

CPP changes

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Were you were born in the years 1947 to 1951? If you have not retired yet, you should pay particular attention to four changes to the Canada Pension Plan (CPP).

The changes became law on December 15, 2009. Most take effect in 2012. Some workers born in the 1947-1951 years might wish to start drawing CPP retirement benefits before 2012 to have the old rules apply. Most may prefer the new rules.

Work cessation test

Starting in 2012, once you are 60, you can draw CPP retirement benefits while you are working. You won't need to stop working for two months to qualify.

The extra cash flow could make it easier to work part-time. With \$500 per month from CPP, for example, you might choose to reduce your work hours to 80 per cent of full-time. A four-day work week might become affordable.

If you are working, wouldn't you have to pay income tax at a high rate on the CPP? If, like many Canadians, you have plenty of unused RRSP room, you can contribute your monthly CPP benefits to your RRSP to defer the tax on your CPP.

Working beneficiaries participate

Under the new rules, if you continue to work part-time or full-time while receiving CPP benefits, you must keep contributing to CPP until 65. Of course, this helps you accrue additional CPP retirement benefits for each year you that you continue contributing.

Under the current rules, you are exempt from making CPP contributions once you start drawing your CPP retirement benefits. Self-employed 60-year-olds who really want to stop making 9.9 per cent contributions, may consider starting their CPP before 2012, especially if they already have abundant retirement savings.

Low earnings dropout

CPP uses a defined benefit (DB) formula based on all of your annual earnings for the 47 years from age 18 to 65. Current rules let you drop out 15 per cent of your lowest-income years from the CPP formula. Those seven years could include time at university or on sabbatical.

Currently, if you start CPP at 60, you can drop out about six of the lowest-income years of the 42 years since age 18.

The low-earnings drop-out factor increases to 16 per cent in 2012 and 18 per cent in 2014. Anyone qualifying for less than maximum CPP benefits may want to wait a few more years before starting their CPP benefits.

Early pension reduction

Currently CPP retirement benefits are reduced by 0.5 per cent per month for starting to receive them before age 65. Age-60 CPP benefits are 30 per cent less than age-65 benefits.

After 2011 the benefits reduction rate gradually increases for starting CPP before age 65. The age-60 discount becomes 31.2 per cent for 2012 and will eventually reach 36 per cent by 2016.

If you turn 60 before 2012, you may consider starting CPP retirement benefits before 2012, to take advantage of the current smaller pre-65 reduction percentage.

Late pension enhancement

Effective 2011, the enhancement in CPP benefits for waiting until after 65 to start climbs from 0.5 per cent per month to a significantly higher rate. Combined with the bigger discount for starting before 65, this enhancement for starting later provides an attractive new incentive to keep working past age 60 and even past 65.

Benefit estimate online

Did you know that Service Canada provides online access to information about of your CPP retirement benefits? You can also review the history of your CPP contributions. Find the entry portal by typing the keywords "My Service Canada Account" into your favourite search engine.

You will need a User ID and a password (epass). You may already have an epass from using CRA's My Account. In the "retirement planning" section choose "Estimate My CPP Benefit" to view your age-65 amount.

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