

Upcoming Changes to the Canada Pension Plan

Natalie Humphreys – Financial & Estate Planning Group

Today Canadians are healthier, better educated and living longer. For some, this means their retired years can potentially equal their working years. As such, more are working later in life to adapt to the ever changing economic labour market and demographic trends. To this end, the Canada Pension Plan (CPP) will undergo some dramatic changes and evolve to provide equity and flexibility to older workers. These changes will be gradually phased in over five years starting in 2011.

Summary of Changes:

1. Make adjustment factors for taking the CPP early more neutral so early retirees do not benefit more than later retirees.
2. All working beneficiaries of the CPP must contribute to the Plan until age 65 and then voluntarily until age 70 to accrue additional benefits.
3. Eliminate the requirement to stop working in order to qualify for a CPP retirement pension.
4. Increase the general drop-out provision to exclude 17% (from 15%) of periods of low or no earnings from the benefit calculation.

Please note: These changes will not have an impact on those already receiving the CPP retirement pension, disability benefit, combined benefit, or those who start taking their benefits before the changes come into effect.

The new changes will make adjustment factors for taking the CPP early more neutral so early retirees do not benefit more than later retirees.

Under the current legislation if CPP is collected before the age of 65, the pension benefit is reduced by 0.5% per month for each month that the pension is taken before the recipients 65th birthday to a maximum of 30% over 5 years. Conversely, if CPP collected after age 65, the pension benefit is increased by the same amount.

With the new legislation, if CPP is collected before the age of 65, the pension benefit is reduced by 0.6% per month for each month that the pension is taken before the recipients 65th birthday to a maximum of 36%. This change will be brought into effect gradually over a five year span beginning in 2012.

The new rules will also reward additional years of work. By taking the CPP after the age of 65 the pension benefit is increased by 0.7% per month for each month to a maximum of 42% up to age 70. This change will be brought into effect gradually over a three year span beginning in 2011.



All working beneficiaries of the CPP must contribute to the Plan until age 65 and then voluntarily until age 70 to accrue additional benefits.

Currently, if a retiree is receiving CPP pension benefits and then decides to go back to work, they are not required to restart their CPP contributions as a working beneficiary. Once CPP pension benefits begin, the recipient can return to work but is not required to make any further contributions to the Plan.

Under the new rules if an individual is under the age of 65, collecting CPP, and working the individual and their employer will have to continue contributing to the CPP. If the individual is between the ages of 65 to 70, they can opt to continue making contributions to the CPP and continue to build their pension.

The additional contributions may increase retirement benefits by 2.5% of the maximum pension amount per year of additional contributions depending on the individual's earning level.

Eliminate the requirement to stop working in order to qualify for a CPP retirement pension.

Currently if an individual wishes to take their CPP benefits before the age of 65, they must either stop working or reduce their earnings (must be less than the current monthly maximum CPP retirement pension benefit) for at least two months to qualify.

New legislation states that to receive an early CPP retirement benefit individuals will not have to stop working or reduce their earnings. As of 2012, benefits can be received as early as age 60 without any work interruption or reduction in hours worked or earnings. This allows a phased in retirement or a supplement to employment earnings.

Increase the general drop-out provision to exclude 17% (from 15%) of periods of low or no earnings from the benefit calculation

The amount of monthly CPP benefit an individual can receive depends on how many years they contributed to the plan, the amount of the contributions and the age that the individual decides to start receiving their pension. The current CPP retirement payment rules are based on a 47 year career. A "drop-out" provision allows 15% of periods of low or no earnings to be excluded from the calculation. The 15% would give an individual who takes their CPP at age 65 the ability to drop almost 7 years of low or no earnings from the calculation of their average career earnings.

Under the new legislative change, the general drop-out provision would increase to 16% in 2012 (allowing a maximum of almost 7.5 years to be dropped) and to 17% in 2014 (allowing a maximum of 8 years to be dropped). This enhancement will support those experiencing work interruptions that occur for various reasons such as pursuing educational opportunities or caring for a family member.



The chart below demonstrates some of the decisions an individual may face when deciding when to start receiving a CPP retirement benefit.

Consider taking CPP RTR benefits early if	Consider taking CPP RTR benefits at normal retirement age if	Consider taking CPP RTR benefits later if
Sick and can't qualify for CPP disability	Average health	Healthy
Life expectancy below average	Average life expectancy	Life expectancy is above average
Low income, no other sources of income	Medium income with some other sources of income	High or medium income, some other sources of income
Laid-off and unable to find another employment	Unable or unwilling to work beyond 65	Continue working with your average or above average earnings
Continuous employment history	Continue working with lower than your average earnings	Employment history with considerable gaps
No divorce and no credit split	Continuous employment history with some gaps	Divorced and lost some pension credits upon credit split

CPP RTR = Canada Pension Plan Retirement

Source: Presentation "Proposed Amendments to the Canada Pension Plan", HRSDC

In conclusion, the enhancements to the early and late retirement adjustment factors seek to achieve neutrality to the financial impact to the CPP benefit irrespective of what age an individual chooses to retire. Even after all these changes come into effect, it will continue to be challenging to determine whether it makes sense to apply early for CPP benefits, since each individual's circumstances vary.

This publication has been prepared by ScotiaMcLeod, a division of Scotia Capital Inc.(SCI), a member of CIPF. This publication is intended as a general source of information and should not be considered as personal investment, tax or pension advice. We are not tax advisors and we recommend that individuals consult with their professional tax advisor before taking any action based upon the information found in this publication. This publication and all the information, opinions and conclusions contained in it are protected by copyright. This report may not be reproduced in whole or in part, or referred to in any manner whatsoever, nor may the information, opinions, and conclusions contained in it be referred to without in each case the prior express consent. Scotiabank Group refers to The Bank of Nova Scotia and its domestic subsidiaries.

