



## Canada Pension Plan Basics

You probably know that you're eligible for Canada Pension Plan (CPP) when you retire, but, in a really short blog, what does that mean? How much can you expect? When? What options will you have?

### How much can you expect?

The maximum pension paid by CPP in the year you retire is 25% of average Year's Maximum Pensionable Earnings (YMPE) over the most recent 5-year period. The YMPE is the earnings ceiling on which you pay your CPP contributions and earn a CPP pension. In 2017, the maximum CPP retirement pension is \$1,114.17 per month (it goes up annually with inflation). Generally, you will receive this maximum if you are age 65 or older and have

contributed the maximum amount to CPP for at least 39 years. Many people don't receive the maximum, either because they didn't contribute the maximum for at least 39 years or because they took their CPP pension earlier than age 65.

*Drop-out Provision and Child Rearing Provision:* If you did have some years of low or zero earnings, you do have the opportunity to drop some of those years out of the calculation. You have to contribute from age 18 to age 65, but CPP will drop out 17% of that period up to a maximum of 8 years (that's how we got the 39 years in the previous paragraph). As well, if you or your spouse were the primary caregiver raising children under the age of 7, those years can be excluded by one spouse. To benefit from the child rearing provision, you will need to complete the relevant parts of the application form when you apply for your CPP.

You can get an online estimate of how much you might expect to get from CPP (before the child rearing dropout) via your personal "My Service Canada Account" (Search for "My Service Canada account"). You can also link to My Service Canada through your personal account with the Canada Revenue Agency (Search for "My Account CRA").

CPP benefit payments are taxable income to you, and, once started, they are increased annually with inflation.

### When can you start payments?

You can choose to begin your CPP pension any time between ages 60 and 70. Your pension amount will be reduced for every month it is started before age 65, and increased for every month you delay the start date past age 65. For example, CPP pensions commencing at age 70 will be 42% higher than those commencing at age 65. CPP pensions beginning at age 60 will be 36% lower than those beginning at age 65.

### When should you start payments?

There is no easy answer to this question as the answer largely depends on personal circumstances and what ultimately gives you peace of mind. The following are a few facts to help you assess your options.

There is a computable "break-even age" where two otherwise identical retirees, one starting earlier with a reduced CPP pension and one starting at age 65 with the normal CPP pension, will have accumulated the same total payments. For individuals who have earned the maximum CPP retirement benefit and start at age 60, this break-even is approximately age 73. For individuals who have earned less than the maximum pension,



the break-even age could be much later, around age 85. Since you cannot predict your mortality, you might want to think about which side of this break-even age you are most likely to enjoy, or need, the money. Many people feel they live the best years of their retirement in the early years, therefore they may opt for early commencement of their CPP pension. On the other hand, CPP is a source of income that is guaranteed for the rest of your life and is inflation proof. Starting your CPP pension later means you give up some money today to get a higher pension when you are older and perhaps have higher medical expenses or are less able to manage your financial affairs. Again, the right answer boils down to the one that gives you peace of mind.

## What to do if you're still working but are eligible for a CPP pension?

You have two choices:

1. Continue to contribute to CPP and collect your CPP pension after you have completely stopped working; or
2. Collect your CPP pension while continuing to work.

If you are under age 65 and you decide to collect your CPP pension while working, you have to keep contributing to CPP. After age 65, you have a choice about whether or not to contribute. For each contribution you make after your CPP has started, you'll get some additional pension, called a Post Retirement Benefit (PRB). The maximum PRB benefit you can earn each year is equal to 1/40<sup>th</sup> of the maximum CPP retirement pension amount. In 2017, the maximum PRB benefit at age 65 is approximately \$325 per year. PRBs are subject to the same early and postponed commencement adjustments and future indexing as regular CPP benefits.

## Applying for CPP

Apply for your CPP pension at least six months before your anticipated retirement date. Consider the following when applying for your CPP pension:

- Apply for the "child rearing provision" if you have zero or low earnings because you were the primary caregiver raising your children. This may increase the amount of your CPP benefit.
- Sharing your CPP pension with your spouse or common-law partner may result in tax savings. To share your CPP pension, you must apply to Service Canada.

For more information about how to apply for your CPP pension visit the [Service Canada Website](#) (Search for "Service Canada CPP").

<http://www.retirementworks.ca/theworks/blog102017-canadian-pension-plan-basics.html>

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