TRIDELTA Private Wealth

# The Canadian Retirement Income Guide

## Maximizing your retirement income while minimizing your taxes

# Introduction

When you retire, not only does your daily routine change, but not having your regular pay cheque really makes you take notice. With the traditional pension becoming less of a reality for many Canadians, building a steady retirement income is a key part of any financial plan. In this guide, you will learn about some of the best ways to build your own retirement "paycheque" using the resources you already have. We will provide you with some of our best insight on when to draw from your retirement savings accounts, how to get the most out of your government pensions, and where to find other sources of cash flow.

We trust that you will learn new concepts from this guide and we would be happy to book a consultation with you to discuss further.

Book a consultation

# How much income will I need?

One of the most important questions for retirees is how much income you require each month to meet your day-to-day expenses and larger retirement objectives.

This is an exercise to complete on your own or with your partner and not based on any rule of thumb or set formula. In our experience, the best place to start is with your current expenses and then determine if there are expenses you know will change during retirement. This may include a wide array of expenses which become applicable as we age and enter retirement or those no longer required:

- Childcare
- Education savings for children or grandchildren
- Transportation costs – Do my spouse and I need two cars?
- Debt – Will I still have a mortgage? What if I want to buy a cottage?
- Health/senior living costs
- Travel
- Gifts/donations
- New hobbies

# 10 Possible Sources of Retirement Income

In this Guide we will look at ten different possible sources of retirement income. Not all will apply to everyone, but when you realize how many places one might draw from, it becomes a little complicated in terms of where you should draw each year to minimize lifetime taxes. This Guide is a starting place to think about each possible source for you, and then to plan out your income, whether on your own or with the help of a TriDelta wealth advisor.

## 1 The Canada Pension Plan (CPP)

The CPP is taxable, and payments are automatically provided to retirees starting at age 65 (although CPP can be started anywhere from age 60 to 70). You might choose to start withdrawing your CPP at the age of 60, although there are some costs for this in terms of a lower pension. Factors to help determine whether to draw CPP relate to your current cash flow needs as well as your overall health and family history for longevity. The greatest unknown in most retirement calculations will be the mortality age, which has become a greater challenge due to people living longer. If you knew exactly when you were going to die, determining when to begin CPP would be simple math, but life is not so straightforward.

As a rule of thumb, if you think you will not have a long life, take the CPP at 60. If you think you will be around in your 90's, maybe wait until age 70 to take it. Ultimately, the decision of when to take CPP will have an impact on the amount you receive.

- Taking CPP at age 60 results in you receiving **36% less** than you would have had you waited until age 65. This equates to a 7.2% reduction in CPP for each year you begin before age 65.
- Taking CPP at age 70 results in you receiving **42% more** than you would have had you begun age 65. This equates to an 8.4% supplement in CPP for each year you begin after age 65.

To help you evaluate the impact of beginning your CPP entitlement early or later than age 65 please visit our CPP Calculator for more information.

The decision whether to begin CPP earlier or later should depend on:

- The CPP survivor's benefit – Are you already receiving a survivor's benefit amount from a deceased spouse? The CPP survivor's benefit is based on the max CPP benefit for the contributor in the year they decided to start CPP. Waiting longer can potentially increase the max benefit.
- Expected Income between 60 and 65 – For many, our highest income earning years come right before retirement. Your CPP entitlement is based on the income you have earned throughout your career and retiring early can reduce this benefit.
- Life Expectancy/Health – Delaying your CPP can be beneficial if you expect to live longer.
- Opportunity cost of delaying – Even if the math supports delaying, real life might support taking CPP early.
- Taxes – The more income you are earning, the less CPP you get to keep. You should consider all income sources during your early CPP years as there may be a benefit in taking earlier/later depending on how long you intend to keep working.
- RRSP Balances – There may be a benefit to drawing down your RRSP balance before you take government pensions to allow for withdrawals at reduced rates of tax and to limit the tax impact of future RRIF minimum payments.

Mathematically, the decision to take CPP is generally break-even if mortality is in the mid-to-late-70s. If you were to pass away roughly before age 75, then taking CPP early would be the better decision. If you continued to live past age 80, then taking CPP late was the better decision.

For spouses or common-law partners who receive CPP, retirement pension benefits might be "shared." Because the CPP is taxable, this sharing may be good for lowering your household tax bill. If you can split your CPP income with a spouse with lower-income, you will both be taxed less as a result.

## 2 Old Age Security (OAS)

OAS is intended to provide retirement benefits to seniors who spent their working years resident in Canada. To be eligible for OAS benefits, you must be at least age 65, must apply for the benefits, and must have a minimum of 40 years of residency beginning from age 18 to qualify for the full benefit.

Key to the OAS benefit is meeting the residency requirement and not exceeding the set income thresholds in retirement.

- For those with less than 40 years of residency, the OAS benefit is reduced 2.5% per year and the individual must have been a resident for at least 10 years prior to collecting OAS.
- There are income thresholds which determine your OAS benefit after age 65. Using 2025 figures:

| **Yearly Net Income** | Less than $93,454 | $93,454 to $151,668 | More than $151,668 |
|---|---|---|---|
| **OAS Eligibility** | Full OAS | Partial OAS | No OAS |

The maximum OAS benefit in 2025 is $8,732 and this is reduced 15% for every dollar greater than $93,454. It should also be noted that there are new additional OAS benefits for Canadians over the age of 74 which can increase the total benefit to $9,605.

You may initially think that you will not likely qualify for OAS; however, there are ways to maximize your benefit. You just need to be able to minimize your yearly taxable income below the thresholds.

Ways of doing this would be to:

- Draw down RRSP funds before you turn 65, but after you finish working.
- Pay attention to how much you are receiving in eligible Canadian dividends. Though tax efficient when compared to interest income, in the tax return these dividends are grossed up by 38% and then a tax credit is used to offset to create an overall lower tax rate. When calculating the OAS clawback, the gross up is considered in the calculation but not the tax credit. Thus, $63,000 in actual dividends can put you over the threshold.
- Use life insurance to allow funds to grow tax sheltered outside of the traditional investment portfolio.
- Begin receiving OAS after the age of 65. You have the option to begin receiving OAS as late as age 70 which entails an annual 7.2% increase to your benefit amount.
    - This option can be valuable for those with higher income earlier in retirement and expect to live longer.

For a better understanding of how deferring your OAS may change your entitlement amount please visit our OAS Deferral Calculator.

Service Canada will often mail you instructions on beginning your OAS sometime prior to age 65. We recommend ensuring you have your Service Canada online account set up in advance of this to ensure the process goes smoothly and you don't miss any important notices.

You can review your CPP and OAS entitlement on the Service Canada website: Service Canada - Canada.ca

## 3 Registered Retirement Savings Plans (RRSPs)/Retirement Income Funds (RRIFs)

The next basic source of retirement income is your RRSP (RRIF). Investments in your RRSP grow and produce investment income without any taxes, but withdrawals are taxed as ordinary income in retirement.

You can convert your RRSP to a RRIF anytime you wish but once converted to a RRIF you are mandated to begin withdrawals the following year. For that reason, some often defer taking any withdrawals until they must. The Canada Revenue Agency forces Canadians to convert their RRSP to a RRIF at age 71.

When it comes to your RRSP/RRIF, be as tax smart as possible.

- You are forced to take certain amounts from your RRIF each year. This loss of flexibility, especially in later years, can have a material impact on your annual taxes and even your estate.
    - Making withdrawals early can help you invest the after-tax proceeds you may not need towards your TFSA or non-registered investments in a more tax efficient manner.
- If you have lower income years during your retirement, withdraw larger amounts in those years.
    - Retiring before 65 but don't want to begin your CPP/OAS? Think of taking extra withdrawals from your RRSP/RRIF to satisfy your income needs now and direct what you don't need towards other investment accounts.
- There are specialized strategies like the RRSP meltdown to effectively draw out money.
    - This requires you to create a tax deduction equal to the amount of money withdrawn. Because it requires leveraged investing, you might require professional advice before undertaking the strategy.

Your RRSP/RRIF is also a great way to protect your surviving spouse. When the first spouse passes away, their RRSP/RRIF account can be rolled into yours tax-free but when the last spouse passes away, the full amount is taxable for the final estate. A $500,000 RRIF could face $225,000 to $233,000 in taxes owing depending on your province of residence.

## 4 Non-Registered Investment Accounts

The greatest benefit from having savings in a non-registered account is the level of control you have over the investments and timing of withdrawals.

Having investments in this account does expose you to taxes on the investment income generated each year. Cash flow generated from your non-registered investment accounts can come from four sources:

1. **Capital Gains** (this is from when you sell an investment for a gain)
   Capital gains can be offset by capital losses elsewhere in the portfolio.
2. **Return of capital** (this creates a tax deferral as you don't realize the income until the investment is sold and when you do it is as a capital gain)
3. **Dividends** (this is generated by some stocks and all preferred shares)
4. **Interest** (this is generally from GICs and Bonds)

While you can take money from your non-registered account 'tax free', keep in mind that any income or gains will be taxed. The best tax decision on non-registered accounts is to try to avoid interest income as much as possible.

## 5 Tax Free Savings Account (TFSA)

The importance of the TFSA in retirement planning has only grown as the years have gone by. In 2025, someone who was 18 years old on or before 2009 would have a maximum of $102,000 they could contribute. As these individuals retire, having the flexibility to withdraw this money tax-free greatly enhances their flexibility when creating an income stream and may allow you to avoid unnecessary OAS clawback in years you require a higher income and generally can avoid unwanted taxes.

If you do withdraw from a TFSA and plan to make contributions back to it in the future, it is better to make the withdrawal at the end of one year, than the beginning of the next. Any withdrawals made in the current year are added to the next year's contribution room. This is in addition to any new contribution room granted by the government.

We recognize not everyone will have maximized their TFSA contributions and for those Canadians there are still suitable strategies which can benefit your retirement and the estate you leave behind.

Regardless of how close you are to retirement or how many years you have already spent retired, there may be a TFSA contribution strategy which takes advantage of any unused room. We have already discussed how having a significant RRSP/RRIF balance can lead to a higher taxable income than you may need or want. Taking more withdrawals in years you have lower income can provide the funds to contribute to the TFSA which can be utilized later on a tax-free basis. Some Canadians may treat OAS clawback as a low priority because their income is simply too high. In this case, and in many others, moving money from your RRSP/RRIF towards your TFSA can be a valuable step in your estate planning. Upon your death, the TFSA balance can be directed to any of your beneficiaries tax-free and avoid probate.

The benefit of having your TFSA bypass probate upon your death and be paid to your heir(s) tax-free is often why the TFSA is the last source of cash flow you would withdraw from in retirement.

## 6 Company Pensions

If you are fortunate enough to have a company pension plan, this certainly eases some of the strain on retirement income; however, you still have decisions to make. For example, whether you should simply take the monthly pension or transfer the commuted value (i.e., a lump sum amount in a locked-in account) can be confusing.

Here are some questions to ask to determine whether to take a monthly or lump-sum amount:

| | |
|---|---|
| How long will you (and your spouse) live? | If you predict a long life-expectancy, the pension is better, but if you predict shorter life expectancies, the lump-sum payment is often better as your pension is worthless upon death. |
| How safe is your pension?<br>Is your pension indexed? | If you think your company might not survive 25 to 30 years (or till the end of your retirement) or if your pension is not indexed to inflation, a lump sum might be smarter. Analysis is required. |
| What are your tax planning goals? | A monthly pension is inflexible for tax planning. You may want more income at one stage of retirement, less at another. The lump sum amount can give you more flexibility. |

Even if taking the company pension is the right decision for you, likely there are decisions around pension guarantees (for example, 10 years of guaranteed pension even if you don't live very long) or having anywhere from 0% to 100% spousal benefits after you pass away.

One of the best pension strategies is to take 0% spousal benefits, and therefore maximize your monthly payment. With this extra payment, put some or all of it towards a permanent life insurance policy on the pension holder. In doing this, if the pension holder dies first, and leaves no pension for their spouse, the spouse will instead receive a large insurance policy that will more than cover the pension in most cases. If the pension holder dies second, rather than leaving nothing to family (as the pension would also end), they will still leave the proceeds of life insurance – paid for from their employer pension.

## 7 Using Your Home Equity

This is often the largest untapped source of retirement income. Many retirees own their homes and most homes have appreciated in value. Instead of letting the money sit and go unused within the house, think about taking out a line of credit or a second mortgage against the house at low interest rates. You can use this cash to generate a stream of monthly income. We suggest that the amount borrowed stay below 30% of the total value of the house in case house prices plunge or interest rates soar. When you sell your house in 5, 10 or 15 years, you will have paid off the debt anyway. The important thing to remember is that your home is simply an asset. You can choose not to spend any of that asset, or you can choose to use it. It is important to know that you have an option to access this value. Otherwise, you might be real estate rich, and cash poor – for no good reason.

Key to this strategy is the dynamic of what interest rates are and how much income you can reasonably expect to earn on the amount borrowed. Although this can be a valuable strategy, we recommend speaking to an expert before making this decision.

Downsizing can also be an important step for retirees.

Financial considerations should not be the only reason you downsize your home. If you are depending on the value of your home for retirement income, using home equity with a mortgage or a line of credit can be a good option. You might also investigate some of the other retirement income streams first. Think about the personal factors when it comes to selling. Are you interested in keeping up with the maintenance of your home in retirement? Is the size of the home too much for your mobility? Would you like to move to a different neighbourhood, perhaps more friendly to your retirement lifestyle?

## 8 Insurance Policies

An effective source of retirement income can be insurance policies. If you are nearing retirement already, there are some strategies to use insurance policies as retirement income. Policy holders can often access cash by withdrawing assets from the cash surrender value of the policy, without impairing the coverage terms. Some policies also have a contractual provision that allows you to borrow funds against the value of the insurance policy. This loan is payable after you pass away and is subtracted from the benefit paid by the insurance policy but can be very helpful in creating a steady retirement income.

In a different approach, investors in their mid-30s to early-50s can take out a policy on their parents. They pay the premiums and when the parents pass away, the payout becomes a core part of their retirement income. When seeking out retirement income, revisit your existing insurance to see if you can use any of these strategies although we recommend speaking to an expert in any case. Insurance is often an underutilized asset for retirees.

## 9 Drawing From Your Corporation

Some Canadians also have a Corporation that has built up value over time. Planning for how to draw from a Corporation is an important part of retirement planning, and something that we do for many clients. In some cases, it can be similar to how you might plan for an RRSP or RRIF, but with the big difference being that you don't have to draw anything if you don't want to. The challenge relates to tax and estate planning. One strategy that we might use is Life Insurance within the Corporation to draw the funds out. This can be one of the best tax minimizing approaches to be found. There are some unique strategies that can help not only from an estate perspective, but sometimes to draw funds out while you are still alive. The specifics of these arrangements are often best done on a case by case basis and we would welcome that discussion should it apply to you.

## 10 Your Family

While not the first choice of most parents, sometimes their children are in very good financial position, and willing and able to 'gift' to their parents. It worked the other way around for many years. Sometimes turnaround is fair play.

## What's Next?

As one moves to a new stage where the steady paycheque comes to an end, it shouldn't be a time of financial worry. The key is to truly understand your needs or wants in retirement, review your current net worth picture, and put a plan together that will allow for steady and tax smart cash flow to allow you to achieve your goals.

A useful place to help get you started is our My Estate Value Calculator. This powerful tool will help you determine the value of your final estate as well as the total taxes that you will likely pay over your lifetime. In doing so you have the opportunity to request an individualized report to help point you in the right direction and provide useful advice on how to maximize your retirement income.

## How Can TriDelta Help?

TriDelta Private Wealth is an independent, comprehensive wealth management firm that works with Canadians with household investments over $1 million. We start with developing a complete financial plan so that your entire financial health is considered when offering advice and recommending solutions. We offer the very best investment, insurance, retirement, debt, and mortgage solutions in the market with complete independence that puts your needs and goals front and centre every step of the way.

Book a free consultation

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