MoneySense

Retirement

Getting the most out of retirement income planning with an older spouse

Ellen is curious how pension income splitting works when there is a big age difference between spouses. There are several considerations.

by Jason Heath
Jan 22, 2019

Q: When one spouse is older by 11 years, can this person receive his/her spouse's pension split before the younger spouse turns 65 years old?

– *Ellen*

A: Pension income splitting allows married or common-law spouses to move up to 50 per cent of their eligible pension income to the other spouse's tax return. This can help move income from a higher income spouse's tax return to a lower income spouse's tax return, thereby minimizing combined family income tax. Because incomes can fluctuate from year to year, the amount of income you choose to split one year could be different from the next.

Pension income splitting happens on your tax return, Ellen, and is based on the transferring spouse's age. So, in your case, if your husband is 65, he can split all of his eligible pension income with you (up to the 50 per cent limit).

Eligible pension income most commonly includes withdrawals from a Registered Retirement Savings Plan (RRSP) that has been converted to a Registered Retirement Income Fund (RRIF) and Defined Benefit (DB) pension income. It can also include annuity income, taxable foreign pensions, and withdrawals from Defined Contribution (DC) pensions that have been converted to the applicable RRIF-equivalent.

DB pension and taxable foreign pension income can actually be split as early as the pensioner's age 55 – the others are only after 65.

So, pension income splitting is always based on the age of the person transferring the income, not the person receiving the transfer, Ellen.

Given the age difference between you and your husband, there may be some other considerations for you guys. When your husband converts his RRSP to a RRIF, he will have the option to base his required minimum withdrawal schedule on either his age or your age. Higher withdrawals are required at higher ages, so I would recommend basing his withdrawals on your age. This will mean that the required withdrawals are as low as possible. It doesn't mean you can't or shouldn't withdraw more, but it gives you more flexibility with your retirement income planning to have the annual minimum lower.

If your husband has a DB pension and can make an election before it begins on the survivor benefit, consider opting for a higher survivor benefit. For example, he may be able to elect to have 50 per cent, 75 per cent, or even 100 per cent of the pension continue to be paid to you on his death. Unless you have reason to believe you may not live a long life, there’s a good chance you will outlive your husband by a significant margin.

The Canada Pension Plan (CPP) is itself a DB pension. In the case where there is an older spouse, particularly if the younger spouse will receive less than the maximum CPP, this could be one of many reasons for the older spouse to defer CPP as late as age 70, Ellen.

A CPP retirement pension can start as early as 60 or as late as 70. If you start your pension before 65, it is reduced by 7.2 per cent per year. If you start your pension after 65, it is increased by 8.4 per cent per year. And if you die, leaving a surviving spouse, there is a survivor pension that becomes payable or may be added to the survivor’s existing pension. A CPP recipient receiving a retirement and survivor pension cannot receive more than the maximum retirement pension, but a survivor with a low retirement pension of their own based on low historic contributions may be even better protected if the older spouse defers their CPP to 70 and dies young.

So, if your husband defers his CPP to age 70, and lives to 100, he will receive more lifetime pension income than if he started CPP at 65. And if you had only a small expected CPP retirement income entitlement yourself, deferring his CPP to 70 and dying at 75 would still result in a large CPP survivor benefit to you.

Given you are much younger than your husband, Ellen, you may want to consider naming your husband as the successor annuitant of your own RRSP or other retirement accounts, as opposed to the beneficiary. Assuming this lines up with your own estate wishes, having him named as successor annuitant will allow him to effectively take over your retirement accounts in the unlikely, though possible event you die before him. He would then be able to base the withdrawals on your younger age, ensuring lower minimum withdrawals were required.

Another consideration when there is a big age difference between spouses is how the loss of income splitting between you may impact your taxes after his death. Having more retirement income on your tax return as a widow may cause you to be in much higher tax bracket than your current tax brackets with income spread across two tax returns.

This may be a reason to consider drawing down your retirement accounts earlier, realizing certain capital gains earlier in life, maximizing both of your Tax Free Savings Accounts (TFSAs), and just generally planning for the potential tax implications that may result if your husband dies much before you do.

So, hopefully I’ve answered your pension income splitting question fully, Ellen, as well as giving you some other young spouse/old spouse issues to consider.