THE Guardian

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CANADA PENSION PLAN: A CHANGE COMING?

Changes to the Canada Pension Plan (CPP) were recommended by federal, provincial and territorial Ministers of Finance on May 25, 2009, as part of the regular review of the Plan that they are required to undertake every three years.

It is important to note that the changes are proposals only at this stage. Further, anyone currently receiving a CPP retirement pension, disability benefits, survivor benefits or combined benefits will not have their benefits affected by the proposed changes.

Further, the proposed changes will not affect anyone commencing their CPP retirement pension or other CPP benefits prior to the proposed changes taking effect, beginning in 2011.

The highlights of the proposed changes can be summarized as follows:

1) The normal age of CPP commencement is 65. If taken at this age, the CPP pension amount is calculated based on the number of years a person has worked and contributed to the Plan, as well as on the salary or wages earned.

As well, a retired individual can commence CPP as early as age 60. Further, the CPP recipient can choose to defer the commencement of CPP until age 70. Currently, early commencement will reduce the pension by 0.5% per month for each month that the pension is taken before an individual's 65th birthday. Thus, if an individual chooses to take their pension at age 60, the basic amount will be reduced by 30%.

If deferred beyond age 65, the pension is increased by 0.5% per month for each month that the pension is taken after age 65 up to the age of 70. Thus, if an individual chooses to take the pension at age 70, the basic amount will be increased by 30%.

Under the proposed change, the early pension reduction would be gradually increased to 0.6% per month for each month that the pension was taken before age 65. This would be done over a period of five years, starting in 2012. The late pension augmentation would be gradually increased to 0.7% per month for each month that the pension is taken after an individual's 65th birthday, up to age 70. This would be done over a period of three years, starting in 2011.

2) Currently, those who receive a CPP pension and return to work do not pay CPP contributions and therefore do not continue to build their CPP pension. The proposed changes would require individuals under the age of 65 who receive a CPP retirement benefit and work, as well as their employers, to make CPP contributions that will increase their CPP retirement benefit. This would be voluntary for individuals aged 65 or over, but employers of those opting to participate in the CPP would also be required to contribute.

3) The CPP retirement pension amount is based on the number of years a person has worked and contributed to the Plan, as well as the salary or wages he or she earned.

The average of earnings over the span of the career is calculated allowing for 15% of the years where earnings are low or nil for whatever reason (e.g. full-time post secondary education attendance or spells of unemployment) to be dropped. This provision is called the "general low earnings drop-out". The 15% gives individuals who take their CPP at age 65 almost 7 years of low or zero earnings years that can be dropped from the calculation of their average career earnings. In addition, there are drop-out provisions specifically for child rearing and periods spent receiving a CPP disability benefit.

Under the proposed changes, the general drop-out will increase to 16% in 2012 and 17% in 2014. This would allow a maximum of almost 7.5 of low income years to be dropped effective 2012, increasing to 8 years in 2014.

4) The current work cessation test requires individuals who apply to take their CPP benefit early (i.e, before age 65) to either stop work or reduce their earnings. After having stopped work or reduced earnings for at least two months, the individual may return to work and earn more money. There is currently no work cessation test for those who are 65 or older.

The proposed change will remove the work cessation test in 2012. Individuals would be able to take their benefit as early as age 60 without any work interruption or reduction in hours worked or earnings.

The government's intent is to maintain the current CPP contribution rate. This is funded half by employee and half by employer contributions.

The proposed changes will provide greater flexibility for older workers as well as a modest financial incentive to consider deferring receipt of CPP beyond age 65.

IS 70 THE NEW 65?

The proposed changes are consistent with a global phenomenon of an aging population.

More than two centuries ago, economic theorist Thomas Malthus issued a famously grim forecast that population growth would outstrip the capacity of the world to feed itself, and the result would be widespread famine and a sharp rise in mortality rates.

While he was wrong on that count, he was right about demographics becoming one of the most worrisome and prohibitively expensive challenges on the global stage.

US economist Edward Yardeni noted recently that today's much more realistic and dismal demographic scenario is that the number of older people will grow faster than younger ones almost everywhere in the world.

Economists agree however, that compared with the likes of rapidly aging Japan, Russia and a handful of Western European countries such as Italy, Canada is in relatively good shape. Canada has the lowest net government debt-to-GDP ratio among the leading industrial countries and more favorable demographics than most, thanks partly to a large immigrant population.

Another plus for Canada is that since the mid 1990's a growing number of people past the age of 55 have been staying in the work force. The participation rate for this age group has risen 12 percentage points to a record 35 percent.

This noted, a recent paper published by the C.D. Howe Institute notes that should current work force conditions continue, the old age dependency rate (the ratio of Canadians age 65 and older to those of working age) will soar from its current level of 21% to more than 45% by 2058. To delay this, the authors suggest that policy makers look to measures that delay the retirement age and that Ottawa has moved in the right direction with the recent suggested changes to the CPP benefits.

Can we expect additional government introduced measures to help correct the looming demographic imbalance? If so, we may see this in the form of a more liberal immigration policy, additional financial enticement to work longer, or even encouraging larger families.

While this all remains to be seen, the certainty is our world is getting older.

REGISTERED RETIREMENT INCOME FUND (RRIF)
STATUTORY MINIMUM MONTHLY INCOMES BASED ON $100,000
COMMENCING ONE MONTH FROM ISSUE

Best Current Rate: 3.65%

Age	1st Year	TOTAL PAYMENTS TO AGE 100
55	$239.00	$203,627.00
60	278.00	182,887.00
65	334.00	164,685.00
71	616.00	145,744.00

A R.R.I.F. can also be structured to pay a level income for a shorter period. Based on current interest rates, $100,000 will produce the following monthly income.

For 5 years: $1824.00
For 10 years: $1034.00
For 15 years: $762.00

MONTHLY ANNUITY INCOMES COMMENCING
ONE MONTH FROM ISSUE BASED ON $100,000

Age	LIFE (Payments cease at death)		LIFE 10 Year Guarantee		JOINT LIFE 10 Year Guarantee
	MALE	FEMALE	MALE	FEMALE	MALE & FEMALE
55	$604.44	$555.43	$588.98	$554.36	$503.38
60	652.00	596.07	632.20	583.44	551.55
65	724.48	646.31	686.14	629.33	585.49
71	855.15	739.43	766.01	700.16	647.20

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