

RETIREMENT IN CANADA

When you can stop working, how much you'll need, and how **CPP, OAS, RRSPs and TFSAs** fit together.

2 START HERE

WHEN CAN YOU RETIRE?

There's no official retirement age in Canada. You can stop working whenever the money can carry you, and the pension rules give you a window from about 60 to 70 to work with.



THREE NUMBERS DECIDE IT

1. **What you'll spend each year.** Not what you earn today. Most people spend less once the mortgage is gone, the kids have left and nobody is commuting or saving for retirement any more.
2. **What the government will pay you.** The Canada Pension Plan and Old Age Security together pay about **$19,450 a year** to someone with an average CPP at 65. A couple gets about double.
3. **How long it has to last.** A woman who is 65 today has a one-in-four chance of reaching **96**. Retire at 62 and your savings may need to cover more than 30 years.

TURN THEM INTO A TARGET

An example

SPENDING TARGET · $45,000 A YEAR



saved by 65 × 25 = **$638,750**

Say you want to spend **$45,000 a year** before tax from 65. CPP and OAS pay about $19,450 of it, which leaves a gap of **$25,550** to cover from savings. Multiply the gap by 25 and you get **$638,750**: roughly what you'd need saved by 65 for it to last 30 years. Page 12 explains the 25, and when to use a bigger number.

A workplace pension shrinks the gap before you multiply, which is why people with a good pension can stop years earlier.

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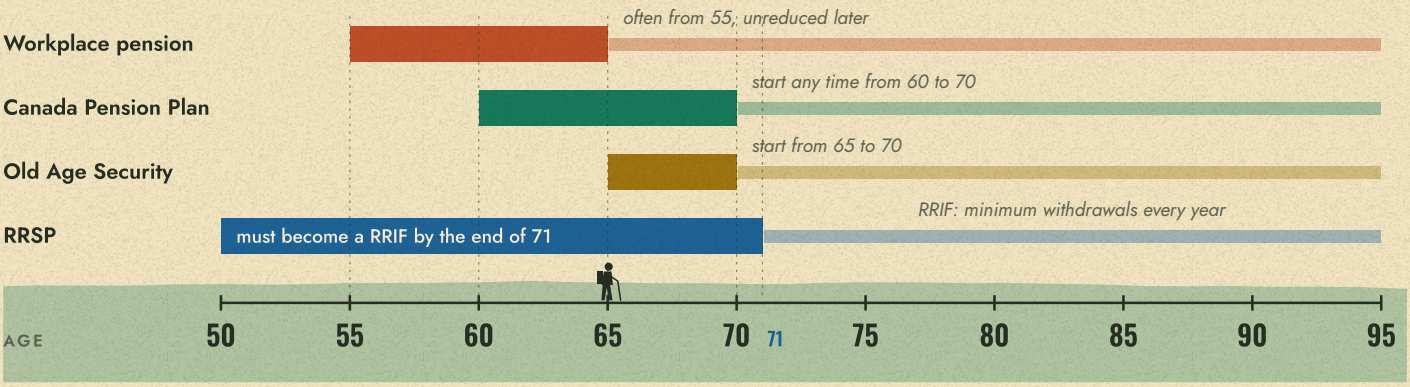
THE AGES THAT MATTER

Each one opens or closes something



Sources: ESDC (average CPP at 65; OAS) · FP Canada and IFP, Projection Assumption Guidelines · Canooq calculation, example only

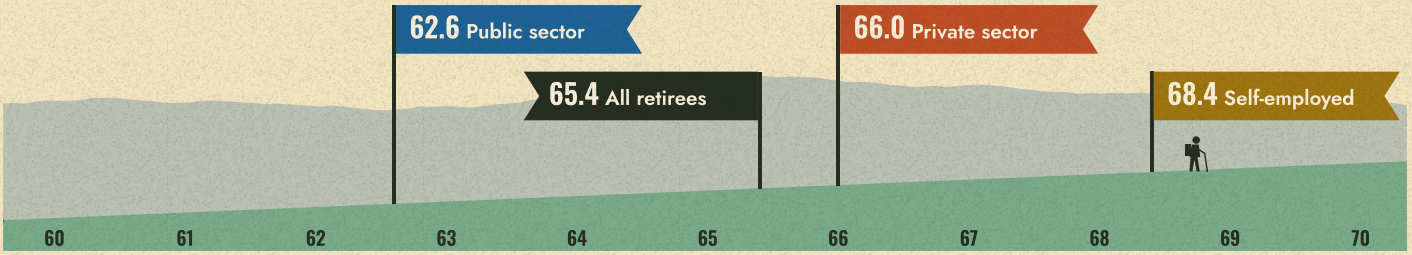
HOW LONG THE MONEY HAS TO LAST

Canadians retire at 65.4 on average. Someone retiring at that age today should plan for close to 30 years of spending, since many people live well into their 90s.



WHEN CANADIANS ACTUALLY STOP WORKING

Average retirement age

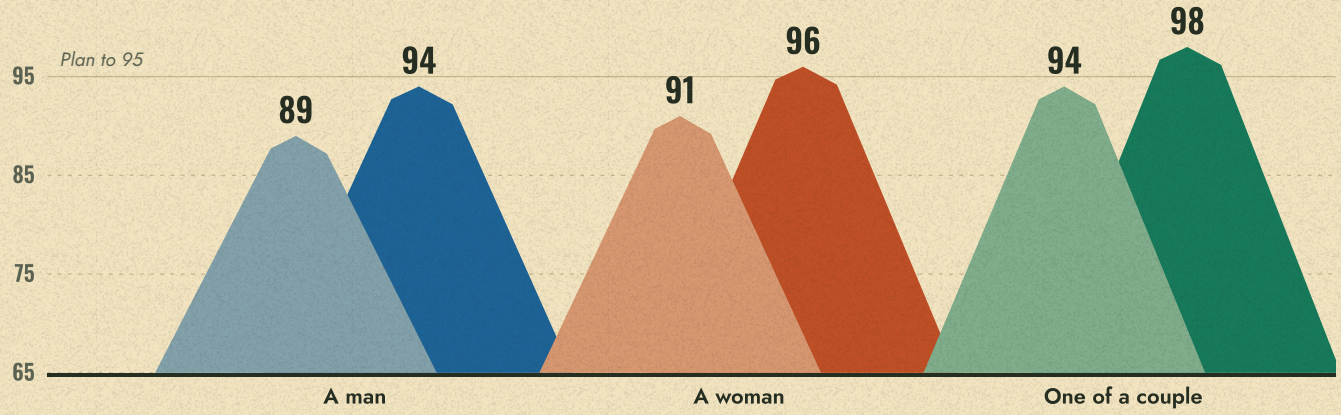


Public-sector workers stop earliest, at **62.6** on average. Many of them have a defined benefit pension that pays a set income for life (page 8), which makes the arithmetic of stopping much easier.

The self-employed work longest, to **68.4**. They have no employer pension and pay both halves of CPP, so everything beyond the government layers is theirs to build.

PLAN FOR THE LONG VERSION

Age reached, from 65: pale peak 50% chance, dark peak 25%



Life expectancy at 65 is **84.6** for men and **87.2** for women. Those are averages, so roughly half of people live longer. Financial planners use FP Canada's survival tables instead: a 65-year-old man has a 25% chance of reaching **94**, a woman **96**, and in a couple there's a 25% chance at least one of you reaches **98**.

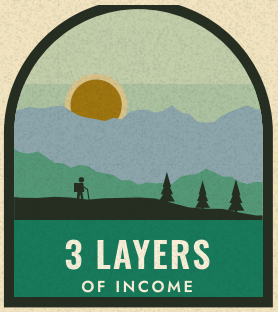
Running out of money at 88 is a far worse outcome than dying with some left, so it's safer to plan to about **95**. Retire at 65 and that's 30 years. Retire at 55 and it's 40.

What one more year of work buys you

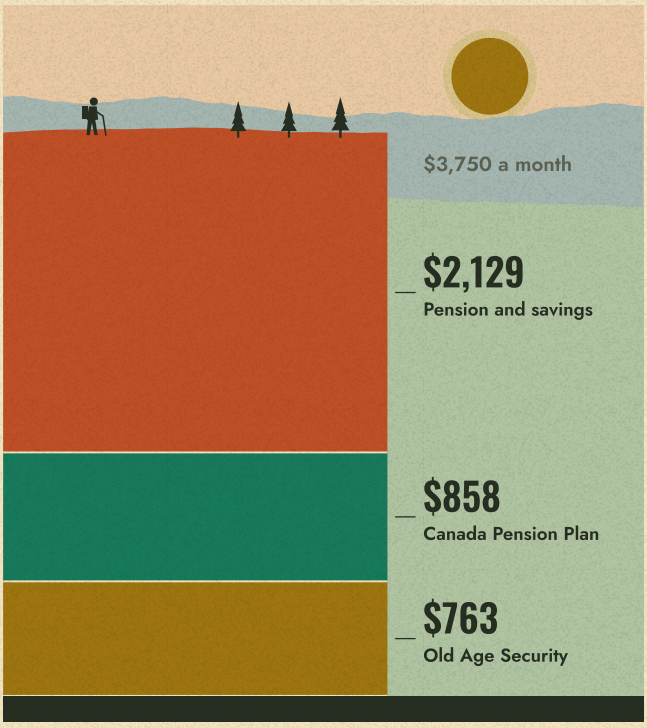
You save for one more year, you have one less year to pay for, and your pensions grow if you wait to start them. Delaying CPP from 65 to 66 raises the average pension from **$858** to **$930** a month; delaying OAS by the same year raises it from **$762.50** to **$817**. Both increases last for life and rise with inflation.

Sources: Statistics Canada, Table 14-10-0060-01 (retirement age) and The Daily (life expectancy at 65) · FP Canada and Institute of Financial Planning, Projection Assumption Guidelines (probability of survival) · ESDC (CPP and OAS deferral)

THREE LAYERS OF RETIREMENT INCOME



Canada's retirement system is built in layers. The government pays a floor, your working years add a pension on top, and your own savings decide how comfortable the rest is.



Example: a single retiree at 65 spending $45,000 a year before tax ($3,750 a month), with the average CPP and full OAS. Each layer's height is its share of the month.

Layer 1: Old Age Security and the GIS

Paid by the federal government out of general taxes. It depends on **how long you've lived in Canada** after 18, not on whether you worked. Full OAS is **$762.50 a month** from 65 to 74. If your income is low, the Guaranteed Income Supplement adds up to **$1,138.90** more, tax-free.

Layer 2: the Canada Pension Plan

Paid for by contributions taken off every paycheque, matched by your employer. It depends on **how much you earned and for how many years**. The most anyone can get at 65 is **$1,507.65 a month**; the average new pension is **$858.34**. Quebec has its own version, the QPP.

Layer 3: workplace pensions and your savings

Everything you or your employer put aside, such as a pension plan at work, a group RRSP, and your own RRSP, TFSA and other investments. There's **no ceiling** on this layer, and it's usually the layer that decides when you can stop.

HOW EACH LAYER REACHES YOU

LAYER	WHAT DECIDES THE AMOUNT	DO YOU HAVE TO APPLY?	TAXED?
Old Age Security	Years in Canada after 18, and your income	Often automatic: Service Canada writes after you turn 64. No letter? Apply.	Yes, and clawed back above $93,454 of income
Guaranteed Income Supplement	Last year's income (yours and your spouse's)	Usually automatic once you're on OAS and filing taxes	No
Canada Pension Plan	Earnings and years of contributions, and the age you start	Yes, up to 12 months before you want it to start	Yes
Workplace pension	Your plan's formula, or what's in your account	Yes, through the plan administrator	Yes
RRSP and RRIF	What you saved and how it grew	You decide when to withdraw, until 71	Yes, as income when it comes out
TFSA	What you saved and how it grew	Withdraw any time	No, and it doesn't count as income

The first two layers were never meant to cover everything. Once fully phased in, CPP replaces about **one third** of your average earnings up to the yearly limit ($74,600), and OAS is a flat amount. Someone who earned $70,000 and wants to keep living roughly the same way will need the third layer to do most of the work.

Sources: ESDC (OAS and GIS amounts; CPP maximum and average at 65; CPP enhancement) · FCAC (employer pension plans) · Canooq example

HOW CPP IS BUILT FROM YOUR PAY

Every paycheque sends 5.95% of your pay to the Canada Pension Plan, and your employer puts in the same again. What comes back in retirement depends on how much you earned, and for how many years.



WHAT GOES IN

Employee share; your employer matches it



The first **$3,500** you earn each year is exempt. Between $3,500 and **$74,600** you pay **5.95%**, up to $4,230.45 a year.

There's also a second tier, CPP2: **4%** on earnings from $74,600 to **$85,000**, up to $416. Above $85,000 nothing more comes off.

If you're self-employed you pay **both halves**: 11.9% and 8%. It's a big bill, but it buys the same pension an employee gets.

WHAT COMES BACK

CPP is being enhanced. The original plan replaced a quarter of your average earnings up to the yearly limit; contributions made since 2019 build toward **one third**, including on earnings in the CPP2 band. Today's retirees only get a slice of that, because they spent most of their careers before 2019. Someone starting work now will get the whole thing.

The maximum at 65 is **$1,507.65 a month**, but the average new pension is **$858.34**. To get the maximum you'd need to have earned at least the yearly limit for nearly your whole career. Years with low or no earnings pull the average down, although the calculation drops up to **eight of your lowest-earning years**, and time spent at home raising young children can be left out too.

EXAMPLE · A $60,000 SALARY

You pay (60,000 – 3,500) × 5.95% = **$3,361.75**, and your employer pays the same. That's **$6,723.50** going into CPP for you every year.

The pension it builds is indexed to inflation and lasts as long as you do, which is something no savings account can promise.

Look up your own number

Sign in to **My Service Canada Account**. Your statement of contributions shows every year you've paid in, and the estimate tells you what you'd get at 60, 65 and 70. It takes ten minutes and replaces every guess on this page.

In Quebec it's the QPP

Workers in Quebec pay into the Quebec Pension Plan, run by **Retraite Québec**. It works much the same way, except that you can wait until **72**, for a pension **58.8%** higher than at 65.

Sources: CRA (CPP contribution rates, maximums and exemptions) · ESDC (CPP amount, CPP enhancement) · Retraite Québec (QPP)

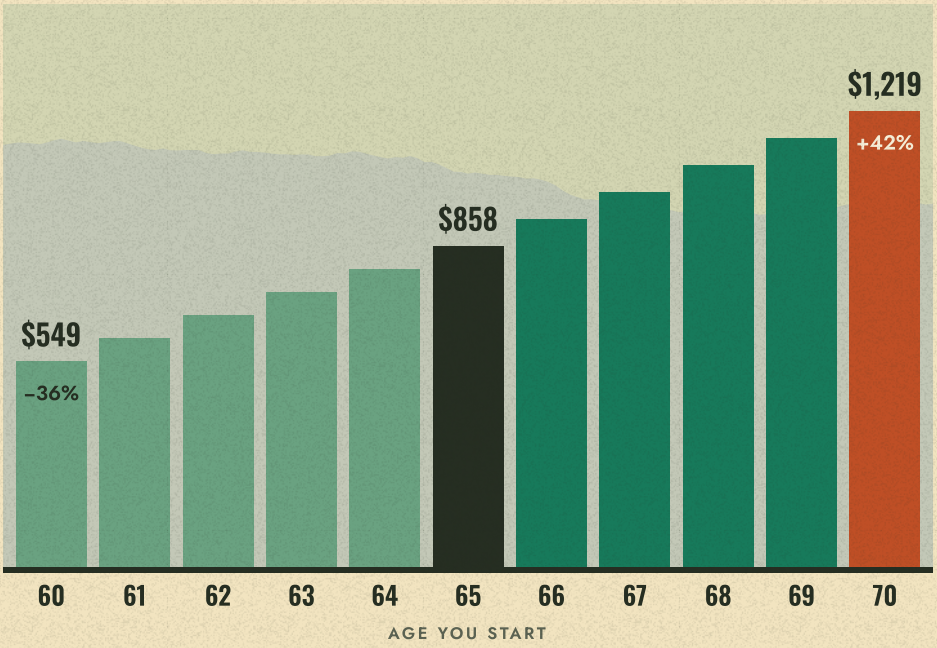
CPP AT 60, 65 OR 70?

You choose when your CPP starts, any time from 60 to 70, and the choice is permanent. Every month you wait raises every payment for the rest of your life.



WHAT THE AVERAGE PENSION BECOMES AT EACH AGE

Monthly



Start before 65 and the pension shrinks by **0.6% a month**: **36% less** at 60. Wait past 65 and it grows by **0.7% a month**: **42% more** at 70. There's nothing to gain by waiting past 70.

On the average pension, that's **$549** at 60, **$858** at 65 and **$1,219** at 70. The maximum goes from $965 to $2,141.

WHEN WAITING PAYS OFF

Start at 70 instead of 65 and you give up five years of payments, about $51,500 on the average pension. The bigger cheque wins that back by around **age 82**. Average life expectancy at 65 is 84.6 for men and 87.2 for women, so for a healthy person, waiting usually comes out ahead.

Waiting is also insurance. CPP rises with inflation every year and never runs out, so a bigger CPP protects you against living to 95 with your savings gone.

WHO SHOULD START WHEN

Start at 60	You've stopped working, need the income and have little else, or your health makes a long retirement unlikely.
Start at 65	You want to keep it simple and other savings are modest.
Wait to 70	You're healthy, and you have RRSP or other savings to live on in the meantime. Spending those first and starting CPP late buys you more guaranteed income for life.

Working while you collect

If you take CPP before 70 and keep working, you keep contributing (it's optional from 65), and each year of contributions adds a **post-retirement benefit** on top of your pension, paid automatically the following year.

How to apply

CPP doesn't start on its own. Apply online through My Service Canada Account, up to **12 months** before the month you want it to begin. If your spouse or partner dies, CPP may also pay you a survivor's pension.

Sources: ESDC (CPP amount; when to start; post-retirement benefit; how to apply) · Statistics Canada (life expectancy at 65) · Canooq calculations

OAS AND THE GIS

Old Age Security doesn't depend on your work history. It goes to almost everyone 65 or older who has lived in Canada long enough, and the Guaranteed Income Supplement tops up those with little else.



HOW MUCH

Full OAS pays **$762.50 a month** from 65 to 74, and **$838.75** from 75. It is adjusted for inflation four times a year.

You can delay it up to 70 for **0.6% more** per month of waiting: **36% more** at 70, or about **$1,037** at today's rate. Unlike CPP, it can't start before 65.

Service Canada writes to many people the month after they turn 64 to say they'll be enrolled automatically. If no letter comes, apply.

EACH YEAR HERE EARNS A FORTIETH



10 years: you qualify, $190.63 **25 years: $476.56** **40 years: full $762.50**

You need **10 years** in Canada after 18 to get any OAS, and **40** for the full pension. In between you get a share: 25 years earns 25/40ths, about **$477** a month. Years in a country Canada has a social security agreement with can help you qualify. To keep receiving OAS while living abroad you need **20 years** here.

THE CLAWBACK

OAS for a 65-to-74-year-old, by net income



Above **$93,454** of net income, you repay **15 cents** of OAS for every extra dollar, through a "recovery tax". By **$152,062** it's all gone. Both lines rise with inflation each year.

It's charged per person, so a couple with $90,000 each keeps both pensions, while a single retiree with $180,000 gets none. Page 16 has ways to stay under the line.

THE GUARANTEED INCOME SUPPLEMENT

If you get OAS and your income is low, the GIS adds up to **$1,138.90 a month** for a single person with income under $23,112. Together with OAS that's **$1,901.40 a month**, tax-free on the GIS part. It's worked out from last year's tax return, so file one every year, even with no income.

CPP, workplace pensions and RRSP or RRIF withdrawals all count as income and shrink the GIS. **TFSA withdrawals don't.** If you expect to qualify for the GIS, save in a TFSA rather than an RRSP.

Between 60 and 64

If your spouse or partner gets the GIS and you're 60 to 64, the **Allowance** can pay you up to $1,448.06 a month. Widowed at that age, the Allowance for the Survivor pays up to $1,726.18.

Sources: ESDC (OAS payment amounts; OAS eligibility; OAS recovery tax) · CRA (TFSA and income-tested benefits)

PENSIONS FROM WORK

If your employer offers a pension plan, it's probably the most valuable thing in your pay package after the salary. The type of plan decides whether your employer or you carry the investment risk.



KINDS OF WORKPLACE PLAN

PLAN	WHAT YOU GET	WHO CARRIES THE RISK	GOOD TO KNOW
Defined benefit (DB)	A set income for life, worked out from your salary and years of service	Your employer: it must pay the promised pension whatever markets do	Common in the public sector. The most valuable kind of plan
Defined contribution (DC)	An account you and your employer pay into. Your pension is whatever it grows to	You	You usually choose the investments, so check the fees
Group RRSP	An RRSP run through work, paid straight from your pay. Often matched	You	Less tax comes off each paycheque, so you get the RRSP saving right away
Deferred profit sharing plan (DPSP)	Your employer pays in a share of profits, often alongside a group RRSP	You	Only the employer can contribute

EXAMPLE · THE EMPLOYER MATCH

You earn $60,000 and your employer matches up to **4%**. Put in $2,400 a year and they add **$2,400**. Skip it and you've turned down $2,400 of pay. Invested at 3% a year after inflation, 30 years of that match alone grows to about **$114,000**.

EXAMPLE · A DEFINED BENEFIT PENSION

A plan that pays **1.5%** of your average salary for each year worked: 30 years at $70,000 gives **$31,500 a year** for life, often with some indexing. Formulas vary, so your annual statement is the place to look.

WHEN YOU LEAVE THE JOB

What happens to a pension you've earned



Pension money is usually **locked in**: it can only be used for retirement income. Move it to a **locked-in retirement account (LIRA)** and it stays invested like an RRSP until you turn it into a **life income fund (LIF)**, which pays out like a RRIF but with a yearly maximum as well as a minimum. Each province sets its own rules for when and how much you can unlock. In Ontario you're also **vested** from your first day: the employer's contributions are yours even if you leave.

Belonging to a workplace plan reduces your RRSP room by your **pension adjustment**, the value of what you earned in the plan that year. It's in box 52 of your T4, and the CRA has already subtracted it from the RRSP limit on your notice of assessment.

Sources: FCAC (employer pension plans) · FSRA (vesting, locking-in, LIRAs and LIFs; Ontario rules shown) · CRA (pension adjustment, RRSP deduction limit) · Canooq examples

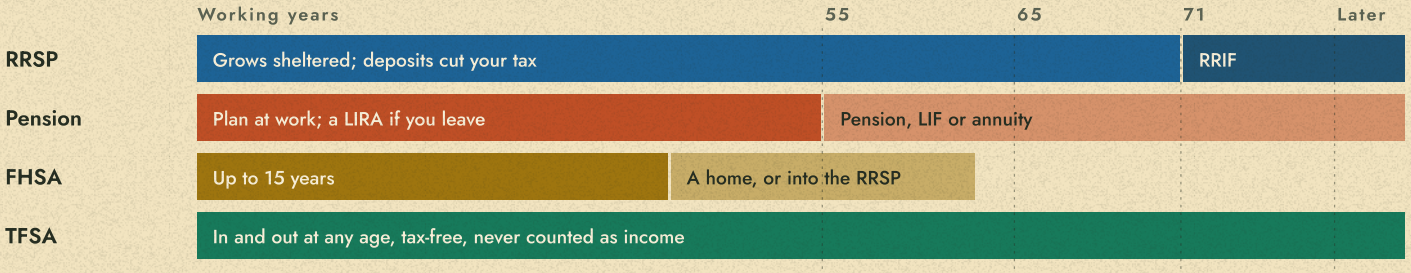
THE ACCOUNTS, SIDE BY SIDE

Canada gives you several tax-sheltered accounts. Inside any of them, investments grow without tax each year. What differs is when you get the tax break, and what happens when the money comes out.



ACCOUNT	GOING IN	COMING OUT	YEARLY LIMIT	WHAT IT'S FOR
RRSP *Registered Retirement Savings Plan*	DEDUCTIBLE	TAXED	18% of last year's earned income, up to **$33,810**	Retirement savings when your tax rate is higher now than it will be later
TFSA *Tax-Free Savings Account*	AFTER TAX	TAX-FREE	**$7,000**, plus unused room since 2009	Anything: retirement, a bridge to 65, an emergency fund
FHSA *First Home Savings Account*	DEDUCTIBLE	TAX-FREE FOR A HOME	**$8,000**, up to $40,000 in all	A first home. Unused, it can move to your RRSP
Spousal RRSP	YOU DEDUCT	TAXED TO PARTNER	Uses your own RRSP room	Evening out two incomes in retirement
Group RRSP, DC plan	DEDUCTIBLE	TAXED	Set by the plan and your room	Workplace saving, often matched
LIRA, then LIF	FROM A PENSION	TAXED	No new money goes in	Pension money from a past job
RRIF *Registered Retirement Income Fund*	FROM AN RRSP	TAXED	A minimum must come out each year	Turning an RRSP into income, by the end of the year you turn 71
Non-registered	AFTER TAX	GAINS TAXED	None	Savings once the sheltered accounts are full

HOW EACH ACCOUNT MOVES THROUGH YOUR LIFE



WORDS YOU'LL SEE ON EVERY STATEMENT

Contribution room. How much you're allowed to put in. The CRA tracks it and shows it in your CRA My Account and on your notice of assessment.

Deduction. An RRSP or FHSA deposit is subtracted from your income before tax is worked out, so you get back the tax you paid on that money, usually as a refund.

Marginal tax rate. The tax on your next dollar of income. Earn $70,000 in Ontario and it's about 30%, so a $1,000 RRSP deposit gets you roughly $300 back.

Holdings. These are accounts, not investments. Inside them you can hold cash, GICs, funds, ETFs or stocks. A TFSA sitting in cash earns very little.

Sources: CRA (RRSP, TFSA, FHSA, RRIF and spousal RRSP pages) · FSRA (LIRA and LIF) · Canooq summary

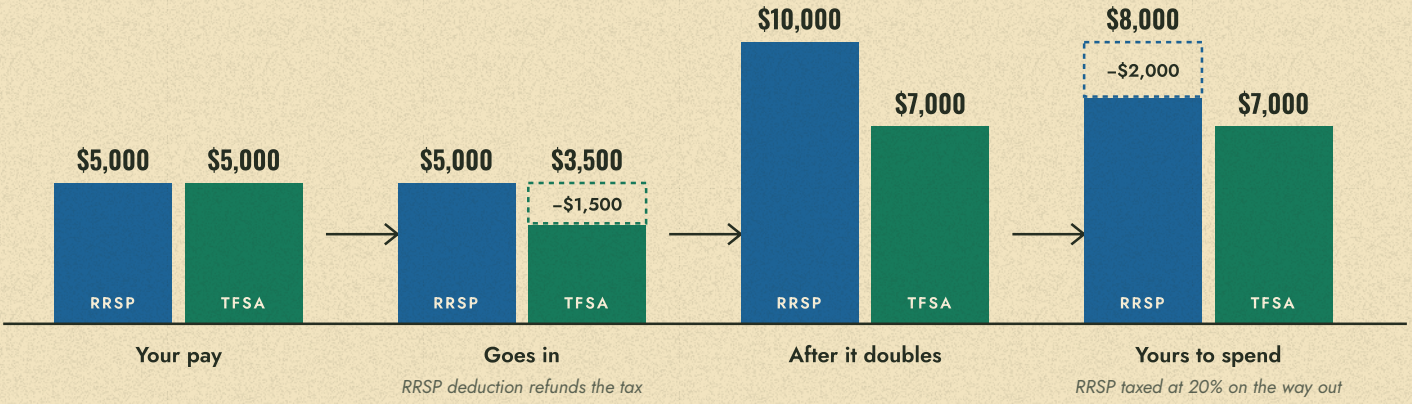
WHICH ACCOUNT TO FILL FIRST

The RRSP gives you the tax break now and taxes you later. The TFSA taxes you now and never again. Which one leaves you with more depends on your tax rate today against your tax rate in retirement.



THE SAME $5,000 OF PAY, TWO WAYS

30% tax rate while working, 20% in retirement, investments double



WHY THE RRSP WINS HERE

With the RRSP, the whole $5,000 goes in, because the deduction gives you back the $1,500 of tax. It doubles to $10,000, and you pay 20% on the way out. With the TFSA, tax takes $1,500 first, so only $3,500 gets invested.

The RRSP comes out $1,000 ahead only because the tax rate dropped from 30% to 20%. With the same rate at both ends, the two accounts finish dead even. And the RRSP only gets there if the **refund is invested** too. Spend it and the advantage disappears.

A SIMPLE RULE

Higher income now than you expect in retirement	RRSP first, and invest the refund
Lower income now: a student, early career, or a year off	TFSA first. Keep the RRSP room for better-paid years
Expect to get the GIS	TFSA. RRSP money would shrink your GIS later
Not sure	Split it, or use the TFSA. It's the more forgiving account

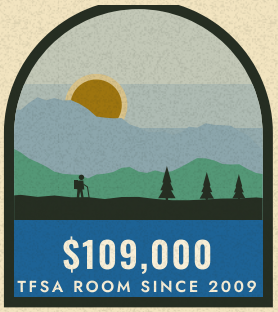
THE ORDER TO SAVE IN

1. **Take the full employer match.** A 50% or 100% match is an instant return no investment can beat.
2. **Clear high-interest debt.** Paying off a card at 20.99% is a guaranteed 20.99% return.
3. **FHSA, if a first home is possible.** It's deductible like an RRSP and tax-free on the way out like a TFSA.
4. **RRSP or TFSA**, using the rule above.
5. **The other one**, once the first is full.
6. **A non-registered account**, once both are full.

Sources: CRA (RRSP deductions and withdrawals; TFSA; FHSA; income-tested benefits) · Canooq example with round tax rates, for illustration

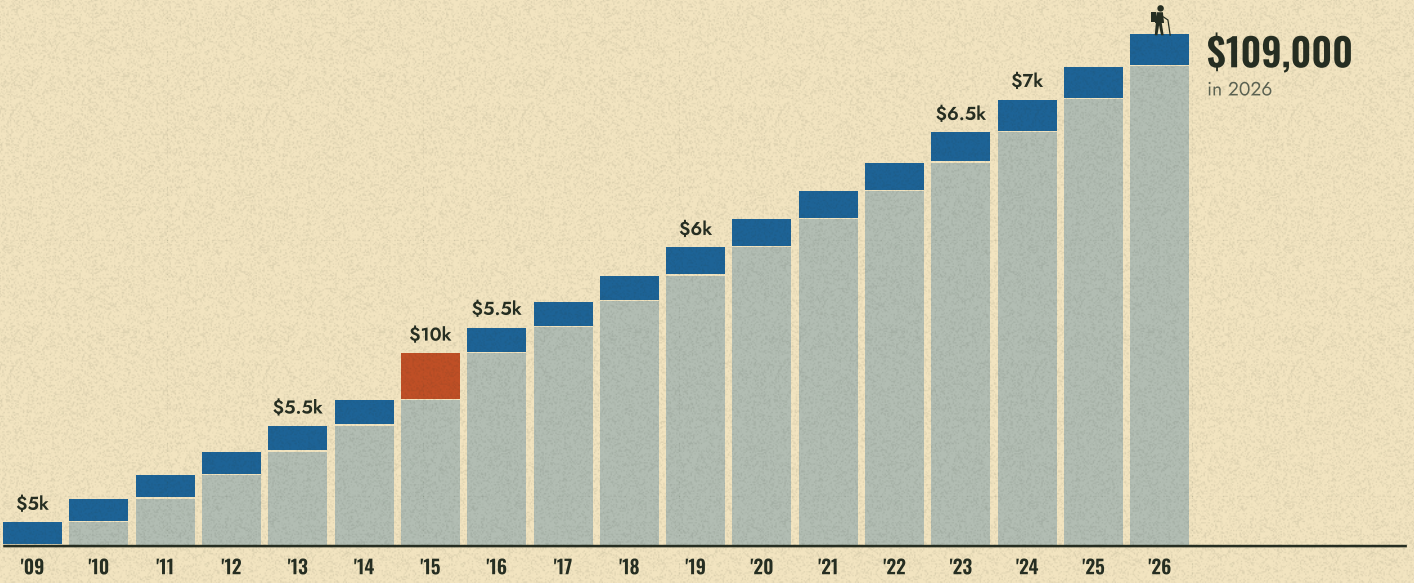
LIMITS, DEADLINES AND TRAPS

Each account has its own limit and its own way of giving room back. Mix up their rules and the CRA charges penalties.



TFSA ROOM HAS BEEN PILING UP SINCE 2009

Yearly limit, and the running total



Room each year (dark) on top of everything before it (pale). 2015 was the one $10,000 year.

TFSA

- Room builds every year from the year you turn **18** and live in Canada, even if you never open an account. Someone who was 18 or older in 2009 has **$109,000** of room in 2026.
- Withdraw any time. The amount comes back as new room on **January 1** of the next year, not straight away.
- Put back what you took out in the same year, without spare room, and you've over-contributed, so the CRA charges **1% a month** on the excess.

RRSP

- Room is **18%** of last year's earned income, up to **$33,810** for 2026, minus any pension adjustment, plus room you didn't use.
- Deposits in the first 60 days of a year can count for the year before, so the deadline is around **March 1**.
- Money you take out never gives the room back. Go more than **$2,000** over your limit and you pay 1% a month on the excess.

HOME BUYERS' PLAN

First-time buyers can take up to **$60,000** out of an RRSP tax-free for a home, then pay it back over **15 years**. A missed repayment is added to your income.

SPOUSAL RRSP

You contribute and deduct; your partner owns it and is taxed on withdrawals. If they withdraw in a year you contributed, or in the **two years after**, it's taxed back to you.

FHSA

$8,000 a year, **$40,000** in all. Room only starts once you open one. No home after all? Move it into your RRSP without using any RRSP room.

Sources: CRA (MP, DB, RRSP, DPSP, TFSA limits and YMPE; RRSP deduction limit; excess contributions; spousal RRSP withdrawals; Home Buyers' Plan; TFSA contribution room and withdrawals; FHSA)

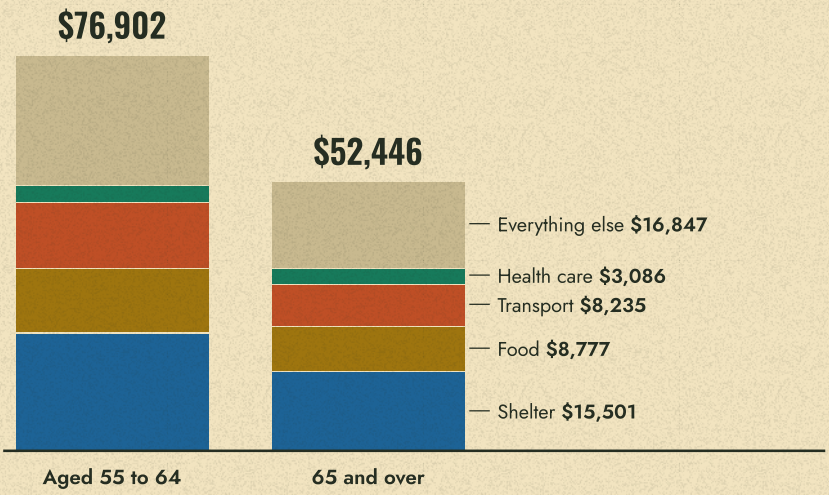
HOW MUCH DO YOU NEED?

Your target starts with what you'll spend each year. Retired households spend a lot less than working ones, and CPP and OAS pay for part of it.



WHAT HOUSEHOLDS SPEND IN A YEAR

Day-to-day spending by age of the main earner



Households led by someone 65 or older spent **$52,446** a year on day-to-day living, about a third less than households aged 55 to 64. Part of the gap is smaller households. The rest shows up in the costs that shrink once work and the mortgage end: shelter falls from $23,014 to $15,501, and transport from $12,863 to $8,235.

Health care is the one line that barely moves: $3,327 against $3,086.

The old rule of thumb, **70% of your pre-retirement income**, is a reasonable first guess. Your own budget is a better one.

FROM A SPENDING TARGET TO A SAVINGS TARGET

Example: one person, retiring at 65



Average CPP and full OAS at 65 cover $19,450. Savings cover the rest.

WHY MULTIPLY BY 25

In 1994 a financial planner named William Bengen tested every 30-year stretch of US market history. He found that a retiree with half stocks and half bonds who withdrew **4%** of their savings in the first year, then raised the amount with inflation, never ran out within 30 years. Taking 4% means having 25 times what you take out.

For a retirement that starts before 60, plan on **3.5%** instead, which means multiplying by about 29. That's the version FIRE readers will want (page 14).

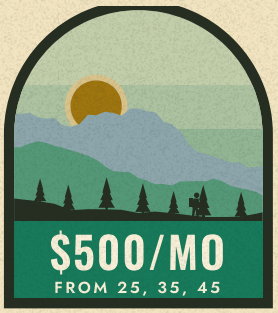
Couples

Two people on average CPP and full OAS receive about **$3,242 a month**, or $38,900 a year. Do the sum for the household, but remember that the government layers stop with each person: when one partner dies, one OAS stops.

Sources: Statistics Canada, Table 11-10-0227-01 (household spending by age of reference person) · ESDC (CPP and OAS amounts) · Bengen (1994), Journal of Financial Planning · Canooq calculations

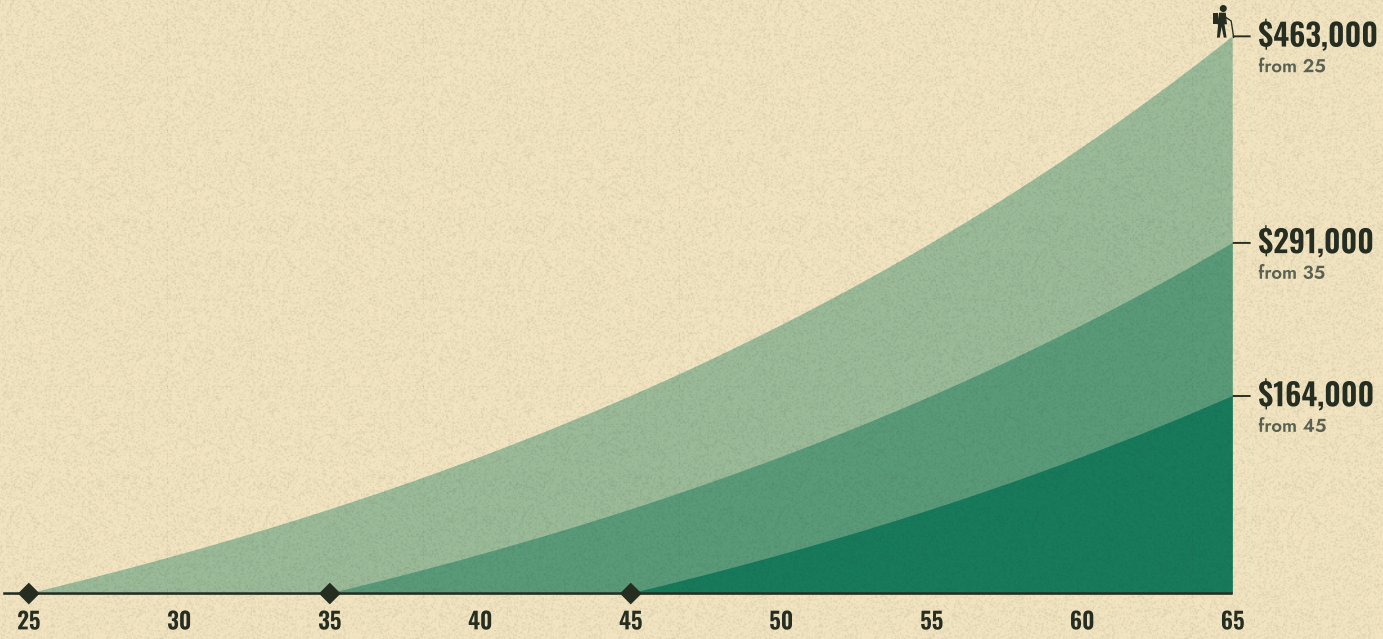
START EARLY AND LET TIME WORK

Money invested at 25 has 40 years to grow before 65. The same $500 a month started at 45 ends up at about a third of the total, because it misses the decades when growth does most of the work.



$500 A MONTH UNTIL 65

In today's dollars, growing 3% a year after inflation



Start at **25**: you put in $240,000 and finish with about **$463,000**. Almost half of that is growth.

Start at **35**: $180,000 in, about **$291,000** out. Ten years later costs you $172,000.

Start at **45**: $120,000 in, about **$164,000** out. You'd need to save around $1,400 a month to catch the 25-year-old.

WHAT RETURNS TO EXPECT

Financial planners in Canada use FP Canada's yearly assumptions. The current ones are **6.3%** a year for Canadian stocks, **6.4%** for US stocks and **3.2%** for bonds, before fees, with inflation at **2.1%**.

A balanced mix lands around 5% before inflation, which is where the 3% after inflation on this page comes from. Stocks earn more over decades and fall harder in a bad year; money you'll need within a few years doesn't belong in them.

FEES COST MORE THAN THEY LOOK



That's $100,000 left alone for 30 years at 5% a year before fees. One percentage point more in fees costs a quarter of the final balance. Look for the **MER** (management expense ratio) on any fund's fact sheet. Low-cost index ETFs charge a fraction of what many mutual funds do.

Sources: FP Canada and IFP, Projection Assumption Guidelines (inflation and return assumptions) · Canooq calculations, examples only, monthly compounding

FIRE: FINANCIAL INDEPENDENCE, RETIRE EARLY

FIRE means saving a large share of your income, investing it cheaply, and stopping work once your investments can cover your spending for good. How long that takes depends mostly on your savings rate.



YEARS OF WORK UNTIL YOU'RE INDEPENDENT

By the share of take-home pay you save



The savings rate counts twice. Every dollar saved is invested, and it's also a dollar you've shown you can live without, so the target shrinks.

Save 10% and it takes about **59 years** to build 25 times your spending. Save 50% and it takes about **18**. That's why FIRE people talk about savings rates more than returns.

Income matters less than you'd think. A household that takes home $80,000 and spends $40,000 gets there at the same time as one that takes home $160,000 and spends $80,000.

FLAVOURS OF FIRE

KIND	WHAT IT MEANS	WHO IT SUITS
Lean FIRE	Retiring early on a deliberately small budget	People who already live cheaply and want out soonest
Fat FIRE	Waiting until the savings can pay for a comfortable life, travel included	High earners who'd rather work a few more years than cut back
Coast FIRE	Saving enough early that growth alone will reach your number by 65. From then on you only earn what you spend	People who want lower-pressure work in their 40s
Barista FIRE	Leaving the career, but keeping part-time work that covers some spending	Anyone who'd like to keep working, just less, with benefits

THE WITHDRAWAL RATE FOR A LONG RETIREMENT

The 4% rule was tested on **30 years**. Stop at 40 and your savings may need to last 50 or more. Plan on **3% to 3.5%** instead, which means saving 29 to 33 times your spending, or keep the option of earning a little in bad years.

Even if you never retire at 45

A high savings rate, low fees and a clear number are useful to anyone. The same habits that get one person out at 45 get someone else out at 58 instead of 67.

Sources: Bengen (1994), Journal of Financial Planning · FP Canada and IFP, Projection Assumption Guidelines · Canooq calculations: start from zero, 4% a year after inflation, 25 times spending, taxes ignored

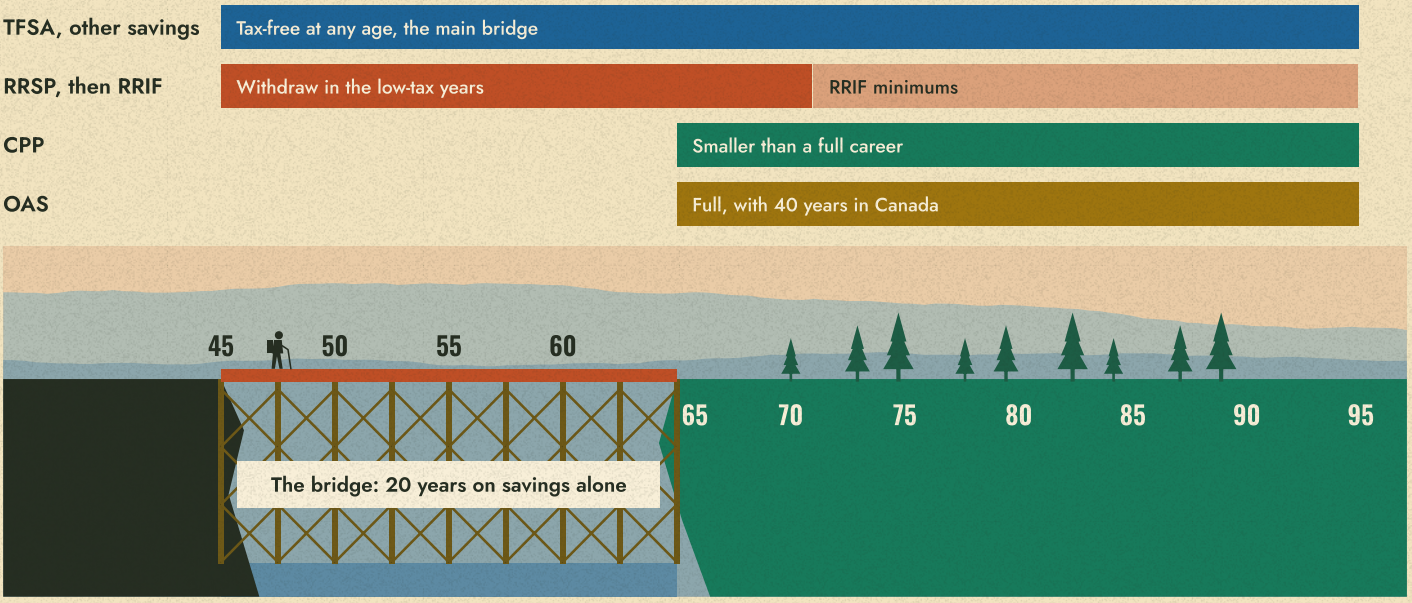
BRIDGING TO 65

Canada's pensions are built around 60 and 65. Stop work long before that and you'll need savings you can reach early, a plan for a smaller CPP, and a way to pay the health costs your employer used to cover.



WHICH MONEY PAYS FOR WHICH YEARS

Example: retiring at 45



YOUR CPP WILL BE SMALLER

CPP averages your earnings over your whole adult life, and years with no earnings count as zeros once the eight dropout years are used up. Stop at 45 after 25 years of good earnings and your CPP will be roughly **two-thirds** of what a full career would bring. Build that into the plan instead of the figure on today's statement, which assumes you keep working.

OAS STILL ARRIVES

OAS is based on years lived in Canada, not years worked. Retire at 45 and stay here and you'll still get the full pension at 65, as long as you've been here 40 years since 18. Spend the early-retirement years abroad and they won't count toward it.

THE TFSA IS THE EARLY RETIREE'S ACCOUNT

It can be emptied at any age without tax, and the withdrawals don't count as income, so they don't affect the GIS or OAS later. RRSP money can come out early too, but it's taxed as income. It's cheapest to take it out in the low-income years between leaving work and starting CPP, when the tax on it is lowest.

COAST FIRE IN NUMBERS

The single retiree on page 12 needs **$638,750** by 65. At 3% a year after inflation, **$263,000** invested by 35 grows to that on its own. From then on, work only has to pay for today's life.

Health and dental costs

Your province covers doctors and hospitals, but leaving a job usually means losing its drug, dental and vision coverage. Budget for an individual health plan, or check the **Canadian Dental Care Plan**, which covers people without dental insurance whose family income is under $90,000.

Sources: ESDC (CPP amount and dropout; OAS eligibility) · CRA (TFSA; RRSP withdrawals) · Health Canada (Canadian Dental Care Plan) · Canooq examples, 3% a year after inflation

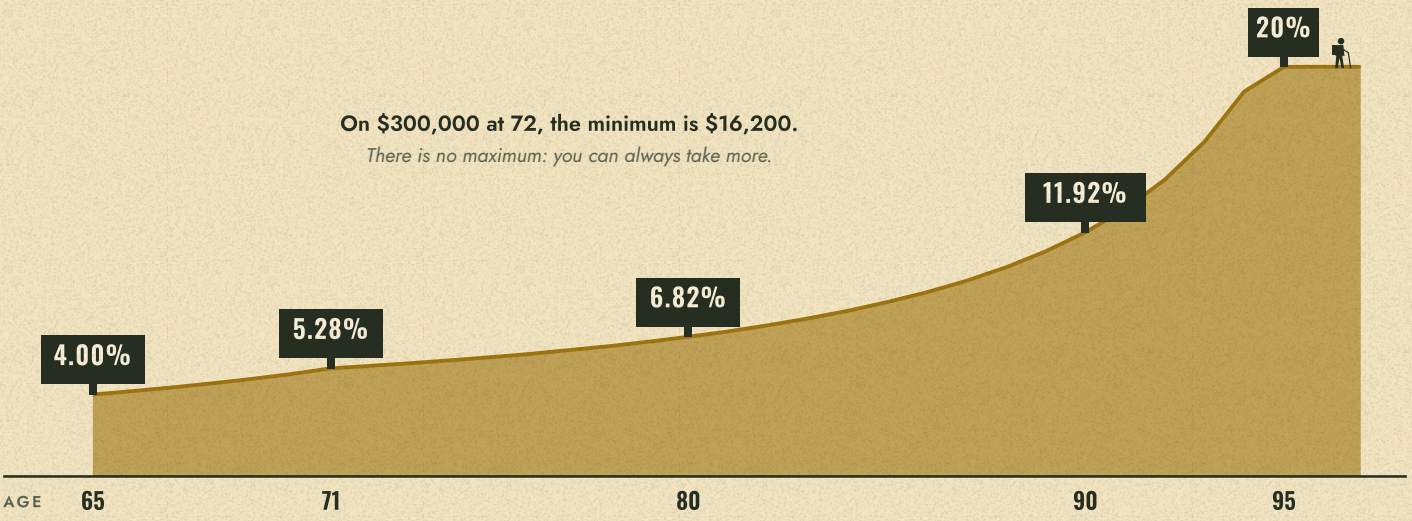
TAKING THE MONEY OUT

Once you've stopped working, which account you draw from, and in which year, decides how much tax you pay and whether you keep your OAS.



THE MINIMUM THAT MUST COME OUT OF A RRIF

Share of the balance on January 1, by age



FROM RRSP TO RRIF

By **December 31 of the year you turn 71**, your RRSP has to become a RRIF, buy an annuity or be cashed out (and cashing out all at once is fully taxable). A RRIF is the flexible option: the money stays invested and you take out at least the minimum each year from the next year on.

No tax is withheld on the minimum, so you settle it at tax time. Take more than the minimum, or make a lump-sum RRSP withdrawal, and the bank holds back **10%** up to $5,000, **20%** up to $15,000 and **30%** above (less in Quebec, which adds its own). That's a down payment on the tax, not the final bill.

TAX BREAKS ON PENSION INCOME

- **Pension income splitting.** Couples can move up to **half** of eligible pension income, including RRIF withdrawals from 65, to the partner with the lower income. CPP and OAS don't count.
- **The pension income amount.** A tax credit on the first **$2,000** of eligible pension income. Converting part of an RRSP to a RRIF at 65 creates that income.
- **The age amount.** An extra credit from 65 for people on low and middle incomes.
- **A defined benefit pension** can be split at any age.

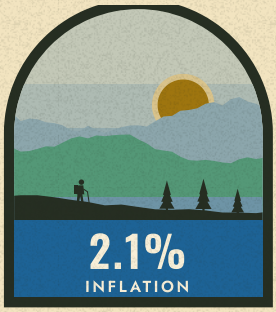
A SENSIBLE ORDER

1. **From retirement to 70**, live on RRSP money and delay CPP and OAS. You draw the RRSP down while your income is low, and the pensions grow by up to 42% and 36%.
2. **From 70**, the pensions carry more of the load and the RRIF is smaller, so the forced minimums later on are less likely to push you over the **$93,454** OAS clawback line.
3. **Keep the TFSA for last** or for big one-off costs. It's tax-free, doesn't count as income, and passes to a spouse cleanly.

Sources: CRA (receiving income from an RRSP; RRIF prescribed factors; tax rates on withdrawals; pension income splitting; pension income amount; age amount) · ESDC (OAS recovery tax)

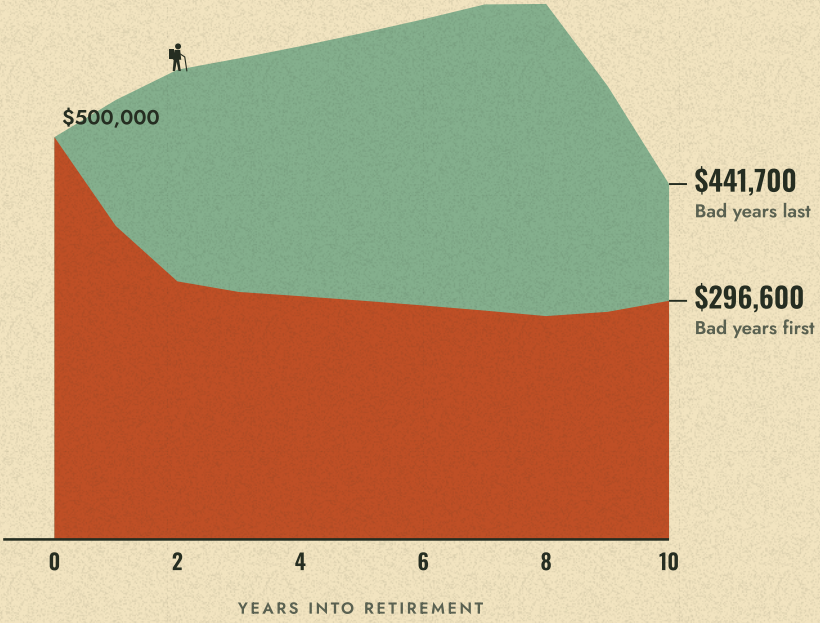
FOUR RISKS TO PLAN AROUND

Rising prices, a market fall at the wrong moment, a longer life than planned and the loss of a partner can each knock a retirement plan off course.



BAD YEARS FIRST, OR BAD YEARS LAST

Two retirees, same returns in a different order

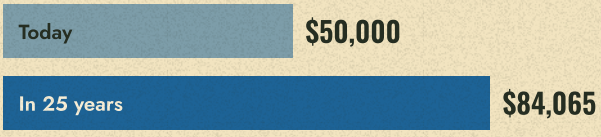


Both start with **$500,000** and take out **$25,000** a year. Over the ten years they get exactly the same returns, just in reverse order.

The one who hits two bad years first sells investments while they're down to pay the bills, and finishes the decade with **$296,600**. The other finishes with **$441,700**.

Keeping one to two years of spending in cash or GICs means you don't have to sell in a crash.

INFLATION



At FP Canada's **2.1%**, prices roughly double every 33 years. CPP and OAS are indexed to inflation; your savings aren't, so your withdrawals have to grow each year.

A LONG LIFE

One in four 65-year-old women will reach 96. The cheapest protection is income that lasts for life: a bigger CPP and OAS from waiting to 70, or a defined benefit pension.

You can also buy it. An **annuity** from an insurance company turns a lump sum into a monthly payment for life. The Financial Consumer Agency's example: **$100,000** at 65 buys about **$500 a month**. Rates change with interest rates and your age.

When the household becomes one

When a partner dies, their OAS stops and the survivor's pension from CPP is usually smaller than the pension it replaces. Some costs halve; housing doesn't. Check that the survivor could live on what's left, and name your partner as successor holder on your TFSA and beneficiary on your RRSP or RRIF so the money moves to them without tax.

Sources: FP Canada and IFP, Projection Assumption Guidelines (inflation; survival) · ESDC (CPP and OAS indexing) · FCAC (annuities) · Canooq examples with made-up returns, for illustration

WHAT TO DO, AND WHEN

Retirement planning happens in a few short bursts spread over decades. Most of the work is done in an afternoon every few years.



THE TRAIL, AGE BY AGE

20s, 30s
Take every dollar of employer match. Open a TFSA and invest it, even $100 a month.

40s
Use your RRSP or TFSA room every year. Check your fees. Run the numbers every few years.

50
Aim to clear the mortgage before you stop. Work out what retirement will cost you.

55
Workplace pensions and LIFs can often start. Ask your plan for its dates and options.

60
CPP can start. Decide on 60, 65 or 70, and use RRSP money first if you wait.

64
Watch for the OAS letter after your birthday. No letter? Apply.

65
OAS starts. Move some RRSP money to a RRIF to use the $2,000 pension credit and splitting.

70
Last month to start CPP and OAS. Both are at their highest.

71
Turn the RRSP into a RRIF by December 31. Minimums begin the year after.

THIS WEEK

- [ ] Sign in to **My Service Canada Account** and download your CPP statement and estimate.
- [ ] Find your RRSP and TFSA room in **CRA My Account**.
- [ ] Check whether your employer matches pension or group RRSP contributions, and whether you're taking all of it.
- [ ] Look up the fees (MER) on what you already own.
- [ ] Write down what you'd spend in a year if you stopped working tomorrow.

RUN YOUR OWN NUMBERS

Retirement calculator — canooq.ca/tools/retirement-calculator
Your target and whether you're on track

FIRE calculator — canooq.ca/tools/fire-calculator
Years until you're independent

TFSA room — canooq.ca/tools/tfsa-contribution-room-calculator
Your room since 2009

RRSP refund — canooq.ca/tools/rrsp-refund-estimator
What a deposit gets back

Benefits in Canada — canooq.ca/guides
CPP, OAS and GIS dates and amounts

Sources: ESDC (CPP, OAS) · CRA (RRSP, TFSA, RRIF) · Canooq tools: www.canooq.ca/tools