



Tax, Retirement &
Estate Planning Services

**TAX MANAGED
STRATEGY 8**

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

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. However, if you begin either pension early, your pension will be reduced by 0.6 per cent per month prior to your 65th birthday. The maximum reduction of a CPP/QPP retirement pension is 36 per cent. Finally, you can choose to receive your CPP or QPP while you continue to work.

If you choose to receive your CPP/QPP pension early and continue to work, you are required to continue to contribute to CPP/QPP between the ages of 60 and 65¹. These additional contributions will result in an increased annual pension benefit (also known as the “post-retirement benefit”) equal to 1/40 of the year’s maximum retirement benefit, subject to your level of working income. Under QPP this benefit is known as the “retirement pension supplement”. The supplement is added to the pension for the remainder of the pensioner’s life. It is effective 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 retirement pension increases even if you are already receiving the maximum regular pension payable and continues to increase on a yearly basis as long as you continue to make contributions.

The following table illustrates the impact of the CPP/QPP early retirement reductions, assuming an individual would qualify for a \$1,000/month retirement pension at age 65:

60	61	62	63	64	65
\$640	\$712	\$784	\$880	\$940	\$1,000

FACT #2

If you were to start receiving your CPP/QPP retirement pension after age 65, it would be increased by 0.7 per cent per month that you delay taking your CPP/QPP pension. The maximum pension increase is 42 per cent at age 70.

If you continue to work, between the ages 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.

Continuing with the example from Fact #1, the table below shows the CPP/QPP retirement pension amounts if an individual eligible for a \$1,000/month pension at 65, defers to a later age:

65	66	67	68	69	70
\$1,000	\$1,084	\$1,168	\$1,252	\$1,336	\$1,420

¹ This 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.

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 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. Under CPP, up to eight of your lowest earnings years (17 per cent of the contributory period) are automatically removed from the calculation for a retirement pension. This drop out is in addition to the child rearing drop out provision.

QPP offers a similar drop out provision to CPP. Up to 15 per cent of the contributory period can be removed from the benefit calculation where earnings were lowest. Other exclusions include months where an individual received a CPP/QPP disability pension, an unreduced income replacement indemnity or family benefits paid by the Federal or Quebec governments for a child under seven.

FACT #4

The CPP/QPP death benefit consists of a lump sum payment of up to \$2,500² and a survivor's benefit. However, if the spouse is already receiving a CPP retirement benefit in their own right, the maximum monthly amount (retirement plus survivor benefit) cannot exceed the maximum retirement benefit and is adjusted based on the surviving spouse's age. This rule will apply for QPP when the surviving spouse is 65 or older. When the surviving spouse is under 65, it is possible for the combined benefit to exceed the maximum retirement benefit.

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.

With QPP, the additional contributions go towards the retirement pension supplement and are included in survivor benefits. However, the retirement pension supplement is not included in disability benefits or for credit splitting purposes on marriage breakdown. However, in the case of voluntary pension sharing the additional contributions will be included.

² For 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.

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?

Your early retirement benefit will be combined with your survivor's benefit and this combined payment is capped at the full maximum retirement benefit³ for the year. The age at which you begin your retirement pension may impact the amount of survivor's pension you receive going forward. Obtain an estimate for your combined payment before commencing your own retirement pension to understand what adjustments, if any, are made to your current survivor's pension.

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.

DO YOU HAVE HEALTH CONCERNS?

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

	2013	2025	2050	2075
Female 60	27.9	28.6	30.0	31.2
Female 65	23.3	24.0	25.3	26.5
Male 60	25.3	26.1	27.5	28.9
Male 65	20.9	21.7	23.0	24.3

Source: Mortality Projections for Social Security Programs in Canada, Office of the Superintendent of Financial Institutions, April 2014

³ The rules for combining benefits do not apply to the CPP "Post-Retirement Benefit". 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. To obtain a Statement of Contributions to the CPP visit <https://www.canada.ca/en/services/benefits/publicpensions/cpp/statement-contributions.html>. Alternatively, the Canadian Retirement Income Calculator can be used to estimate CPP. It can be found at <https://www.canada.ca/en/services/benefits/publicpensions/cpp/retirement-income-calculator.html>
- 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 Retraite 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)

For more information, please contact your advisor or visit manulife.ca/investments



The commentary in this publication is for general information only and should not be considered investment or tax advice to any party. Individuals should seek the advice of professionals to ensure that any action taken with respect to this information is appropriate to their specific situation. Manulife, the Block Design, the Four Cube Design, Strong Reliable Trustworthy Forward-thinking are trademarks of The Manufacturers Life Insurance Company and are used by it, and by its affiliates under license.