

Machel & Associates

Wealth Advisory Group

Monday Morning Minute with Mike Machel

Estate Planning: Did You Know Survivor Benefits May Be Lackluster?

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As we approach winter to spring, it is a time when many of us resolve to update our estate plans. As part of that planning, a key objective is often to help secure the financial well-being of loved ones, including mitigating potential income loss to protect a surviving spouse after the other's passing. Yet, a notable challenge often arises from a widespread misunderstanding surrounding survivor benefits.

While pensions from a deceased's workplace may continue, a survivor's pension benefit is often at a reduced rate. Many people don't realize that government benefits may be lackluster, thereby leaving a shortfall in income or cash flow for the survivor. This may pose challenges because essential expenditures like property taxes and other bills often persist at their usual levels.

Consider the situation in which both spouses collect maximum CPP and OAS benefits – this could potentially provide over \$48,000 in annual retirement income for a couple, based on monthly CPP of \$1,306.57 (2023) and OAS of \$707.68 (Q4 2023) for a retiree at age 65. If one spouse were to pass away, consider that the deceased spouse's annual benefits, or around \$24,000, would be entirely lost.

This is because you cannot receive a survivor's pension while also receiving a full retirement pension: The most that can be paid to a survivor who is eligible for CPP benefits and the CPP survivor's pension is the maximum retirement CPP

benefit. With OAS benefits, there is no survivor benefit. The CPP provides a "death benefit," limited to a one-time payment of \$2,500, available if the deceased has been a qualifying CPP contributor.

For survivors not receiving maximum CPP benefits, perhaps due to time out of the workforce, lower CPP contributions or other reasons, they may be entitled to a survivor's benefit. Survivors are eligible for 60 percent of the deceased spouse's CPP pension (if over age 65; under this age, survivor benefits are 37.5 percent of the deceased's pension, plus a flat rate, if that spouse is not receiving other CPP benefits). When combining multiple benefits, the total amount of combined CPP benefits paid is adjusted based on the survivor's age and other benefits received. You will need to apply for survivor benefits, keeping in mind that back payments will be made for up to 12 months, so delaying may result in lost benefits.

Since CPP and OAS can make up a significant portion of a couple's retirement income or cash flow when both are living, thinking ahead about the potential loss of these benefits – or any income stream – is an important consideration. When reviewing wealth plans, having an income buffer in the event of the loss of one spouse or planning to pivot and use other sources for retirement income may be considerations. For information on CPP survivor benefits, see: www.canada.ca/en/services/benefits/publicpensions/cpp/cpp-survivor-pension.html

Estate Planning for Spouses: Tools to Consider

Addressing income loss is just one consideration when estate planning to protect a spouse. Others may include asset protection, planning for the tax efficiency of assets, minimizing probate or other estate tax, control over asset distribution and others. In brief, here are some tools that may be valuable:

- › **Trusts** – May help to protect and manage assets for the benefit of spouses who need support, or other heirs.
- › **Joint Ownership** – May help to bypass probate, provide tax efficiency and simplify the transfer of assets.
- › **Spousal Rollover** – Can allow for the tax-deferred transfer of assets between spouses upon the death of one spouse, preserving more of the estate's value for the surviving spouse.
- › **Insurance** – May provide support for long-term care, financial security, estate preservation, estate equalization or liquidity to cover immediate expenses or other estate expenses, such as taxes. Insurance can also provide creditor protection or help to facilitate the transfer of a business.

Have a great week.

Warmest Regards,

Mike Machel, FMA, CIM

Senior Wealth Advisor & Portfolio Manager

Machel & Associates Wealth Advisory Group

National Bank Financial - Wealth Management

Office: 204-925-5176

Toll-Free: 800-461-6314

Email: mike.machel@nbc.ca

Web: Machel & Associates Wealth Advisory Group

Address: 1000 – 400 St. Mary Avenue Winnipeg, MB R3C 4K5

my **LinkedIn** profile

