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Even the rich can qualify for Guaranteed Income Supplement - here's how

By Fred Vettese

The GIS is an income-tested pension program that, together with Old Age Security (OAS), helps low-income seniors avoid poverty. You might therefore be...

If you have above-average income and significant assets, you probably think the Guaranteed Income Supplement (GIS) is not meant for you. The GIS is an income-tested pension program that, together with Old Age Security (OAS), helps low-income seniors avoid poverty. You might therefore be surprised to learn that even the relatively wealthy can re-organize their finances to qualify for GIS benefits, at least until they reach age 70.

His TFSA bet was so risky, the bank asked what he was up to[1]

David Hodgetts knew he was doing something outside the norm in his tax-free savings account when he got a call from a bank official asking if he was party to illegal insider trading

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GIS payments are reduced by $1 for every $2 of income for single persons and by $1 for every $4 in the case of married couples. Almost every source of income counts for purposes of calculating this reduction, with the major exception being OAS pension. The Guaranteed Income Supplement therefore diminishes as non-OAS income rises and, in the case of married couples, stops altogether once combined income exceeds $22,560. Or does it?

Most of us would agree that $22,560 plus OAS pension is not a lot to live on, especially if we want to enjoy an active life. Below, I will show how we can spend considerably more than that and still receive most, if not all, of the maximum GIS entitlement.

The key is to have assets, other than a pension plan or an RRSP, that we can turn into retirement income. Tax-free savings accounts are perfect for this purpose since withdrawals from a TFSA are not taxed or even considered to be income. Consider Tom and Susan in the example below:

Tom's and Susan's current age: Both 45, and paying off a mortgage
Retirement age: 67 (by 2029, this is when OAS and GIS will start)
Current pay: $80,000
Final pay at 67: $153,000
Annual contribution to a TFSA: The maximum ($5,500 at present)
Annual contribution to an RRSP: 8% of pay

Current RRSP balance: $80,000

Saving 8% of pay in an RRSP plus another 7% or so in a TFSA might seem like a lot – and it is – but there are millions of Canadians who save even more. Over 50% of the participants in workplace pension plans also contribute to an RRSP and the number of TFSA accounts in Canada is closing in on 10 million.

By age 67, Tom and Susan will be millionaires if they follow the above saving regimen. They will have a mortgage-free house worth over a million dollars, an RRSP balance that is closing in on another million dollars plus a TFSA. And of course, they can also benefit from the government pension programs – CPP, OAS, and potentially GIS.

With $153,000 in final employment income 22 years hence, Tom and Susan will probably need no more than $80,000 of retirement income to match the lifestyle they enjoyed before retirement. While that represents only a little more than half of final pay, we need to remind ourselves that certain major expenditures will disappear by then such as saving for retirement, mortgage payments and child-raising costs. Income taxes will also be much lower in retirement.

So, how do Tom and Susan manage to spend $80,000 from age 67 and on and still receive GIS? For starters, their OAS entitlement will amount to about $23,000 a year. The maximum GIS payment, if they can get it, will be another $21,000. That means they need to come up with another $36,000, but it has to come from the right source if they don't want to lose the GIS.

To produce the last $36,000 of income, they tap into their TFSA which will have grown by retirement to about $320,000 (based on certain reasonable investment assumptions). They simply withdraw $36,000 a year from that TFSA, tax-free, for the three years between ages 67 and 70. During that time they defer commencement of CPP pension and keep their RRSP intact rather than rolling it over into a RRIF. The deferral of the CPP doesn't cost them anything in terms of lost value since the initial payment grows by 8.4% for each year up to age 70. The $36,000 from the TFSA is not considered income for purposes of GIS so, in the eyes of CRA, this couple essentially has no taxable income between ages 67 and 70.

As a result of following this strategy, they get all of their OAS pension without claw-back and also receive about $63,000 in GIS payments. Moreover, once the GIS payments stop at age 70, they will be in a sound financial position since their RRSP savings will still be intact and their CPP payments will be larger than if they started CPP earlier.

Do many people do this? The answer seems to be no since only 1% or so of CPP beneficiaries elect to defer the start of their payments until age 70.

I asked Rona Birenbaum, Financial Planner with Caring for Clients, if there is any reason this strategy is not more widespread. Rona confirmed that the strategy certainly works based on existing tax rules but there may be two reasons why it is not pursued more often. First, it takes a number of years for someone to position themselves to take advantage of the strategy and TFSAs simply haven't been around long enough. Second, there is the chance that the federal government will eventually nip this in the bud by adding an asset test to GIS. That said, there is limited downside in pursuing this strategy in the meantime since contributions to RRSPs and TFSAs are generally a good thing, whether we aim to collect GIS or not.

There is a third potential reason we don't often see this strategy. Some people may question whether it is morally right, given that the purpose of the program is to help the financially disadvantaged. While that is probably a better question to ask a priest than an actuary, I personally wouldn't feel right about collecting GIS. Still, we have to acknowledge the ethical question is more complicated than it seems.

Fact #1: Few taxpayers have any qualms about exploiting every legitimate tax deduction and loophole in order to minimize their income tax bill.

Fact #2: Most of us at one point or another have obtained a discount on some service rendered by paying the tradesperson in cash, knowing full well that the transaction will not be reported to the CRA.

It is a little ironic then that we generally suffer no pangs of conscience in doing what borders on the illegal, but hesitate to do something that is totally legal and falls in the same category as trying to minimize one's tax bill. For those who are still troubled by the scheme, they can dial it back a little by forgoing the GIS and simply ensuring they receive their full OAS without claw-back.

For those of us who might wish to consider this GIS strategy, it will be interesting to see what happens to CPP and RRIF rules regarding when payments must start. Right now, payments cannot be deferred beyond age 70; at the same time, OAS and GIS currently start at 65. When the earliest starting age for OAS and GIS rises to 67, will the latest age to start CPP and RRIF withdrawals rise to 72, or even 75 given our ever-increasing life spans? And will a future government add an asset test for eligibility for GIS? We may not know the answer to these questions for years to come.

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