



Social Security, CPP and OAS: What happens when you have worked on both sides of the border?

Summary

Individuals who have worked and contributed into social security in both Canada and the U.S. can generally collect retirement benefits from both countries. The Canada-U.S. Totalization Agreement helps individuals qualify for benefits.

Canadians and Americans can benefit from the Canada-U.S. Totalization Agreement, which is a treaty that prevents double social security taxation and protects benefits for people who have worked in both countries. The agreement covers the U.S. Social Security program, as well as Canada's Old Age Security (OAS) program and the Canada Pension Plan (CPP). An understanding has been established with Quebec to extend the agreement to apply to the Quebec Pension Plan (QPP) as well.

You may have social security credits in both the United States and Canada but not have sufficient credits to be eligible for benefits in one country or the other. The agreement between the United States and Canada may help you qualify for social security benefits in one or both countries that you would not have been eligible for without the agreement. Retirees living in Canada may be eligible for the following government social security programs.

Old Age Security

The Old Age Security (OAS) pension is a monthly benefit available to seniors aged 65 and older. To be eligible for an OAS pension, you must be a Canadian citizen or legal/permanent resident of Canada when your pension application is approved, and have lived in Canada for at least 10 years since the age of 18. If you are living outside Canada, you must have resided in Canada for at least 20 years since age 18, and have been a Canadian citizen or legal resident on the day before you left Canada. You can receive benefits even if you have not worked in Canada.

You can qualify for a full OAS pension if you have lived in Canada for at least 40 years after the age of 18. If you live in Canada when you apply and do not qualify for the maximum benefit amount, you may qualify for a partial pension if you have lived in Canada for at least 10 years after age 18. A partial OAS pension is calculated at the rate of 1/40th of the full OAS pension for each year of residence in Canada after the age of 18. You can receive a higher OAS pension for each month you decide to delay your first payment, up to age 70.

You may also qualify for the OAS pension even if you have not lived in Canada for the minimum required number of years. Under the Canada-U.S. Totalization Agreement, Canada will consider your time living in the U.S. after the age of 18 to count towards the 10-year qualification requirement. The actual amount of your OAS pension will be determined by how long you have lived in Canada after age 18. Once your partial OAS pension has been approved, it will not increase with additional years of residence in Canada.

Canada Pension Plan and Quebec Pension Plan

The Canada Pension Plan (CPP) and Quebec Pension Plan (QPP) retirement pensions provide a monthly benefit to eligible applicants. To receive the CPP or QPP retirement pension, you must have worked in Canada and made at least one valid contribution to either plan, or both. Your U.S. social security credits do not need to be considered to qualify for a CPP or QPP retirement benefit. You can qualify for a retirement benefit as early as age 60 if you have made at least one contribution to the CPP or QPP. If you have contributed to both CPP and QPP, you will receive one benefit based on your total contributions to both plans. You can receive a higher CPP or QPP pension for each month you decide to delay collecting, up to age 70.

U.S. Social Security

To collect U.S. social security retirement benefits, you need 40 credits (generally 10 years) of work. The United States cannot count your Canadian credits if you already have enough credits under the U.S. system to qualify for a benefit. If you do not have enough work credits under the U.S. system to qualify for regular benefits, you may be able to qualify for a partial benefit from the United States based on both your U.S. and Canadian (CPP)/Quebec (QPP) credits. However, to be eligible to have your CPP/QPP credits counted, you must have earned at least six credits (generally one and one-half years of work) under the U.S. system. Under the tax treaty, you can claim a deduction of 15% of the U.S. Social Security benefits reported as income on your Canadian tax return.

The Windfall Elimination Provision (WEP) may reduce the amount of your U.S. benefit if you qualify for social security benefits from the United States based only on your U.S. credits and qualify for a CPP/QPP benefit from Canada. The WEP is a provision in U.S. law that can affect the way your U.S. social security benefit is calculated if you also receive a pension based on work that was not covered by U.S. Social Security. The reduction is limited to 50% of your CPP/QPP and a monthly cap, whichever is less. The WEP will not apply to you if you paid social security taxes on 30 years of substantial earnings. Your Canadian Old Age Security (OAS) pension will not affect your U.S. social security benefit amount.

Contact your Raymond James advisor if you would like to discuss strategies for claiming your government benefits.

RAYMOND JAMES®

Please note, changes in tax laws may occur at any time and could have a substantial impact upon each person's situation. While we are familiar with the tax provisions of the issues presented herein, as Financial Advisors of Raymond James, we are not qualified to render advice on tax or legal matters. You should discuss tax or legal matters with the appropriate professional. Raymond James Ltd., is a member of the Canadian Investor Protection Fund and regulated by the Investment Industry Regulatory Organization of Canada (IIROC). Raymond James (USA) Ltd., member FINRA / SIPC.