

CPP and OAS Death Benefits for Survivors: What Happens After Death?

As an internationally trained accounting and financial professional, I often get this question from my clients and people in my network. I am aware that in some cultures, it is taboo and disrespectful to talk about such a gloomy topic, especially when a person is still alive and well.

However, I always tell my clients that discussing pension payments after death and the benefits that their loved ones can expect is a matter of great importance, especially when they are still present and able to make an informed decision.

I often present this scenario to my clients. Let's say a couple has the Canada Pension Plan (CPP) and Old Age Security (OAS), and they both get the maximum benefits. Well, we can say that they can spend a comfortable retirement with a monthly income of around \$3,500.00.

But keep in mind that there are a lot of CPP pensioners who do not enjoy the maximum monthly benefit, which is \$1,175.83. They get way less than this amount either because they took time out from work or their income was low.

The current pandemic only proves that life is unpredictable. Our picture-perfect retirement can become a problematic situation when one spouse dies. The other is left alone and unexpectedly put in a situation where there is so little to live on.

Unlocking Your CPP and OAS Benefits

When you and your spouse both have maximum CPP benefits of about \$3,500.00, then the other one passes away, you will suddenly find yourself paying for all the bills and property taxes. The family's income becomes less, but the expenses stay the same. And this is just the tip of the iceberg.

The truth is families need to have a solid financial plan. At Smart Wealth financials, we always advise our clients that the benefits they receive from the government should not be the sole source of their retirement income. There is a smarter way to manage your wealth.

Before you continue reading, I would like to ask you these important questions:

- If you or your spouse dies, do you know what will happen to your OAS and CPP benefits?
- Are you aware of the retirement benefits available to survivors after the death of a spouse, common-law partner, or parent?

Well, here is the short answer to the first question. If the spouse contributed toward their CPP, then the survivors may be qualified to receive the (a) CPP Death Benefit, (b) Survivor Benefit, (c) Children's Benefits, and (d) OAS Benefits.

There are certain conditions one must meet to be eligible to receive these benefits. Therefore, it is a smart move to put your hard-earned income and investments in a financial vehicle that you have more

control over in terms of accessibility. To provide a clearer picture, I will share a simple and straightforward explanation of what these CPP and OAS benefits are, details on how one becomes eligible to receive these benefits, and answers to frequently asked questions.

The CPP Survivor Benefit: Facts and Figures

The CPP Survivor Benefit refers to the amount given to the common-law partner or legal spouse of the deceased.

But what if the deceased pensioner and the legal surviving spouse already separated before the time of death? Who will receive the CPP survivor benefit?

The surviving spouse may be eligible for the survivor's pension if the deceased pensioner has no cohabiting common-law partner. I am sure you have more questions about eligibility for the CPP Survivor Benefit. I will discuss that in detail as we move on to explain what this benefit is.

What could happen when you retire?

When you reach the ripe age for retirement, you will receive a CPP monthly benefit. If you are eligible and you retire at the age of 65, you are going to receive a full pension. You have the option to receive your benefit at the age of 60, but it will be at a reduced amount. You can also choose to get your CPP benefit later (70 years old at the latest) if you want to qualify for an increase in your monthly pension.

Note that you can only receive a CPP monthly benefit if you worked in Canada and paid your monthly contributions to the plan. The saying "You will reap what you sow" reminds me of how CPP works. When you retire, the amount you will receive depends on how much you contributed and for how long.

But, when you pass away, your spouse, who is the survivor or widower, will no longer enjoy the benefits of your combined income from your pension. The survivor will not be entitled to receive your CPP monthly benefits. However, the surviving spouse will receive the CPP survivor's benefit, but the amount will depend on some careful considerations and complicated calculations.

Survivor Benefit Considerations: Factors that Affect the Amount You'll Received

There are many factors that affect the amount a survivor receives. Aside from the calculations done to arrive at the amount you are eligible to receive, the Survivor Benefit also depends on these aspects:

First, the age of the surviving spouse.

Second, the deceased spouse's total contributions to the CPP.

Third, other CPP retirement benefits the survivor is receiving. Your combined survivor and retirement benefits are subject to a maximum threshold.

Scenario 1: The 65-year Old Survivor

Let's say the survivor is 65 years or older and assume the survivor started collecting CPP benefit at the age of 65. In this scenario, the survivor's pension will be 60% of the deceased spouse's CPP pension.

Scenario 2: The Young Survivor

How about if the survivor is below 65 years old? In this case, the survivor benefit will be 37.5% of the deceased spouse's CPP pension. In addition, the survivor will also receive a flat-rate benefit. This year the amount of that benefit is \$197.34.

Do not let the percentages deceive you. If we do a sample computation based on the earlier assumptions, the CPP Survivor Benefit would reflect these amounts.

CPP Survivor Benefit for individuals ¹ younger than 65	CPP Survivor Benefit for individuals age 65 and older
$\$1,175.83^2$ $\times 37.5\%$ $+ \$197.34$ (flat-rate benefit)	$\$1,175.83^2$ $\times 60\%$
<hr/> <hr/> \$638.28	<hr/> <hr/> \$705.50

¹ These are eligible survivors who are not receiving other CPP benefits

² This is the maximum pension of a deceased spouse.

Now that does not look like a lot, especially when there will be only one person paying all the taxes and bills. But wait, there's more.

How about if the survivor is receiving other CPP benefits?

If you are the survivor, and you are already receiving a retirement pension, your total monthly CPP benefits cannot exceed the maximum monthly CPP pension, which is \$1,175.83. Note that this threshold amount is for 2020. In this case, with the couple receiving the highest possible monthly benefit, when one spouse dies, the survivor will not receive a survivor's pension since the survivor is already receiving the maximum CPP benefit. Ouch.

If the survivor's CPP pension is below the maximum \$1,175.83, then the survivor is qualified to receive a survivor's pension to add to the CPP pension up to the threshold amount. However, even if you qualify for a Survivor Benefit, there is a chance you will not receive the maximum amount. According to Service Canada, this year, most young survivors aged below 65 only got an average benefit of \$456.48. Survivors aged 65 or older, on the other hand, received \$311.94 on average.

Now, here are some answers to frequently asked questions about the CPP Survivor Benefit.

Will I receive a Survivor Benefit for each of my marriages?

If you survive many spouses, you can only receive one survivor's pension and will get whichever benefit is highest.

Will I lose my Survivor Benefit if I re-marry?

You will not lose your survivor's benefit if you re-marry.

If you already receive other CPP benefits, all your pension benefits are combined and paid in one single monthly payment.

What is the maximum total CPP benefit I could receive?

The maximum total benefit you can get if receiving both the survivor's pension and other CPP benefits is the highest possible retirement pension, which is \$1,175.83 for 2020.

What are the other CPP benefits for survivors?

Other CPP benefits for survivors include Children's Benefit and Death Benefit.

The CPP Children's Benefit: Eligibility and Guidelines

Dependent children, who are also the beneficiaries of the deceased pensioner, receive this amount every month. The beneficiaries are eligible to receive this amount if the pensioner was able to make sufficient contributions to the CPP.

If the beneficiary is...	And the beneficiary is...	Then the beneficiary...
under the age of 18	--	will receive monthly payments until the age of 18. ³
is aged 18-25	is in full-time attendance at a recognized school or university	will receive monthly payments until the age of 25.

³ The disabled contributor receives this benefit on behalf of the child, who is the beneficiary. The disabled contributor receives the payment only if the beneficiary is in the custody of the disabled contributor. Otherwise, the person or agency who acts as the legal guardian of the child may receive the amount. Children under the age of 18 can directly receive the payment if they have applied to receive the amount and can demonstrate that they are competent in handling their affairs.

What are the types of children's benefit?

Here are the two types:

Disabled Contributor's Surviving Child's Benefit	Surviving Child's Benefit
a monthly payment for a child of the person receiving a CPP disability benefit	a monthly payment for a child of the deceased contributor

Note: A child can be eligible to receive a maximum of two benefits.

How do I know if the child is eligible to receive CPP Children's benefit?

To be eligible to receive this benefit, the child must be:

the natural child of the contributor,
the legally adopted child of the contributor that was adopted while under 21 years old, or
in the legal custody and control of the contributor while under 21 years old.

How much amount is the child qualified to receive?

This benefit is a monthly flat rate adjusted every year. For 2020, the maximum amount is at \$255.03 per month.

The CPP Death Benefit: Know How Much You Could Receive

The CPP Death Benefit is a payment made to the estate of a deceased contributor. Unlike other CPP benefits, the Death Benefit is a one-time payment.

Service Canada considers two scenarios to determine who will receive the amount:

If...	Then...
an estate exists	the executor of the will or the Court's appointed administrator can apply for this benefit.
no estate exists	these individuals, listed in order of priority, can directly receive the benefit: <ol style="list-style-type: none">1. the person or institution responsible for funeral expenses2. the surviving spouse or common-law partner, or3. the next-of-kin of the deceased.

How do I know if I am eligible?

To receive this benefit, the deceased must have

- made contributions to the pension plan in the lesser of one-third of the calendar years in the contributory period,
- made contributions to the pension plan for a minimum of 3 years, or
- made contributions to the pension plan for at least ten calendar years

How much amount will I receive?

Survivors of eligible contributors receive a flat rate of \$2,500.

Old Age Security (OAS) Benefit: Quick Facts

The OAS pension is a monthly payment you may be qualified to receive when you reach the age of 65. Some individuals get automatically enrolled and receive notification from Service Canada. You can receive your first OAS payment the month after you turn 65. If they do not have much information to enroll you automatically, you will have to apply for this benefit.

The OAS pension program is

- the largest public pension fund in Canada
- funded with the Canadian Government's general tax revenues
- paid monthly to seniors 65 years old and above who are legal residents in Canada, and
- one of the important sources of retirement income for seniors.

Also, OAS benefits

- do not depend on your employment history
- depend on how long you have lived in Canada during your adult years
- do not transfer over to a surviving spouse, and
- are considered taxable income.

Here are answers to some of the frequently asked questions about the OAS benefit.

How do I qualify for an OAS pension?

You must have lived in Canada for at least 40 years after your 18th birthday to qualify for a full pension. Also, Your OAS pension amount is calculated based on the number of years you have lived in Canada after the age of 18.

Should you wait to start collecting my OAS pension?

You can receive your OAS pension a month after you turn 65. But if you choose to delay receiving this benefit, you can receive a higher monthly OAS benefit. The longer you put off receiving the amount, the more your pension amount will be.

How long can I delay collecting my OAS pension?

After you turn 65, you can delay collecting your OAS pension for up to 5 years. However, there is no advantage in delaying your first payment when you reach the age of 70.

How much could I receive?

OAS Pension Amounts (October to December 2020)	
Maximum Monthly Payment	To receive the OAS, your annual income must be
\$614.14	less than \$128,149

What will happen after the death of a spouse when the surviving partner is below the retirement age?

If a survivor is (a) between ages 60 and 65, (b) is not yet eligible to collect OAS, and (b) qualifies as low-income, there is a widowed spouse's allowance or allowance for the Survivor Benefit under the OAS. You may also qualify for OAS Death Benefit, which is also called the OAS Allowance for the Survivor.

OAS Death Benefit: OAS Allowance for Spouse

Surviving spouses or common-law partners are eligible to receive this allowance if they

- are Canadian citizens or legal residents, between the ages of 60 to 64 years old
- have not re-married or have no cohabiting common-law partner
- have a low income (\$25,080 or less) or have an annual income that is less than the maximum yearly threshold, and
- are living in Canada or have lived in Canada for at least 10 years since the age of 18.

One important thing to note about the OAS Allowance for Spouse is that it is non-taxable.

You will stop receiving the OAS Allowance for Spouse benefit if you

- become eligible for OAS at age 65
- choose to re-marry
- start living in a common-law relationship, or
- leave Canada for more than 6 months.

One disadvantage of the allowance for the OAS Survivor Benefit is that the survivor must be at least 60 years old. If you are younger and your spouse or common-law partner dies, you are not eligible for this benefit.

How much could I receive?

The amount you receive depends on your annual income and falls to zero when your income exceeds \$25,080 in 2020.

Allowance for the Survivor Amount (October to December 2020)		
Your situation	Maximum monthly payment	Your annual income must be
If you are a surviving spouse or common-law partner	\$1,390.30	Less than \$25,080

Reality Bites: Your CPP and OAS Forecast

All the information and figures sound simple, but the actual amount you will receive could vary depending on your situation and future circumstances. The combined amount of all these benefits could be less than what you expect because the web of conditions and requirements make it almost impossible to receive the maximum amount.

It would be wise to say that you should not rely 100% on your CPP and OAS benefits. It is also good to look at the potential of all possible retirement-income sources and make an estimate of the money you will need in the future.

We will help you make the choices that are right for your future.

By now you might be wondering how much you need for retirement. Set aside all the figures you have in your head. Stop predicting the future performance of the economy, tax expenses, and even how long you might live. All these are difficult and almost impossible to anticipate. There is a better way to plan for your future, and it should not be a guessing game. Reach out to us so we can work together and make the most of what you have. You can protect your wealth from unexpected life events through Smart Wealth Financial.