

Little known facts about the Canada/Quebec Pension Plan (CPP/QPP)



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For Canadians at or nearing retirement, the Canada/Quebec Pension Plan (CPP/QPP) remains a bit of a mystery. Many people realize they've been contributing to it for a good portion of their lives, but may not be sure when or how much they will receive at retirement.

Furthermore, there is often some confusion as to whether it is a better strategy to begin drawing pension income early at age 60, or wait until age 65. What follows are some facts that shed some light into the "black hole" known as the CPP/QPP.

FACT #1

You can start collecting a CPP/QPP retirement pension as early as age 60. Effective 2012, there is no longer a requirement to stop working to receive CPP pension payments between age 60 and 65. Note that this is not yet the case with QPP.¹ However, for those who take CPP before age 65, the early retirement reduction is gradually increasing over a period of 5 years from 0.5 per cent to 0.6 per cent per month for each month you are under age 65 making the total reduction equal to 36 per cent at age 60 in 2016*. The early retirement reduction differs for QPP.²

If you choose to receive your CPP pension early and continue to work, or if you receive your QPP pension early and return to work after retiring, you are required to continue to contribute to CPP/QPP between age 60 and 65.³ These additional contributions will result in an increased annual pension benefit (also known as the “post-retirement benefit”)⁴ equal to 1/40 of the year’s maximum retirement benefit, subject to your level of working income.⁵

*Early Retirement Factors					
2011	2012	2013	2014	2015	2016
-30.0%	-31.2%	-32.4%	-33.6%	-34.8%	-36.0%

FACT #2

From 2011 to 2013 the late pension augmentation is gradually increasing from 0.5 per cent to 0.7 per cent per month for each month after age 65 that you delay taking your CPP pension making the total increase 42 per cent at age 70 in 2013**.⁶

If you continue to work, between the age of 65 and 70 you will be subject to CPP/QPP premiums by default. You may elect out of paying CPP premiums, but not QPP premiums. In order to elect out of paying CPP premiums, *Form CPT30 – Election to Stop Contributing to the Canada Pension Plan, or Revocation of a Prior Election*, must be completed. File the original *Form CPT30* with the Canada Revenue Agency (CRA) and provide a copy to your employer. The election becomes effective on the first day of the month following the date you provided a copy of the form to your employer. It is also possible to revoke a prior election such that you will be able to contribute CPP premiums again. The revocation will be filed using the same *Form CPT30* and will be effective the first day of the month following the date you give a copy of the form to your employer.

Once an election is made, either to opt out of paying CPP premiums or to revoke a previous election, you cannot make another election until the next calendar year.

**Late Retirement Factors		
2011	2012	2013 and later
+34.2%	+38.4%	+42.0%

¹Between 60 and 65 years of age, you must have stopped working or your salary must have been reduced by at least 20 per cent following an agreement with your employer in anticipation of retirement. Quebec considers that you have stopped working if your employment earnings for 12 months are not greater than \$12,525. However, after age 65, you can begin receiving a retirement pension even if you have not stopped working. Starting January 1, 2014, you will no longer be required to stop working to receive QPP as early as age 60. ²If a retirement pension starts being paid before age 65, it is currently reduced by 0.5 per cent for each month included between the time the payment begins and age 65. As of January 1, 2014, the actuarial adjustment factor will vary between 0.5 per cent and 0.6 per cent and increase gradually between 2014 and 2016. The actuarial adjustment factor will increase proportionally to the amount of the pension remaining at 0.5 per cent for a person who receives a very low pension, and increasing to 0.6 per cent for a person who receives a maximum pension. Contributors who were born before January 1, 1954 will not be affected by these changes. ³This provision applies to all pensioners under age 65 who are receiving a CPP/QPP pension regardless of when they started receiving their CPP/QPP pension. ⁴With respect to QPP it is known as the “retirement pension supplement”. ⁵With respect to QPP, the supplement is added to the pension for the remainder of the pensioner’s life. The supplement is payable January 1st of the year following the year in which the contributions were made. The total supplement for the year is 0.5 per cent of the earnings that were contributed during the previous year. The pension increases even if you are already receiving the maximum regular pension payable. The pension continues to increase on a yearly basis as long as you continue to make contributions. These rules also apply if you choose to continue to work after age 64. ⁶With respect to QPP, if a retirement pension starts being paid after age 65, the pension amount is increased by 0.5 per cent for each month between the age of 65 and the month in which the payment of the pension begins, up until age 70. This rate will increase to 0.7 per cent per month as of January 2013.

FACT #3

If you are turning 60 and plan on retiring early, you'll want to know which option is better:

- Taking a reduced CPP/QPP pension at age 60, or
- Waiting until age 65 to get the full amount (your CPP/QPP can also be delayed to age 70)

The monthly amount you would receive is based on your earnings, and predefined contributory period, which may be longer than the period that you actually contributed. Also, if you decide to retire early, CPP/QPP benefits will be reduced as mentioned earlier.

In terms of a general overview, a pension benefit is calculated by dividing the individual's earnings, by the contributory period multiplied by the CPP benefit rate, which is 25 per cent.

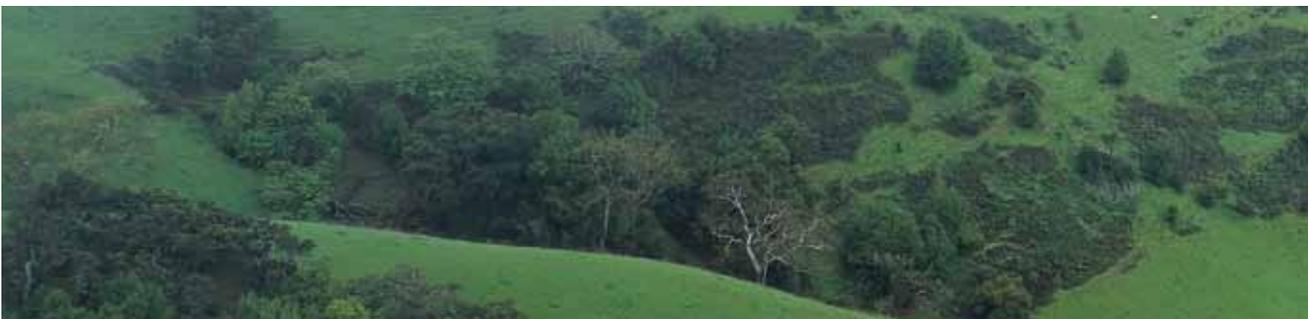
Earnings are adjusted to bring them in line with the growth in wages over the years. There is also a drop out period allowed for years where you reported low earnings. The maximum drop out percentage for CPP increased to 16 per cent of the contributory period in 2012 and will increase to 17 per cent in 2014. This drop out is in addition to the child rearing drop out provision.

FACT #4

The death benefit consists of a lump sum payment of up to \$2,500⁷ and a survivor's benefit. However, if the spouse is already receiving a retirement benefit in their own right, the maximum monthly amount (retirement plus survivor benefit) cannot exceed the maximum retirement benefit (\$986 per month in 2012 at age 65).⁸

Unless there is a spouse or minor children, the only benefit paid is the small lump sum benefit. Also if you take CPP early and continue to contribute (or continue to contribute after age 65 if still working), the additional contributions go towards your "post-retirement benefit" and will not be included for survivor or disability benefits, for pension sharing or for credit splitting purposes on marriage breakdown.⁹

⁷For the CPP death benefit, if you received this amount and you are a beneficiary of the deceased's estate, you can choose to include it either on line 114 on your own tax return or on a T3 tax return for the estate. With respect to QPP, the death benefit must be reported in the income of the estate, regardless of the name in which the cheque was made. ⁸This rule will apply for QPP when age 65 or older. For ages under 65, it is possible for the combined benefit to exceed the maximum retirement benefit. ⁹With respect to QPP, the additional contributions go towards the retirement pension supplement but will not be included for survivor or disability benefits or for credit splitting purposes on marriage breakdown. However, in the case of voluntary pension sharing the additional contributions will be included. Starting January 1, 2013, it will be included in the calculation of the survivor benefit.



CONSIDERATIONS FOR TAKING EARLY RETIREMENT

HAVE YOU STOPPED WORKING?

It generally makes sense to take the CPP/QPP early if you have stopped working. The contributory period continues until you start taking the pension or age 70 whichever is earlier. If you are no longer contributing, the zero earnings during the non contributory period before starting your pension may lower the overall benefit collected even if you waited until age 65.

ARE YOU CURRENTLY RECEIVING A SURVIVOR'S BENEFIT?

The early retirement benefit will be added to your survivor's benefit and could possibly bump you up to the full maximum retirement benefit for the year. There is no point in waiting if the sum of the survivor's benefit and the early retirement benefit exceeds the current year's maximum retirement benefit.¹⁰

ARE YOU SINGLE?

Because there is no death benefit other than the small lump sum amount, you may want to take CPP/QPP early, unless you have an above average life expectancy, to ensure you get as much out of the plan as possible. See Fact #4.

ARE YOU UNHEALTHY?

If you qualify for disability benefits, it is better to apply for that benefit since it is higher than the retirement benefit. However, if you do not qualify for the disability benefit, and your health issues will have an impact on your life expectancy, you should consider applying for the early retirement benefit.

ARE YOU HEALTHY AND CONTINUING TO WORK?

If yes, the new benefit reforms will generally reward you. Postponing the commencement of the pension and continuing to contribute will result in a greater retirement pension and total amount collected from the plan. The amount received from the plan depends on an individual's life expectancy. Life expectancy will continue to increase in the future as shown in the chart below.

Expected years of life remaining at age 60 and 65

	1990	2000	2010	2015	2025	2050
Female 60	25.4	26.4	27.2	27.5	28.0	29.3
Female 65	20.8	21.9	22.6	22.9	23.5	24.6
Male 60	21.6	23.5	24.7	25.1	25.8	27.1
Male 65	17.2	19.0	20.3	20.7	21.3	22.6

Source: Human Resources and Skills Development Canada December 2011.

¹⁰ The rules for combining benefits do not apply to the "Post-Retirement Benefit" (or "Retirement Pension Supplement" for QPP). These amounts will be added to your CPP/QPP retirement pension, even if you receive the maximum retirement pension.



GETTING ADVICE

If you qualify for a CPP/QPP pension, you should ask for a quote. Begin by asking how much you will receive if you begin collecting at age 60, and how much you'll receive if you stop contributing, but wait until age 65 to start your pension. Once you receive your quotes, it should be an easy calculation to figure out which option makes the most sense. If you have questions, review the quote with your advisor to get an expert opinion.

IDEAL CANDIDATE

- Individuals at or nearing retirement
- Individuals who are interested in knowing whether it is better to begin drawing pension income early at age 60, or waiting until age 65

TAKE ACTION

- To obtain a copy of the Estimate Request for Canada Pension Plan (CPP) Retirement Pension form visit the Service Canada website at [servicecanada.gc.ca](https://www.servicecanada.gc.ca) or contact your local Service Canada office through the blue pages of your local phone book.
- Request two scenarios using the Estimate Request for Canada Pension Plan (CPP) Retirement Pension form:
 - Retire at 60, start CPP at 60
 - Retire at 60, start CPP at 65
- For the QPP, contact the Régie des rentes du Québec or visit their website at [rrq.gouv.qc.ca](https://www.rrq.gouv.qc.ca). You can calculate the QPP amount on-line using the CompuPension calculation at [rrq.gouv.qc.ca/en/planification/simulation](https://www.rrq.gouv.qc.ca/en/planification/simulation)



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