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CROSS-BORDER WEALTH MANAGEMENT



# **Cross-Border Retirement Income:** Understanding the Canada - U.S. Totalization Agreement

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## Navigating a Cross-Border Career: Impact on CPP, OAS, and SS Benefits for Canadian & Americans

Many Canadians and Americans delve into cross-border occupations, spending a portion of their career in Canada and the U.S. Amidst an era of globalization, it is common for cross-border opportunities to present themselves. Working within a cross-border framework necessitates contributions to entitlements on both sides of the border. The net result can lead to confusion on how an individual's history of cross-border employment affects pension eligibility requirements in either country. Specifically, how are my Canada Pension Plan, Canadian Old Age Security, and U.S. Social Security affected by my work experience in both Canada and the U.S.? What if I do not meet the minimum eligibility criteria to qualify for these pensions?



# Understanding the Eligibility Requirements for CPP, OAS, and SS Benefits: What Happens if You Don't Qualify

Let us re-examine the eligibility requirements for these three pension plans. Both the Canada Pension Plan and U.S. Social Security are based upon one's earnings record. To qualify for the Canada Pension Plan, the worker must have made at least one payment into the pension. For U.S. Social Security, eligibility requirements are more stringent. One must have paid Social Security taxes for a minimum of 10 years. Canadian Old Age Security criteria follows a separate qualification path. To be specific, Old Age Security eligibility is based upon residency rules vs. employment history. In particular, the calculated benefit is based on Canadian residency upon reaching the age of 18. A full Old Age Security benefit is paid once the individual has amassed 40 years of Canadian residency between the ages of 18 and 65. On the other hand, a partial benefit can be received where the applicant has a minimum of 10 years of Canadian residency (assuming Canadian residency exists when payments are made) or 20 years of Canadian residency (assuming U.S. residency exists when payments commence). For more specific details on the Canada Pension Plan, Old Age Security and U.S. Social Security, please visit: [Cross Border Retirement Income: Canada Pension Plan, Canadian Old Age Security, U.S. Social Security and the Windfall Elimination Provision](#). The question thus remains, what if these eligibility requirements are not met?





## Canada-U.S. Totalization Agreement: Bridging the Gap in Pension Eligibility

This concern marked a call to action, and on Aug. 1st, 1984, the Canada-U.S. Totalization Agreement was born. There was a subsequent amendment on Oct. 1st, 1997. The manifestation of this Agreement allows an individual to "totalize" their history spent North/South of the border to qualify for U.S. Social Security and/or Canadian Old Age Security. The tallying of cross-border residence/work history in tandem allows the individual to potentially meet their eligibility requirements that would not have otherwise been met if both the U.S. and Canadian employment history stood in isolation from one another. It is imperative to recognize that although the Agreement tackles the pension (Canadian Old Age Security or U.S. Social Security) qualification hurdle, it does not enhance the resulting benefit in question. In other words, your U.S. Social Security benefit will be based upon U.S. work history, and Canadian Old Age Security will be centered on the duration of Canadian residency beyond age 18. Let's review a few examples.

## **Example Scenario: Leveraging the Canada-U.S. Totalization Agreement to Secure Social Security Benefits**

Tom, a Canadian citizen and U.S. green card holder residing in Michigan has decided to retire in 2024. His career concludes under the following circumstances: thirty years working in Oakville at Ford Canada and six years earning gainful employment under Ford U.S. in Michigan. Tom decides to return to his roots in Canada. For simplicity, let's assume Tom will have spent forty years residing in Canada beyond the age of 18 by the time he reaches age 65. In this case, he qualifies for a full Old Age Security benefit as well as benefits through the Canada Pension Plan based upon his Canadian earnings record. However, he does not meet the minimum years of service south of the border to qualify for U.S. Social Security. In steps, the Canada-U.S. Totalization Agreement allows Tom to leverage his Canada Pension Plan credits to bridge the 4-year deficit gap to meet U.S. Social Security qualifications. Even though Tom now qualifies, his Social Security benefit will be based upon his six-year earnings record vs. the ten-year minimum requirement. Had the "Agreement" not been assembled, Tom would not have been able to receive any Social Security benefit.

## **Illustrating the Impact of the Canada-U.S. Totalization Agreement on OAS Eligibility**

Let us turn our attention to how the "Agreement" can play out in a scenario north of the border. In this scenario, the circumstances are as follows: Jill is a U.S. citizen and a Canadian permanent resident. She has spent all but five years living south of the border and plans to continue her Canadian residency on a go-forward basis. As such, Jill has not met the ten-year minimum residency requirement to receive a partial Old Age Security benefit. In this scenario, the "Agreement" triggers the ability for Jill to pull U.S. residence history to bring total residency to the minimum Old Age Security requirement for partial Old Age Security benefits. As is the case with the first scenario, pulling U.S. historical residency does not increase the Old Age Security benefit for Canadian retirement purposes; rather, it simply allows Jill to qualify to receive an Old Age Security benefit based upon the five years she has resided in Canada since the age of 18. Like the previous example, had the "Agreement" not been made, Jill would not have been able to breach the qualifications for Old Age Security eligibility.

# With this scenario in mind, how does one apply the Agreement to claim their own pension benefits?

The pension plans of Canada and the U.S. communicate with each other quite well. As such, if you live in the U.S. and desire to apply for U.S. or Canadian benefits, you can visit or write [any U.S. Social Security office](#) or apply for Canadian benefits by completing the application form CDN-USA 1 at any U.S. Social Security Office.

If you live in Canada and hope to apply for U.S. benefits, visit or write to [any U.S. Social Security office](#) located near the border.

So, where do you find yourself? Are you caught in the middle of this border issue? You are not alone in your quest to comprehend a path forward. With regulations and agreements constantly in flux, it is important to examine your options through the lens of current cross-border "Agreements." To find out more, contact [Cardinal Point](#).

**Contact Cardinal Point for more information**

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