Changes to the Canada Pension Plan

The Canada Pension Plan (CPP) is changing to better reflect how Canadians choose to live, work, and retire. The Government of Canada is adapting the CPP to ensure it remains fair and sustainable, and that it responds to the evolving needs of Canada's aging population and to changes in the economy and labour market.

The changes, which the Government will gradually introduce from 2011 to 2016, will give you more options so that you can make decisions that are right for you as you make the transition from work to retirement.

Note

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

Service Canada

What are the changes being made to the CPP?

➔ Your monthly CPP retirement pension amount will **increase** by a larger percentage if you take it **after** age 65.

➔ Your monthly CPP retirement pension amount will **decrease** by a larger percentage if you take it **before** age 65.

➔ If you are under 65 and you work while receiving your CPP retirement pension, you and your employer will have to make CPP contributions. These contributions will increase your CPP retirement benefits.

➔ If you are age 65 to 70 and you work while receiving your CPP retirement pension, you can choose to make CPP contributions. These contributions will increase your CPP retirement benefits.

➔ The number of years of low or zero earnings that are automatically dropped from the calculation of your CPP pension will increase.

➔ You will be able to begin receiving your CPP retirement pension without any work interruption.

Your monthly CPP retirement pension amount will increase by a larger percentage if you take it after age 65.

Before the changes, your CPP retirement pension increased by 0.5% for each month **after** age 65 (and up to age 70) that you delayed receiving it. This meant that, if you started receiving your CPP pension at 70, your pension amount was 30% more than it would have been if you had taken it at 65.

From 2011 to 2013, the Government of Canada will gradually increase this percentage from 0.5% per month (6% per year) to 0.7% per month (8.4% per year). This means that, by 2013, if you start receiving your CPP pension at the age of 70, your pension amount will be 42% more than it would have been if you had taken it at 65.

Example

Although Amrita enjoys her job as a nurse, she plans to retire when she reaches 65 in 2014. Based on her *CPP Statement of Contributions*, she expects her CPP retirement pension in 2014 to be $6,220 annually. This amount will then grow with the cost of living, as measured by the Consumer Price Index.

However, if Amrita decides to delay taking her CPP pension until she reaches 66 in 2015, her CPP retirement pension will increase by 8.4% (0.7% x 12 months). Based on this change, the annual amount of her pension will increase by $522, and will then grow with the cost of living, as measured by the Consumer Price Index. Without the change, the increase would have been $373.

Your monthly CPP retirement pension amount will decrease by a larger percentage if you take it before age 65.

Before the changes, your CPP retirement pension was reduced by 0.5% for each month **before** age 65 that you began receiving it. This meant that, if you started receiving your CPP pension at 60, your pension amount was 30% less than it would have been if you had waited to take it at 65.

From 2012 to 2016, the Government will gradually change this early pension reduction from 0.5% to 0.6% per month. This means that, by 2016, if you start receiving your CPP pension at the age of 60, your pension amount will be 36% less than it would have been if you had taken it at 65.

Example

Richard is employed as a production manager. Based on his *CPP Statement of Contributions*, he expects his annual CPP retirement pension to be $13,577 if he retires at 65 in 2022.

However, for personal reasons, Richard decides to retire earlier and to take his CPP pension when he reaches 60 in 2017. In this case, his CPP retirement pension amount of $13,577 will be reduced by 36%. Therefore, the annual amount of his pension will start at $8,689 in 2017, and will then grow with the cost of living, as measured by the Consumer Price Index. Without the change, his pension would have been reduced to $9,504.

Are you affected by the changes?

These changes will affect you if you are:

- ➔ an employee who contributes to the CPP, whether you are just starting your career or you are planning to retire soon;
- ➔ a self-employed person who contributes to the CPP; or
- ➔ between the ages of 60 and 70 and you work while receiving your CPP retirement pension (or if you work outside of Quebec while receiving a QPP retirement pension).

You will **not** be affected by these changes if you started receiving a CPP retirement pension before December 31, 2010, and you remain out of the work force.

Note
The changes also affect **employers** who contribute to the CPP on behalf of their employees

If you are under age 65 and you work while receiving your CPP retirement pension, you and your employer will have to make CPP contributions. These contributions will increase your CPP retirement benefits.

Before the change, if you were receiving a CPP retirement pension and working, regardless of your age, you did **not** pay CPP contributions.

Starting in 2012, if you are under age 65 and you work while receiving your CPP retirement pension, you and your employer will have to make mandatory CPP contributions. These contributions go towards the new Post-Retirement Benefit (PRB), which is effective January 1 of the year following your PRB contribution. This additional benefit will be added to your current retirement benefit, gradually increasing your retirement income.

If you are age 65 to 70 and you work while receiving your CPP retirement pension, you can choose to make CPP contributions. These contributions will increase your CPP retirement benefits.

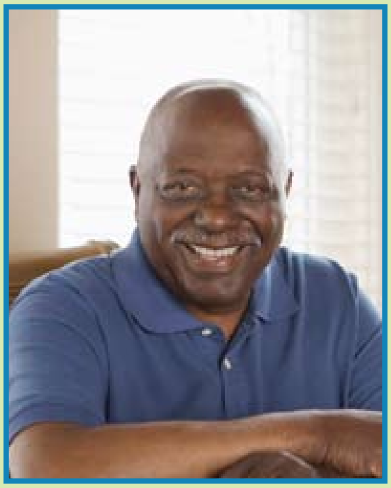
Before the change, if you were receiving a CPP retirement pension and working, regardless of your age, you did **not** pay CPP contributions.

Starting in 2012, if you are age 65 to 70 and you work while receiving your CPP retirement pension, you can either choose to make CPP contributions or you can opt out of making these contributions. If you decide to make the contributions, **your employer will also have to make CPP contributions.** These contributions will allow you to continue to build your CPP Post-Retirement Benefit, even if you are already receiving the maximum CPP pension amount.

Example

Jean-Philippe moved to Canada from Haiti at age 36. After his arrival, he was recertified as a professional engineer, and he started working in Canada at age 38. In 2011, when Jean-Philippe is 65 years old, he takes his CPP pension and continues working part time.

In 2012, he earns $24,800 and makes a CPP contribution of $1,054 (his employer also contributes $1,054). Because of that contribution, his annual pension amount will increase by an estimated annual Post-Retirement Benefit of $164 beginning in 2013. This increased annual pension amount will then grow with the cost of living, as measured by the Consumer Price Index.



The number of years of low or zero earnings that are automatically dropped from the calculation of your CPP pension will increase.

Before the changes, when Service Canada calculated your average earnings over your contributory period, 15% of your lowest earnings were automatically dropped. This is called the "general drop-out provision." Under this provision, up to 7 years of your lowest earnings were automatically dropped from the calculation of your average earnings.

Starting in 2012, the percentage of low earnings will increase to 16%, allowing up to 7.5 years of your lowest earnings to be dropped from the calculation, which will likely increase your benefit amount. **In 2014**, the percentage will increase again to 17%, allowing up to 8 years of your lowest earnings to be dropped from the calculation.

Note
This change benefits all CPP contributors who are eligible for CPP benefits in 2012 or later.

Example

Charlotte is a high school teacher. She started university at age 18 and, after completing two post-secondary degrees over five years, she started teaching immediately. In addition to her five years of post-secondary education, Charlotte took three years off during her career to travel and take care of her mother.

Because Charlotte plans to take her CPP retirement pension when she reaches 65 in 2015, up to 8 years of her lowest earnings will be automatically dropped from the calculation of her average earnings. Her 2015 CPP retirement pension will be $8,359, and will then grow with the cost of living, as measured by the Consumer Price Index. Without the change, her 2015 pension amount would have been only $8,202.

Planning for your retirement

These changes to the CPP may affect your retirement planning, including when you decide to apply for your CPP retirement pension. How the changes to the CPP affect you will depend on your age, your work history, and when you plan to retire.

The CPP, which is designed to replace about 25% of your average pre-retirement employment earnings up to a maximum amount, is one part of your retirement plan. The other components of retirement income include the Government of Canada's Old Age Security (OAS) pension, employer pension plans, and personal savings and investments.

You will be able to begin receiving your CPP retirement pension without any work interruption.

Before the change, if you decided to take your CPP retirement pension before age 65, you had to either stop working or significantly reduce your earnings for at least two months. This requirement was called the “work cessation test.” After this two-month period, you could return to work or start earning more.

Starting in 2012, the work cessation test will no longer apply. This means that you will be able to take your CPP retirement pension as early as age 60 without having to stop working or reduce your earnings. For many Canadians, retirement is a process that often occurs in stages, rather than a one-time event. By eliminating the work cessation test, it will be easier for Canadians to make a phased-in transition to retirement.

Example

Marina is 60 years of age in 2012. She is in retail sales and loves her job. Marina plans to continue working past age 60, but she would also like to have more time to pursue her interests outside of work.

With the removal of the work cessation test, Marina is now able to cut down her work from 40 to 30 hours per week and to take her CPP pension at the same time without interrupting her employment. Her combined income from the CPP and her job will be roughly the same as her full-time income.

Need more information?

Service Canada has online resources, including the Canadian Retirement Income Calculator, to help you plan your future.

Click **servicecanada.gc.ca**

Call Toll-free in Canada and the United States: **1-800-277-9914**

If you have a hearing or speech impairment and use a teletypewriter (TTY): **1-800-255-4786**

From outside Canada and the United States (collect calls accepted): **613-990-2244**

Visit a Service Canada Centre

La version française est intitulée *Changements touchant le Régime de pensions du Canada* (ISPB-348-11-10F)

ISPB-348-11-10E SG5-56/2010E 978-1-100-17299-6