



Changes to the Canada Pension Plan

IN THIS ISSUE

Changes to the Canada Pension Plan

Changes to the Actuarial Factor for Early and Late Retirement

Changes to the Drop-Out Provision

Introduction of the Post-Retirement Benefit

Every three years the federal, provincial, and territorial ministers review the Canada Pension Plan (CPP) to determine if benefits and/or contributions need to be amended. The last such review was carried out in May 2009, and changes resulting from this review are being implemented over a six-year period, starting in 2011.

These changes better reflect how Canadians are choosing to live. Larger numbers of workers are choosing to retire later in life, either by choice or necessity, and significant changes have been implemented to reflect that reality—some beneficial, some not so beneficial.

Changes to the Actuarial Factor for Early and Late Retirement

Prior to 2011, if a person chose to retire before reaching age 65, he or she could opt to receive their CPP entitlement as early as age 60, adjusted actuarially to reflect the fact that they were receiving benefits over a longer period of time and contributing for a shorter period. The adjustment reduced pension entitlement by 0.5% for each month that the recipient retired before

age 65. So, for instance, if someone chose to retire at age 60, CPP entitlement would have been reduced by 30% ($60 \text{ months} \times 0.5\% = 30\%$). Likewise, if someone chose to retire after age 65, their pension entitlement would increase by a similar factor. So someone retiring at age 70 and opting to defer their pension until then, would have received a pension that was 30% higher than if they had opted to start receiving it at age 65.

The new legislation will gradually change the adjustments for early and late retirement, in order to restore actuarial fairness. What this means is that the pension will increase more for those choosing to retire after age 65 and decrease more for those retiring prior to reaching age 65.

For those individuals retiring early, the reduction factors will gradually increase from 0.5% per month to 0.6% per month. These changes will be implemented gradually over a five-year period commencing in 2012. The monthly decrease will be as follows:

- 2012—0.52%
- 2013—0.54%
- 2014—0.56%
- 2015—0.58%
- 2016—0.6%

This means that, by 2016, if someone were to retire at age 60 and opt to start receiving their CPP benefits early, he or she would receive a pension that would be 36% less than what they would have received if they had started receiving their benefits at age 65.

For those individuals retiring after age 65, the actuarial factor changes are a bit different. From 2011 to 2013 the factors for late retirement will be changed from 0.5% per month to 0.7% per month. These factor changes are being brought in over a three-year period commencing in 2011 as follows:

- 2011—0.57
- 2012—0.64
- 2013—0.70

This has the effect of increasing the pension of an individual who retires at age 70 and opts to defer his or her pension until then by 42% over someone who takes benefits at age 65.

Changes to the Drop-Out Provision

When an individual's pension is calculated, earnings over that person's entire work life come into play, from age 18 right up to age 65. Services Canada would calculate average earnings and then allow 15% of the career period, with the lowest earnings to be dropped from the calculation, so that the average earnings for the purpose of calculating the pension would not include those years. This would amount to excluding up to seven years.

Starting in 2012, the percentage of low earnings that can be dropped will increase from 15 % to 16% and allow up to 7.5 years of earnings to be dropped. In 2014 that percentage increases to 17%, meaning that 8 years of low earnings can be dropped. This should have the effect of increasing CPP benefits for all, even if only slightly.

Introduction of the Post-Retirement Benefit

Commencing in 2012, retirees who are already receiving their CPP pension benefits and return to the work force can opt to benefit by contributing CPP premiums to their CPP Post Retirement Benefit (PRB). The PRB is a separate component of the plan, but has the effect of increasing their CPP benefit in the years following their contribution.

For those retirees aged 60 to 65, contributions will be mandatory for the worker and the worker's employer, whereas those retirees aged 65 to 70 can choose not to contribute. Those opting out will not be required to make further CPP contributions, but they also lose out on the matching portion paid by the employer. Retirees returning to the work force will continue to receive their CPP pension benefits as before, but those who contribute to the new PRB will receive a further supplement to their pension in the year following their contribution. Returning workers can only contribute up to their 70th birthday. Self-employed individuals will be subject to the same

rules, only they will be required to pay both employee and employer portions.

For those employees aged 65 to 70, they must file a Form CPT30, Election to Stop Contributing to the Canada Pension Plan, or Revocation of a Prior Election, in order to opt out of the PRB.

The new rules for CPP deductions for employees aged 60 to 70 who return to the work force and are already in receipt of their CPP benefits are such that they must contribute to CPP if:

- they are 60 to 65 years of age;
- they are 65 to 70 years of age and they have not opted out of making CPP contributions to their PRB; or
- they are 65 to 70 years of age and they have revoked their prior election to opt out of making such contributions.

Benefits from these contributions start the year after the contributions are made, and accumulate for each year that contribution is made. Such payments will add to the CPP benefits already being received and they continue for the life of the recipient. Contributions to the PRB do not change any of the other CPP benefits, nor can they be split for retirement pension-sharing purposes.

Services Canada has an excellent Web site, located at https://srv111.services.gc.ca/PRB_01.aspx, where anyone can calculate the PRB that they would be entitled to on a yearly basis.

PRB payments are calculated for each year of contribution and are cumulative for the lifetime of the pensioner. They are also subject to annual cost of living increases. They add to the pension even if the recipient already receives the maximum pension under the CPP.

Contributions can be made starting January 1, 2012 and the resulting benefits start January 1, 2013. The contribution rate is 4.95% for employees and 4.95% for employers. Self-employed individuals would contribute 9.9%.

Employees between the ages of 65 and 70, who can opt out of this benefit, need to be aware of how this extra supplement will affect their post-retirement income, and how it impacts their eligibility or benefit amount for Old Age Security, and the related "clawback".

These changes affect all workers in Canada, other than those in Quebec.

Overall, these changes improve retirement flexibility, increase pension coverage, and provide fairness for all.