CPP: Plan Now as Changes Begin

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There are many changes coming for retirees tapping into CPP, so now is a great time to update your clients and provide some tax efficient retirement income planning. Service Canada has produced a

fact sheet, Changes to the Canada Pension Plan, which explains the upcoming modifications, with examples included. Here is a summary of the new CPP rules, as outlined by CRA, and what to expect in the future:

1. Beginning in 2011, the monthly CPP retirement pension amount will increase by a higher percentage if taken after age65

Before the changes, a CPP retirement pension increased by 0.5% for each month after age 65 (and up to age 70) that an individual delayed receiving it. This meant that an individual who started receiving their CPP pension at 70 received 30% more than if they had taken it at65.

From **2011 to 2013**, the Government of Canada will gradually increase this percentage from 0.5% per month (6% per year) to 0.7% per month (8.4% per year). This means that, by 2013, an individual who starts receiving their CPP pension at the age of 70 will receive 42% more than if they had taken it at 65.

The following table shows the monthly increase for each year.

Year	% (monthly increase)
2011	0.57
2012	0.64
2013	0.70

For a person who starts receiving the retirement pension at age 70, this adjustment represents a maximum increase of 34.2% in for those who begin to receive CPP in 2011, 38.4% in 2012, and 42% in 2013.

2. Beginning in 2012, the monthly CPP retirement pension amount will decrease by a larger percentage if taken before age 65

Before the changes, a CPP retirement pension was reduced by 0.5% for each month before age 65 that an individual began receiving it. This meant that an individual who started receiving their CPP pension at 60 received 30% less than if they had waited to take it at 65.

From 2012 to 2016, the Government will gradually change this early pension reduction from 0.5% to 0.6% per month. This means that by 2016, an individual who starts receiving their CPP pension at the age of 60 will receive 36% less than if they had taken it at 65.

The following table shows the monthly reduction for each year.

Year	**% (monthly reduction)**
2012	0.52
2013	0.54
2014	0.56
2015	0.58
2016	0.60

For a person who applies for and receives their CPP retirement pension at age 60, this represents a maximum reduction of 31.2% if he begins to receive CPP in 2012, 32.4% in 2013, 33.6% in 2014, 34.8% in 2015, and 36% in2016.

3. Beginning in 2012, the number of years of low or zero earnings that are automatically dropped from the calculation of the CPP pension will increase

Before the changes**,** when Service Canada calculated an individual's average earnings over their contributory period (from the earliest of January 1, 1966, or age 18 until the effective date of their retirement pension if effective before the age of 70), 15% of their lowest earnings were automatically dropped. This is called the "general drop-out provision." Under this provision, if someone took their CPP retirement pension at 65, up to 7 years of their lowest earnings were automatically dropped from the calculation of their average earnings.

Starting in 2012, the percentage of low earnings will increase to 16%, allowing up to 7.5 years of the lowest earnings to be dropped from the calculation, which will likely increase the benefit amount. In 2014, the percentage will increase again to 17%, allowing up to 8 years of the lowest earnings to be dropped from the calculation.

4. Contributors will be able to receive their CPP retirement pension without any work interruption

Starting in 2012, contributors no longer have to stop working or significantly reduce earnings for two consecutive months to receive the CPP retirement pension before the age of 65. This will make it easier for Canadians to make a gradual transition to retirement, combining CPP and part-time work, for example.

5. Post-Retirement Benefit

Starting in 2012, anyone who receives a CPP or QPP retirement pension and works outside the province of Quebec may have to continue making CPP contributions, which will increase their payments through the new **Post-Retirement Benefit (PRB)**. The amount of the new benefit will depend on the level of earnings and contributions individuals make to the CPP after they begin receiving the retirement pension.

Before the age of 65, contributions will be mandatory for individuals and their employers. From age 65 up to age 70, contributions will be optional (employers will have to contribute if employees do). Individuals who choose not to contribute to the PRB may later change this decision and start contributing. However, only one change can be made per calendar year. Self-employed individuals will have to pay both the employee and employer portions.

Some additional facts about the PRB, from Service Canada:

- Working CPP retirement pension recipients who wish to opt out of contributing to the Plan after age 65 will be required to inform the Canada Revenue Agency.
- Contributions made while beneficiaries are receiving their CPP retirement pensions will build up only the PRB. These contributions will not create eligibility or increase the amount of other CPP benefits, nor be subject to a credit split or retirement pension sharing.
- Each year of work will provide an additional post-retirement benefit that will begin the following year and will be paid for life.
- The PRB will be added to an individual's CPP retirement pension, even if the maximum pension amount is already being received.

The current CPP contribution rate of 9.9% is not expected to increase as a result of these modifications. What may change, however, is the context in which the decision to begin receiving to Canada Pension Plan income is made.

There is no doubt that Canadians who are fully retired at age 60 and need additional income for living expenses should apply for CPP, in spite of the reductions to monthly income upon early takeup. Those who plan to keep working but at a slower pace with less income may consider early CPP as well. Consult with your tax advisor to project your marginal tax rate for the year in which you begin to draw your CPP; there's no point in giving half of it back to the tax man!

Fully-employed Canadians who are already in a high tax bracket should think twice about early CPP – deferral looks better now with these changes. Why not wait until retirement or later and enjoy an increased CPP payment at a lower tax rate?

No one has a crystal ball and decisions can only be made with the information available at the time. The Canada Pension Plan is not like private retirement savings or employment pension plans. It is most valuable to the person who contributed to it throughout a working lifetime. Upon death, survivor and child benefits are available but these are subject to many restrictions and maximums, depending upon the circumstances of those left behind. In the case of single Canadians, your CPP pension dies with you. This is why it is important to seek expert advice when it comes time to make decisions about retirement, especially when government tax credits, pension and benefits are involved. Education will put you in the driver's seat for the benefit of you and your family!