

Changes to the CPP: The Post-Retirement Benefit (PRB)

The Canada Pension Plan (CPP) has gone through several major changes in recent years. One of these changes, which took effect January 1, 2012, pertains to recipients of CPP or Quebec Pension Plan (QPP) retirement benefits who continue to work in Canada (outside of Quebec). These individuals can now (and in some cases - must) make contributions towards the new "Post-Retirement Benefit" (PRB). Note that these changes do not apply to the QPP.

Prior to the introduction of the PRB, individuals who were collecting the CPP/QPP retirement benefit and subsequently returned to work could no longer contribute to the CPP program. This article provides a summary of the PRB and how it may affect your decision on when to retire or when to start your CPP retirement pension.

Background

The PRB was introduced as part of the several changes to the CPP program to accommodate the changing lifestyles of Canadians who are living longer and healthier lives with many choosing to work longer.

The PRB is a new lifetime benefit that is **separate** from traditional CPP retirement benefits. Contributions towards the PRB will generate a separate benefit payable as early as January 1st of the year following the year you make the contributions. For example, by making PRB contributions in 2012, the benefit may be paid out as early as 2013. This allows CPP/QPP beneficiaries to receive additional retirement benefits even if they are receiving the maximum CPP/QPP retirement pension.

Who has to contribute?

Effective January 1, 2012, if an individual is earning income in Canada (outside of Quebec) and receiving their CPP/ QPP retirement pension:

- **Age 60 to 64 years of age:** employees and their employers will have to make mandatory CPP contributions. Self-employed individuals will have to pay both the employee and employer portions.
- **At least age 65, but under 70 years of age:** employees can either choose to make CPP contributions, resulting in a PRB, or opt out of making these contributions by way of an election. If an employee chooses to make the contributions, their employers will have to make matching contributions. Self-employed individuals who choose to contribute will have to pay both the employee and employer portions.
- Contributions stop when an individual either stops working or reaches age 70.

How to Stop Contributing to the CPP?

CPP/QPP retirement benefit recipients under age 70 who continue to work in Canada (outside of Quebec) can **elect** to stop making PRB contributions at anytime after they turn age 65.

- **Employee:** by filing a Canada Revenue Agency (CRA) [Form CPT30, Election to Stop Contributing to the Canada Pension Plan, or Revocation of a Prior Election](#). The election to stop contributing to the CPP takes effect on the first day of the month following the date the completed form is provided to the employer. Therefore, if an employee who is at least 65 years of age receiving CPP/QPP retirement pension and does not want to contribute towards the PRB in January 2013, that employee must provide a copy of a signed and completed

Form CPT30 to the employer before December 31, 2012. In addition, the original completed copy should be filed with the CRA. Please refer to Form CPT30 for further filing instructions.

- **Self-employed:** by completing the applicable section of Schedule 8, *CPP Contributions on Self-Employment Earnings* for 2012 and files it with your *Income Tax and Benefit Return* for 2012.

How to Start Contributing to the CPP Again?

If you want to start contributing to the CPP again, you need to **revoke** your election to stop contributing to the CPP. However, note that you can't revoke an election in the same calendar year that you elected to stop contributing to the CPP. You will need to use the same form as for electing to stop contributing to the CPP (per above).

How much to contribute?

Each employee and employer contributes 4.95% of the pensionable earnings. Self-employed individuals contribute both portions totalling 9.9%. An individual's pensionable earning is the difference between the minimum and set Yearly Maximum Pensionable Earnings (YMPE). The minimum level is currently fixed at \$3,500 and the YMPE is adjusted every year. For the 2012 taxation year, the YMPE is \$50,100. The maximum employee or employer CPP contribution for 2012 is \$2,306.70 [(\$50,100 - \$3,500) x 4.95%]. If you are self-employed your contribution rate is 9.9% or \$4,613.40 for 2012.

How much is the benefit payment amount?

The amount of PRB will depend on your age, level of earnings and the amount of contributions you made during the previous year. Similar to the CPP, your age will affect your PRB. For example, a 68 year old who contributes the same amount to the PRB as a 62 year old will receive a higher PRB amount than the 62 year old contributor.

The maximum PRB amount for a single year, before actuarial adjustment, is approximately 1/40th of the annual maximum CPP retirement pension (\$986.67 per month for 2012). The PRB is calculated based on an individual's pensionable earnings for the year, the YMPE for the year, the Maximum Pensionable Earnings Average (MPEA) for the following year and the actuarial adjustment factor (based on the individual's age).

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If the individual was already receiving the maximum CPP retirement pension of \$986.67 per month in 2012, their total estimated retirement benefit will increase even more in 2013 as result of their PRB contributions in 2012. This is because the PRB is cumulative, where each new PRB will be added to any previous PRBs. You will receive a new PRB for each year you make contributions and your annual retirement benefit will continue to increase for every year of PRB contribution.

Starting in 2013, PRB payments will be indexed to reflect subsequent increases in the cost of living.

PRB calculator

The government of Canada has developed a PRB calculator to help you understand how contributions to the PRB will impact your future retirement benefit payments. The PRB calculator may be accessed through the following link: https://srv111.services.gc.ca/PRB_01.aspx

For example, Mr. Brown was born in January of 1951 (61 years old) and plans to work while receiving his CPP retirement pension. Mr. Brown would like to know his PRB estimate starting at age 62. Mr. Brown's annual income before the year of the PRB estimate is \$50,000.

According to the PRB calculator, Mr. Brown's PRB estimate at age 62 is \$240 per year expressed in today's dollars.

Other facts about the PRB:

- PRB is taxable like the CPP.
- Individuals between the ages of 60 to 70 who make contributions towards the PRB must start receiving their PRB the year following their contribution.
- Payments are not subject to credit splitting or retirement pension splitting.
- There is no repayment or clawback amount similar to the Old Age Security (OAS) for the PRB.
- Similar to CPP benefits, PRB will impact an individual's eligibility for income-tested benefits such as Allowance and Guaranteed Income Supplements.
- Contributions toward the PRB do not provide CPP disability or survivor's coverage.

Lastly, Service Canada provides comprehensive information about the PRB and may offer assistance when assessing your personal circumstances. The Service Canada website for PRB may be access through the following

link: <http://www.servicecanada.gc.ca/eng/isp/pub/factsheets/cppretirement/prb.shtml>



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