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Tax News

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If you are collecting CPP retirement, disability or survivor benefits or will begin collecting your pension prior to 2012, you will not be impacted by these changes unless you are a CPP recipient who continues to work. Here are the changes...

CPP Reforms 2011 - 2014

Canada Pension Plan Reforms

On May 25, 2009, the Ministry of Finance announced changes to the Canada Pension Plan (CPP). These changes were legislated in December 2009. These changes will become effective between 2011 and 2014. They will benefit workers to various degrees depending on their age, history of earnings and their ability or desire to work past age 60.

❖ Contribution to CPP

Currently, we are not required to make contributions to CPP once we begin collecting retirement benefits. Accordingly, we are not able to increase our pensions going forward. The new rules will require any individual collecting a CPP benefit under the age of 65 and still working to continue making contributions to CPP (along with their employer).

Additional contributions made in a given year will increase the benefits collected beginning the following calendar year even though the individual is already entitled to the maximum monthly pension benefit. As for individuals over the age of 65 and still working, they will have the option of making further contributions to CPP if they so desire, leading to increased future benefits.

It appears that the new rules will affect new pensioners, as well as others who are already receiving CPP benefits under the age of 65. Those who are currently under the age of 65, still working and collecting an earlier retirement pension may be required to make further contributions to the CPP under these new rules.

❖ Pension Adjustments for early and late CPP Take-UP

The normal age of CPP take-up is age 65 - the pension amount is calculated based on the number of years a person has worked and contributed to the Plan, as well as on the salary or wages earned. Currently, our CPP monthly retirement benefits are reduced by 0.5% for every month that the pension is taken **prior** to age 65.

Thus if an individual chooses to take the pension at age 60, the basic amount will be reduced by 30%. If the pension is taken **after** age 65, the late pension is increased by 0.5% per month for each month after age 65 up to age 70. Thus, if an individual chooses to take the pension at age 70, the basic amount will be increased by 30%.

Under the new rules, the early pension reduction will gradually be increased to 0.6% per month for each month that the pension is

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taken before age 65. This would be done over a period of five years, starting in 2012. This results in a maximum reduction of benefits of 36%.

The late pension augmentation will be gradually increased to 0.7% per month for each month that the pension is taken after an individual's 65th birthday, up to age 70.

This will be done over a period of 3 years, starting in 2011.The monthly benefit could be improved by as much as 42% if the pension is delayed.

These rules do provide an **incentive** for persons to delay the collection of the monthly benefit beyond age 65. There is a **disincentive** to start early due to the lower monthly benefit amounts. Keep in mind that those who are still working, will be required to make further contributions to CPP and will be eligible for higher benefits in later years.

❖ Removal of the Work Cessation Test

Under current rules, in order to qualify for a CPP benefit before age 65, there is a requirement to either stop working or reduce earnings below the monthly CPP retirement pension maximum (currently $934) for a period of 2 months. This earnings test is referred to by the government as the 'Work Cessation Test'.

Under the new rules, the Work Cessation Test will be removed for employees who commence their CPP pension in 2012 and later.

However, employees under the age of 65 will be required to continue to contribute while working in return for an increased benefit.

This is a positive change for everyone, including those who has a stream of revenues that cannot easily be altered.

❖Increase in the General Low Earnings Drop-Out (Average career Earnings):

The CPP retirement pension amount is based on the number of years a person has worked and contributed to the Plan, as well as the salary or wages he or she earned. *Specifically, it is calculated as twenty-five-percent (25%) of an individual's "average career earnings", starting at age 18 and ending at the age of CPP take-up*.

Example: an individual takes the CPP at age 65, the span of the career is considered to be 47 years.

Example: the CPP is taken at age 60, the span of the career is 42 years.

The **average of earnings** over the span of the career is calculated allowing for fifteen-percent (15%) of the years where earnings are low or nil for whatever reason (e.g., full-time post-secondary education attendance or spells of unemployment) to be dropped.

This provision is called the "general low earnings drop-out". The fifteen-percent (15%) gives individuals who take their CPP at age 65 almost seven years of low or zero earnings years that can

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be dropped from the calculation of their average career earnings. Virtually everyone benefits from the CPP's drop-out provisions. Without these provisions, almost everyone's "basic" pension amounts – that is, the pension amount if the CPP is taken-up at age 65 without any adjustments for early or late take-up – would be lower.

Under the new legislation, the low-earnings drop-out provisions will be **increased** to 16% in 2012 and 17% in 2014. This change positively impacts anyone contributing to CPP and those who decide to take time away from work to go back to school or stay at home to care for a family member.

The information presented is only of a general nature, may omit many details and special rules, is current only as of its published date, and accordingly cannot be regarded as legal or tax advice. Please contact our office for more information on this subject and how it pertains to your specific tax or financial situation.

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