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How the new border tracking system could affect your government benefits

By Jason Heath

Heading south for the winter may seem like it just got trickier, but don't panic yet. Jason Heath outlines how snowbirds can tell if their OAS and CPP...

For snowbirds just starting to plan their packing for this winter's trip south, a recent report about more robust exit-tracking may have given some seniors pause - especially at the suggestion that their travels could affect the government benefits they rely on.

Sneaky snowbirds could have financial wings clipped by new border tracking system[1]

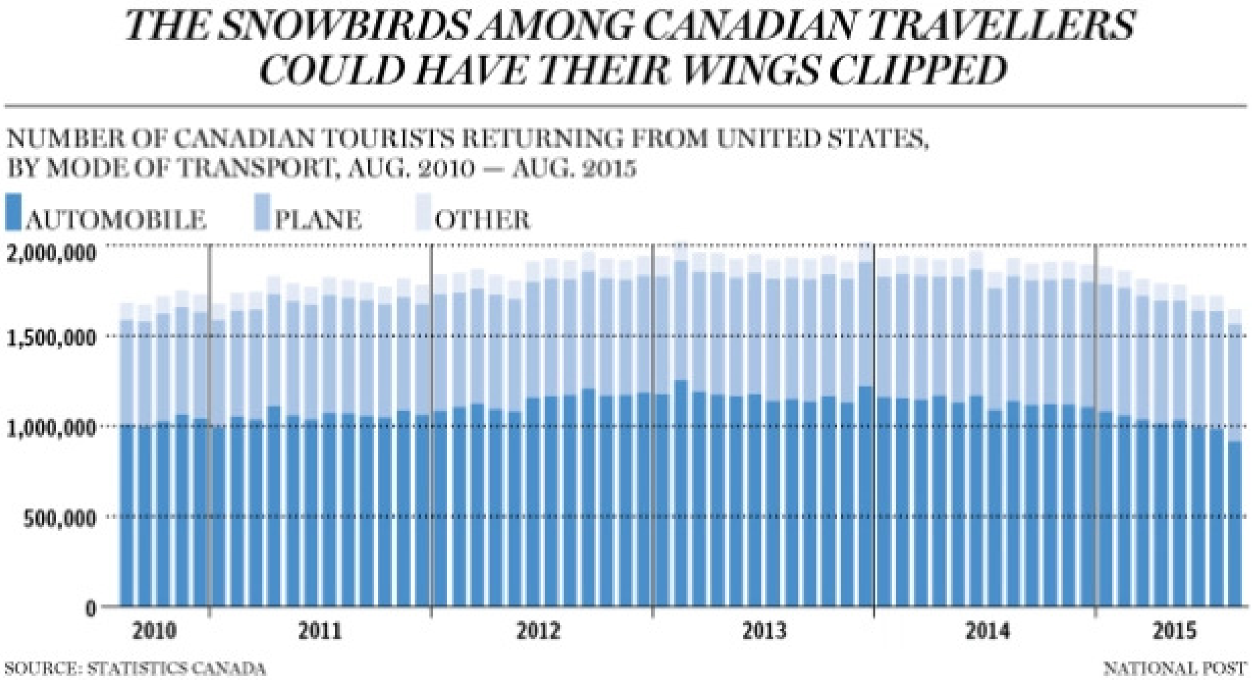
The federal government will use its planned border exit-tracking system to avoid paying hundreds of millions of dollars in social benefits now going to people who shouldn't receive them

The system - a joint effort between Canada and the United States - was outlined in recently issued memos from Social Development Canada (SDC) and Canada Revenue Agency (CRA). Canada already tracks land border crossings, but this may be expanded to air travel as well. Canadians may take solace in the fact that the federal government has no legislative authority to implement this final phase of exit-tracking - yet. A bill must be passed in order to do so.

One memo released to the The Canadian Press under the Access to Information Act estimates that Canadian seniors may lose about $10 million in Old Age Security (OAS) benefits each year if exit-tracking is implemented. But before jumping to any conclusions and reassessing your retirement financial plans, it's important to know what would actually lead to these lost benefits and who is at risk.

OAS benefits are determined based on years of residency in Canada. After 40 years of residency after the age of 18, Canadians over age 65 are entitled to the maximum government pension. Currently this pension is about $6,839. Benefits are indexed to inflation. Low-income recipients may receive a top-up on this basic benefit, while high-income earners may have their benefit clawed back and reduced.

OAS benefits are not reduced if you spend lots of time outside the country or even if you become a non-resident in retirement. In fact, Service Canada goes so far as to offer to deposit OAS benefits into a foreign bank account in local currency for dozens of countries to reduce foreign exchange and banking transaction costs for recipients.



The potential lost benefits estimated in the SDC memo don't relate to people already receiving OAS who begin to spend time in the U.S. as snowbirds, for example. Rather, it focuses squarely on those Canadians who are not residents in the country for the requisite 40-year minimum after the age of 18 and may not disclose that on their application. If border exit-tracking helps determine residency of less than 40 years, 1/40 of the maximum benefit will be lopped off for every lost year of residency below the limit.

Canada Pension Plan (CPP) benefits are also payable to non-residents or those who spend significant time abroad. They are perhaps even more sacrosanct, given that the CPP retirement pension is calculated based on past contributions, as opposed to OAS, which is just based on residency and is a non-contributory pension plan. So CPP benefits shouldn't be a risk resulting from crossing Canada's borders either.

But, health coverage is at risk for Canadians who spend significant amounts of time outside the country. Each province has different rules about how periods of non-residency impact coverage while abroad or upon your return to Canada. It's important to review this coverage and consider supplementary health coverage for any travel outside of Canada.

Income tax implications may also result from extended periods abroad. Canada taxes residents on their worldwide income, so the biggest risk of non-residency may be taxation or tax filing requirements in another country.

In particular, snowbirds who spend more than 183 days each year in the U.S. need to be cognizant of potential U.S. deemed residency rules.

Any Canadian - retiree or otherwise - would be wise to familiarize themselves with the income tax and health coverage implications of time spent abroad with their accountant and with their provincial health insurance program. In the past, there wasn't nearly as much scrutiny, but now it's much easier to track and disseminate information about things like international travel. And how this information is used against you might end up being costly if you don't know the rules and abide by them in the first place.

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Illustration by Chloe Cushman, National Post

References

1. business.financialpost.com/personal-finance/retirement/sneaky-snowbirds-could-have-financial-wings-clipped-by-new-border-tracking-system