JUNE 2009 – LL764 PENSION COMMITTEE REPORT

A major financial consideration in everyone's retirement calculations is the Canada Pension Plan. I talked about CPP in the October 2008 Pension Report and now I am going to talk about it again. This time I want to tell you about changes that the Federal Government will be making to the CPP benefits. The changes will impact 4 aspects of the CPP benefits and the way they are paid. You will think some of these changes are good and some are bad. Which are good and which are bad depend on you and your particular circumstances. One man's pill is another man's poison. The CPP is designed to replace 25% of your employment income up to the YMPE ($46,300 in 2009). The CPP is designed such that you contribute on all employment income reported in box 14 of your T4 slips that you earn between ages 18 and 65 (up to the YMPE in each of those years). That makes a maximum contributory period of 47 years. These changes are scheduled to start in 2012 to coincide with the first year that anyone will have been able to pay into the CPP for 47 years – it came into being in 1965.

The first change is the elimination of the work cessation test. Currently you must have 2 months of reduced or no income to apply for CPP. Starting in January 2012, this will no longer be the case. In fact, you can apply for and receive CPP while continuing to work in your current job.

Current CPP rules allow for a *General Low Earnings Drop-Out* of 15% of your CPP contributions to a maximum of 7 years. This allows years of low earnings early in your career, child rearing etc. to be dropped from the final calculation of your CPP benefit so that you can get a larger CPP benefit. The proposed change is to increase this drop-out to 16% (7.5 years) in 2012 and 17% (8 years) in 2014 further increasing your CPP benefit if you are below the maximum benefit level.

The third change meshes with the first. If you continue to work while receiving CPP benefits it is mandatory for you and your employer to continue making CPP contributions on all of your wages up to the YMPE until you reach your 65th birthday. If you continue to work after age 65, CPP contributions become optional until age 70. The upside of this is that when you finally retire completely, your CPP will be recalculated taking into account these extra years of work and contributions and your CPP will be increased accordingly from the amount you originally received. Contributions made after age 65 will increase your CPP by 1/40th per extra year of contribution.

The fourth change will perhaps be the most controversial. It is a change to increase the actuarial fairness for early and late uptake of your CPP benefits. What this means is that the current reduction 0.5% per month for each month early you take your CPP before your 65th birthday will increase to 0.6% per month starting in January 2012. Conversely if you elect to wait and take your CPP after age 65 you currently get an extra 0.5% per month after that date. The new rules will increase that to 0.7% per month starting in January 2011. This change is to more closely reflect the actuarial cost / benefit to the plan of when you elect to receive your benefit. Currently they feel that those who elect to take CPP early (min age 60) are being unfairly subsidized by those who wait to age 65 or later (max age 70).

Anyone who is at least age 60 and elects to start collecting their CPP benefit prior to January 1st, 2012 will do so under the current rules and will not be affected by these changes.

Email is the most effective way to reach me. I may be contacted at pres764@telus.net with any questions or concerns that you may have.

Respectfully Submitted,

Christopher Hiscock, Chairman, LL764 Pension Committee