everybody has unique circumstances. So, Edmond, thank you so much. We're going to start wrapping the show up right now. As we always ask our guests and our colleagues at the end, we ask them for a takeaway. What would be your main takeaway for the listeners here in today's show?

Edmond: As we've said all through this podcast, this is very personal to you. It's based on your situation. It's not a one-fits-all type of situation. So you want to study your situation, seek advice from a professional, and make the right decisions. That's my takeaway from this.

Keith: Listen, Edmond, thank you so much for being on today's show. We covered off a tremendous amount of details. I think this will be one of the evergreen shows we're able to refer back to clients. We'll refer back to our audience, our listeners, anybody who's on the show. So again, on behalf of everybody, thank you so much for all of your wonderful contributions today.

Edmond: My pleasure. Thank you for having me.

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