

HOW NEW CPP RULES AFFECT YOU

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From Tuesday's Globe and Mail, Tuesday, Jun. 02, 2009 07:18AM EDT

Because of the recession, I'm planning to retire early, and I'd like to start receiving my CPP when I do. I hear that the rules are changing. Can you explain them?

Last week the Finance Department announced changes to the Canada Pension Plan that will be phased in from 2011 to 2016. They will affect people who start receiving payments early, or who delay getting them until after they are 65.

Under the proposed changes, if you retire before 65, your pension will be cut by 7.2 per cent for each early year, instead of 6 per cent under the old rules. That means if you start collecting CPP at age 60 (the earliest you can), your monthly benefit will be cut by 36 per cent instead of 30 per cent.

If you keep working past age 65 and delay collecting CPP, however, you will get more than before. For each year you wait, you'll get an extra 8.4 per cent (instead of 6 per cent under the old rules). That means someone who waits until age 70 will get a 42 per cent higher payment than they would have at age 65, compared with 30 per cent higher under the old rules.

Are there other significant reforms?

Another change will allow you to collect CPP before age 65, even if you are still working. Previously, you had to quit work and stay off the job for at least two months to qualify.

Ottawa says the idea is to let people use CPP income to supplement earnings or to phase into retirement. Another adjustment will allow people over 65 who are collecting CPP, but still working, to make further contributions if they want, so their benefits will increase.

And finally, workers will be able to remove eight low-earning years from those that are used to calculate average pay for CPP purposes. That's up from seven years. That change will help individuals whose careers have been interrupted.

Are we likely to see large numbers of unemployed workers run out of their employment insurance benefits before they find a new job?

That's a highly probably scenario in the current environment.

According to an analysis from Andrew Jackson, chief economist at the Canadian Labour Congress, even before the recession, about 28 per cent of people who claimed EI used up their benefits before they found a job.

With around 1.9 million new claims expected in 2009, the number of people who exhaust their benefits could be about 500,000 this year if that rate is maintained.

The numbers may be much worse, however, because it is usually much harder to find a new job during the depths of a recession, and sometimes tough job markets remain for several years after a recession is officially over.

One mitigating factor is that Ottawa has added five weeks of EI benefits to the maximum everyone can get, and the duration of benefits also grows as the jobless rate increases.