Kevin A. Dunn
Chartered Accountant

Corporate, Personal, & Non-Resident Tax Services
Trust & Estate Tax Planning
Personal & Corporate Tax Appeals
Financial Statements
Business Advisory Services
277 George Street North◆ Suite 211 ◆ Peterborough, ON ◆ K9J 3G9
kevin@kevindunn.ca

CANADA PENSION PLAN
… JANUARY 1, 2012 CHANGES

THE CURRENT RULES

Normally, Canada Pension Plan ("CPP") Retirement Benefits start at age 65. The CPP system currently allows people to elect to take reduced CPP Retirement Benefits once they turn age 60. The reduction is currently .5% for each month that you take the Retirement Benefit before age 65. For the many people who took advantage of this benefit as soon as they turned age 60, their CPP Retirement Benefit was reduced by 30% from the maximum that they would have received had they waited until age 65.

Taking the CPP early retirement pension also had a quirky requirement that you actually had to "retire" for a period of time. This retirement rule was one that people worked around fairly easily and then went back to their employment or self-employment with the additional cash flow from their CPP retirement pension.

One of the benefits of taking your CPP early has always been that you do not have to pay CPP premiums on your employment or self-employed income when you are receiving CPP Retirement Benefits. Considering the maximum CPP premium each year is over $2,000, this was a considerable cost to avoid, especially where you are self-employed and also have to pay the matching amount of CPP.

THE CHANGES ARE COMING!

There are big changes being made to the CPP. According to Service Canada, here are some of the changes effective on January 1, 2012.

- Your monthly CPP retirement pension amount will increase by a larger percentage if you take it after age 65. Under current rules, your CPP retirement pension increases by .5% for each month after age 65 that you start taking the pension (to age 70 maximum). Under the new rules, this increase will rise to .7% per month.

- Your monthly CPP retirement pension amount will decrease by a larger percentage if you take it before age 65. Under current rules, your CPP retirement benefits are reduced by .5% for each month that you take the CPP retirement pension before reaching age 65 (30% maximum reduction). Under the new rules, the percentage will increase to .6% per month or a maximum reduction of 36% of your CPP retirement pension.

- Persons under age 65 who receive CPP retirement pensions will still be required to pay CPP premiums on employment or self-employed income. Their CPP retirement benefits will increase as well but it is uncertain just how much these additional contributions would affect one's CPP retirement pension.

- Persons age 65 to 70 who work or earn self-employed income will have the choice of paying CPP premiums on their employment/self-employment income or electing to stop paying CPP premiums;

- You will be able to start receiving your CPP retirement pension without interrupting your work. This change acknowledges the quirky rule under the current rules which results in people arranging to minimize their income for a couple months in order to qualify for the CPP retirement pension.

Note that employees who have reached age 70 are not subject to CPP contribution requirements.

Your employer can be penalized for not withholding CPP contributions where required so if you qualify for filing the election to stop paying CPP contributions and you wish to do so, make sure you file the election with your employer. The original copy of the election must be filed with Canada Revenue Agency. For self-employed persons, this election will be filed with their personal tax return.

One big change is the addition of the "Post-Retirement Benefit". Contributions after age 60 that are made while you are receiving CPP retirement benefits will increase their retirement payments through the Post-Retirement Benefit ("PRB"). Contributions to the PRB will be mandatory for contributors under age 65 (who are receiving CPP retirement benefits) and will be voluntary for those age 65 to 70. The interesting thing is that people between the ages of 65 and 70 may begin to receive the PRB the year after they make the contribution.

DO I STAY OR DO I GO?

The choice of whether to take CPP early or late under the new rules starting in 2012 does not have obvious answers. The choice will depend on factors such as:

- Your health (will you live long enough to make up the shortfall if you delay taking your CPP retirement pension?).
- The income you might earn during the period from 60 to 70 and how much of a difference that may make to your CPP retirement pension.
- Your cash requirements. Obviously, if you need the income, the choice is simple. If you don't need the cash then the incentive might be there to wait until reach age 65.

Call us if you have any questions about these important changes!

November 2011