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TAX-EFFICIENT CAPITAL PRESERVATION

CPP INCOME PLANNING GUIDE

The Canada Pension Plan (CPP) is a mandatory contributory retirement plan that provides you with an inflation-indexed retirement pension, generally beginning at age 65. It can also provide disability or survivor benefits to your spouse and children if you become disabled or pass away.

How much you receive as a retirement pension benefit depends first on the contributions you have made to the plan each year during your lifetime, up to the maximum annual contributory earnings from employment or self-employment ($54,900 for 2016 less a basic exemption rate of $3,500). No contributions are required if your income is under $3,500. If you earn less than the annual maximum in any year or earn the maximum for less than 40 years, your pension will be less than the maximum CPP pension available. However, if you have a period where you were not working due to the fact that you were raising your children, or you had a period of low earnings, these years can be eliminated from the CPP calculation, increasing the total potential benefit. To receive any benefits, there is a minimum contributory period of three years.

Canada Pension Plan benefit payment rates 2016

Type of benefit	Average benefit (January 2016)	Maximum amount
Retirement (at age 65)	$643.11	$1,092.50
Post Retirement	$13.39	$27.31
Disability	$934.37	$1,290.81
Survivor – younger than 65	$426.01	$593.62
Survivor – 65 and older	$350.54	$655.50
Children of disabled contributors	$237.69	$237.69
Children of deceased contributors	$237.69	$237.69
Death (maximum one-time payment)	$2,306.13	$2,500.00
Combined benefits		
Survivor/retirement (retirement at 65)	$836.06	$1,092.50
Survivor/disability	$1,073.26	$1,290.81

Source: Services Canada (Canada Pension Plan Payment amounts, January to December 2016)

How much is your accumulated pension entitlement?

Service Canada provides you with a Canada Pension Plan Statement of Contributions that shows how much your pension entitlement is. Your Statement of Contributions shows your pension entitlement as of age 65, the date most people elect to retire.

Planning family benefits: The maximum retirement benefit receivable in return for your lifetime contributions is based on 25% of your average maximum pensionable earnings over the prior five years. The maximum monthly benefit for 2016 is $1,092.50.

Drop-out years: When calculating your CPP retirement benefits, the number of working years less a portion of nil or low earnings due to work interruptions such as job loss is used. Under the Child Rearing Provision, the years in which the contributor left the workforce to raise children will also be removed.

Please note: There have been recent changes to wait periods and drop out years. Advisors and clients need to spend extra time understanding the recent changes to the CPP to make the most appropriate decisions.

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Survivor benefits: When one spouse dies, the surviving spouse may be eligible to receive a CPP survivor benefit if the deceased spouse had made contributions to CPP. If the surviving spouse was under age 35 at the time of death and there are no minor children, no survivor pension is paid until the surviving spouse reaches age 65. Otherwise, both the surviving spouse and minor children (or children up to age 25 who are attending post-secondary education) are likely eligible to receive a survivor benefit. Once the surviving spouse begins to receive their CPP retirement benefit, the maximum benefit (retirement plus survivor) is limited to the maximum monthly retirement benefit ($1,092.50 per month for 2016). For those who have earned the maximum pension through their own contributions, this effectively means that the survivor benefits may be lost.

What's new with CPP planning?

The CPP retirement benefit is a cornerstone of every retirement income plan for those who were employed or self-employed during their lifetimes. Important changes affect your decisions about contributing and receiving CPP benefits beginning in 2012, including:

- An increase in the number of low-earnings drop-out years, used to calculate your maximum benefits
- An elimination of the requirement to stop working before you can start receiving CPP early (that is, before age 65)
- Imposing all CPP recipients to continue to make CPP contributions if they go back to work in the 'early retirement period' of age 60-64
- An election to continue to contribute to the CPP if you work between age 65 and 70, thereby increasing your pension entitlements

Therefore, it's more important for pre-retirees to carefully consider several important questions:

- When should you begin to take benefits from the CPP – early or later?
- When should you stop contributing to the CPP?
- What is the effect of these decisions on the size of benefits?
- What other income sources should you draw on if you delay benefits?

What are the tax implications?

CPP benefits are taxable (although disability benefits qualify as 'earned income' for RRSP purposes). There are also other tax implications to consider. For example, receiving a larger income from CPP later may not be tax efficient, especially if you are exposed to clawbacks of certain personal credits and/or OAS benefits, or if you are required to take higher minimum payments from your Registered Retirement Income Fund (RRIF).

Also, tapping into other savings early, while you continue to pay into the CPP, may ultimately significantly reduce estate values, depending on the survivor benefits available to your spouse. Clearly there are many things to consider.

Important CPP milestones: How much you will receive will depend on how much you contribute, how long you contribute and when you apply to receive benefits. Most people will apply to receive benefits at age 65; however, some can elect to start receiving the benefits early, at age 60. Others may elect not to receive the CPP until age 70. After this, the receipt of the CPP retirement benefit is mandatory. A life events approach to managing your CPP is therefore important.

Pre-retirement (age 18-59): In this period, you must contribute to the CPP if you have pensionable employment or self-employment earnings, building your pension entitlement. You may not elect to draw a pension benefit from the CPP, but you may become entitled to a disability benefit and your surviving child or spouse may be eligible to receive a children's benefit and/or survivor's benefit.

Early retirement (age 60-64): In this period, you may elect to receive your CPP pension at a reduced rate. The earlier you begin drawing a pension, the lower your monthly payment will be; however, you'll draw that pension over a longer period of time and have use of the money in your cash flow or for investment purposes.

If you continue to earn employment or self-employment income in this time, you must continue to contribute to the plan. As a result, you will continue to build additional pension entitlement.

Late retirement (age 65-70): Commonly, individuals retire at age 65 and begin drawing their CPP pension. You may elect to begin receiving your pension at a later date – up to age 70. The longer you delay receiving CPP, the larger your monthly pension will be, but you'll receive it over a shorter period of time.

If you continue to work after you turn 65, you may elect to continue contributing to CPP to build additional pension entitlement. Note, the contributions are not mandatory.

Whether you will recoup these additional contributions depends on how many years you collect CPP after you've made the contributions.

Mandatory retirement (age 70+): Beginning at age 70, you can no longer contribute to CPP, even if you continue to work, and delaying application will no longer increase your monthly pension.

Milestone discovery chart

Milestone:	Pre-retirement	Early retirement	Late retirement	Mandatory retirement
Age	18-59	60-64	65-70	71
If working				
Contributions	Required	Required	Optional	Not required
Regular retirement benefits	Maximum benefits available at 65; reduced at 60	Reduced, but PRB may increase	Increased	Benefits depend on when benefits began*
Post-retirement benefits (PRB)†	Regular benefits may be increased IF working at age 60-70	Mandatory contribution to PRB**	Optional contribution to PRB***	Contributions must cease

* Start to date of death ** Employer/Employee contributions mandatory *** Employers must contribute if employee chooses to contribute

† As a result, you will continue to build additional pension entitlement. This is called Post Retirement Benefit. This benefit amount will be related to the actual contributions made and will begin to be paid to you in the following year. This amount is above and beyond your current CPP retirement benefit.

ACTION PLAN: Optimize your CPP pension

- Your pension entitlements are based on your projected lifetime: Explore the financial results if you elect to take CPP early or late, and make decisions, such as whether or not to continue working and contributing to the plan
- Calculate your breakeven point. This is the age at which you would receive the same pension as you would had you retired at the normal benefit start age of 65

What are you doing after work?®

Please note: The CPP operates throughout Canada, except in Quebec, where the Quebec Pension Plan (QPP) provides benefits. These rules and changes do not apply to the QPP. For information about the QPP, visit the QPP Web site at www.rrq.gouv.qc.ca.