

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 – if you have stopped working or have low earnings.

To qualify for low earnings, you must earn less than the current CPP/QPP monthly maximum payment amount (\$960.00 in 2011), in the month prior to the pension starting, and in the month it starts.

Stopping work means that you are not working on the last day of the month prior to the pension starting, or in the same month the CPP/QPP payment is to start. For example, if you apply to have your pension start on November 1, you must not be working on October 31, or during the month of November.

Effective 2012, the requirement to stop working will be removed for CPP. See summary of CPP changes to the right.

SUMMARY OF CHANGES TO CPP

Note: These changes do not impact QPP
Effective Jan 1, 2011

The late pension augmentation would be gradually increased over three years to 0.7 per cent per month for each month the individual is over age 65 making the total increase 42 per cent at age 70 in 2013.*

Effective January 1, 2012

- No longer a requirement to stop working to receive pension payments between age 60 & 65
- Pensioners with employment income will be required to contribute between age 60 and 65 (optional at age 65). Contributions will result in an increased annual pension benefit equal to 1/40 of the year's maximum retirement benefit, subject to the pensioner's level of working income. This is the only provision that applies to existing pensioners
- The early retirement reduction would be increased over a period of five years to 0.6 per cent per month for each month the individual is under age 65 making the total reduction equal to 36 per cent at age 60 in 2016*
- To increase the 15 per cent drop out period to 16 per cent in 2012 and to 17 per cent in 2014 giving a maximum drop out of 8 years by 2014. This drop out is in addition to the child rearing drop out provision

*Late Retirement Factors

2011	2012	2013 & Later
+34.2%	+38.4%	+42%

Early Retirement Factors

2011	2012	2013	2014	2015	2016 & Later
-30%	-31.2%	-32.4%	-33.6%	-34.8%	-36%



FACT #2

Once you begin to receive the CPP, you can work as much as you want without affecting your pension payment. And because you are receiving pension payments, you are no longer required (or allowed) to make CPP contributions, regardless of the type or amount of income you earn.

This benefit can really add up. For example, if you started your own business after you left your regular employment, it could save you approximately \$4,300 a year (in 2010) in contributions.

Note: For QPP benefits (and CPP benefits starting in 2012), if you return to work, you must start contributing again and the pension amount you receive will be adjusted accordingly.

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 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 a 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 by 0.5 per cent per

month under age 65, or 30 per cent at age 60. For CPP, starting in 2012 the 0.5 per cent will increase gradually over 5 years to 0.6 per cent.

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/QPP 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, up to a maximum of 15 per cent of the contributory period. The maximum drop out percentage for CPP will increase to 16 per cent in 2012 and 17 per cent in 2014. See summary of CPP changes.

FACT #4

The death benefit consists of a lump sum payment of up to \$2,500 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 (\$960 per month in 2011).

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, the additional contributions will not be included for survivor or disability benefits or for credit splitting purposes on marriage breakdown.



CONSIDERATIONS FOR TAKING EARLY RETIREMENT

HAVE YOU STOPPED WORKING?

It generally makes sense to take the CPP 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 benefit and the early retirement benefit exceeds the current year's maximum retirement benefit.

ARE YOU SINGLE?

Because there is no death benefit other than the small lump sum amount, you may want to take CPP 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 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 into 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	25.2	26.1	26.8	27.0	27.6	28.9
Female 65	20.7	21.6	22.2	22.5	23.0	24.2
Male 60	21.3	22.9	24.0	24.4	25.0	26.3
Male 65	16.9	18.5	19.6	20.0	20.6	21.9

Source: Human Resources & Skills Development Canada June 2010.



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 quotes 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 60, or wait until 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 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, you can calculate the amount on-line using the CompuPension calculation at www.rrq.gouv.qc.ca/en/planification/simulation



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