Canada Pension Plan Retirement Pension Strategy – Pension Sharing

The Canada Pension Plan (CPP) pays a monthly retirement pension to eligible Canadians who have worked and contributed to the plan. One of the many features of the CPP retirement pension is the ability to income-split via pension sharing (not to be confused with credit splitting on divorce or separation).

To achieve CPP pension sharing, the following should be noted:

- Spouses or common-law partners (hereinafter collectively referred to as “Partners”) who live together and who are both at least 60 years of age may apply to share CPP pension benefits.
- At least one Partner must be a CPP contributor. Both Partners must either be applying for benefits or already be receiving CPP retirement pension.
- The amount of pension to be shared depends on the length of time that the Partners lived together, relative to the contributions over that time period.

Note:

If you are under 65 years of age and receiving CPP retirement pension and choose to work, you must continue to make CPP contributions that will increase your CPP payments through the Post-Retirement Benefit (PRB). Those 65 to 70 years of age and working can choose not to contribute to the CPP.

PRB is not eligible for pension sharing.

Example

- Bobby and Taylor have lived together for a 40-year contributory period and their CPP retirement pension is based entirely on income earned while living together. Bobby’s monthly CPP retirement pension is $800 and Taylor’s CPP monthly retirement pension is $300.
- Add the pension earned by each during this time and divide the total by 2 to determine the shareable pension.
- With pension sharing, they would each receive ($800 + $300) / 2 = **$550**.
- Additional pension earned outside this time period would be attributed to the respective contributor.

Example

- Jordan and Leslie have lived together for a 20-year contributory period. Jordan's monthly CPP pension is $700/month of which $300 is based on income earned prior to living with Leslie.
- Leslie's monthly CPP pension is $350/month of which $150 is based on income earned prior to living with Jordan.
- Add their pension payments and deduct the portions that are based on income earned prior to living together before dividing the total by 2 to determine the shareable pension.
- With pension sharing they would each receive [($700 + $350) – ($300+$150)] / 2 = **$300**.
- Jordan and Leslie will also receive a pension amount based on their earnings prior to living together for a total monthly pension of:

Jordan: $300 + $300 = **$600**   Leslie: $300 + $150 = **$450**

Pension sharing can begin as soon as the *Application for Pension Sharing of Retirement Pension(s), Canada Pension Plan* has been approved. If the individual who wishes to share CPP Pension has never applied for a CPP Retirement Pension, he or she will also have to complete the *Application for Canada Pension Plan Retirement*. Visit www.servicecanada.gc.ca for more information.

Pension sharing will be discontinued in any of the following situations:

- If both Partners request to cancel the arrangement;
- Divorce or separation for married couples;
- Relationship breakdown for common-law unions
- One Partner dies; and
- If one Partner, who has never paid into CPP, begins contributing.

If CPP pension sharing stops, both Partners will collect their original entitlement.

Planning Point

While the overall benefits received remains the same, pension sharing may reduce the household's overall income tax payable by reducing the income of the higher income earner and generating income for the lower income Partner. This strategy may create a great income-splitting opportunity.

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