TD Wealth

Changes to the Canada Pension Plan

On May 25, 2009, the federal, provincial and territorial Finance Ministers proposed changes to the Canada Pension Plan (CPP) to provide more flexibility to Canadians. These changes were incorporated in Bill C-51 which received Royal Asset on December 15, 2009. The new rules will be phased in over a six-year period starting in 2011.

Quick summary of the changes

New rule	Who will be impacted?	What is the impact?
Removal of Work Cessation Test	All individuals who plan to take CPP benefit before age 65.	In 2012, there will no longer be a need to stop working or significantly reduce one's earnings in order to start receiving CPP benefits early.
Increase in General Low Earnings Drop- Out	All CPP contributors, but especially those who have many years of low or no earnings.	The rate will be increased to 16% in 2012 and further increased to 17% in 2014, resulting in improvement of the basic CPP pension for most people.
Participation in CPP contribution while receiving benefit: Introduction of the Post-Retirement Benefit (PRB)	Working individuals who are under age 65 and receiving a CPP pension.	In 2012, CPP contributions for the employee and employer are mandatory.
	Working individuals who are age 65 or over and receiving a CPP pension.	In 2012, CPP contributions for the employee are voluntary; and if employee opts to contribute, employer must also contribute.
Actuarial adjustments for early and late CPP take-up	Individuals who take CPP early (i.e. before age 65).	In 2012, and over the next 5 years, the early pension reduction will be gradually increased to 0.6% per month for each month of early take-up.
	Individuals who take CPP late (i.e. after age 65).	In 2011, and over the next 3 years, the late pension augmentation will be gradually increased to 0.7% per month for each month of late take-up.

Removal of Work Cessation Test

The Department of Finance recognizes the reality that people now take different paths to retirement. Many older workers now prefer to phase into retirement by working reduced hours or part-time. Until this amendment comes into effect in 2012, individuals must stop working or earn less than the monthly maximum pension to receive CPP retirement benefits. The removal of the work cessation test will enable such individuals to receive CPP benefits as a supplemental income while still working.

Introduction of the Post-Retirement Benefit

Continuing to contribute to CPP translates into an added expense while working, but it also means increased CPP retirement benefits in future. The Department of Finance indicates that the objective of this measure is to help people build up a secure, inflation-adjusted retirement income stream. For individuals who do not have a defined benefit pension plan at work, or whose CPP pension would not otherwise be close to the maximum amount, this may be particularly significant. In 2012, contributors may continue to work while receiving CPP benefits and make further contributions. The additional contributions made while working will fund the newly created Post-Retirement Benefit (PRB).

Individuals aged 60 to 65 who are already receiving CPP but still working are now required to make CPP contributions. Once a working beneficiary reaches age 65, they have the ability to decide whether or not to continue to contribute to CPP; if the employee opts to contribute, their employer must match the contribution.

Here are few features of PRB:

- Benefits can be paid in the following year of making the contribution (as early as 2013),
- Payments are in addition to the CPP retirement benefit, even if the individual is eligible for the monthly maximum benefit,
- Contributions are mandatory for the employees and employers for working individuals under age 65 and receiving CPP pension,
- Contributions are voluntary for employees who are working individuals age 65 or over and receiving CPP pension (if employee opts to contribute, employer must match the contribution),
- Contributions must stop when individuals stop working or reach age 70,
- Payments are not subject to credit splitting or retirement pension splitting,
- Starting in 2013, PRB will be indexed to reflect the increase of cost of living,
- Similar to CPP benefits, PRB will impact an individual's eligibility for income-tested benefits such as Allowance and Guaranteed Income Supplements.

Increase in General Low Earnings Drop-Out

To maximize an individual's CPP retirement benefit, the CPP will exclude certain years where an individual had zero or low income. Before the change, 15% of the contributory period will be excluded from the calculation in which earnings were lowest (approximately 7 years). With the change, the drop-out percentage will increase from 15% to 16% (approximately 7.5 years) in 2012 and 17% (approximately 8 years) starting in 2014.

Actuarial adjustments for early and late CPP take-up

Before this amendment came into effect in 2011, the early and late take-up adjustment factors marginally tipped the balance in favor of early take-up. As a result, the coming changes are meant to restore that balance back to neutral.

Taking CPP before age 65

In 2011, an individual who takes CPP retirement benefit at the earliest possible moment (i.e. age 60) will lose 30% of the entitlement; but under the new rules, that loss will increase to 36%. In 2012, and over the next 5 years, the early pension reduction will gradually increase by the following monthly actuarial factors for each month of early take-up:

Year	% (monthly reduction)	% (annual reduction)
2012	0.52	6.24
2013	0.54	6.48
2014	0.56	6.72
2015	0.58	6.96
2016	0.60	7.20

Source: Human Resources and Skills Development of Canada

Example:

According to Taylor's Statement of Contributions, he is entitled to $900 per month starting in 2016 (age 65). However Taylor would like to retire and start collecting his CPP retirement benefit in 2014 when he turns 63 years old. By taking his CPP before age 65, Taylor's monthly pension amount will decrease to $779.04 (0.56% x 12 months x 2 years) when his retirement benefit starts in 2014.

Taking CPP after age 65

With the changes, an individual who defers their CPP retirement benefit to the latest moment (i.e. age 70) will increase their pension entitlement from 30% to 42%. In 2011, and over the next 3 years, the late pension augmentation will be gradually increased by the following monthly actuarial factors for each month of late take-up:

Year	% (monthly increase)	% (annual increase)
2011	0.57	6.84
2012	0.64	7.68
2013	0.70	8.40

Source: Human Resources and Skills Development of Canada

For more information on how the CPP changes may affect you retirement income, please visit www.servicecanada.gc.ca.

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