THE
Guardian

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CANADA PENSION PLAN CHANGES

Sweeping changes to the Canada Pension Plan (CPP) originally announced in May 2009 start to take effect in 2011.

The purpose of the changes according to the Department of Finance, is to "better reflect the many paths people take to retirement: and to provide greater flexibility for older workers to combine pension and work income if they so wish; modestly expand pension coverage; and improve fairness in the plan's flexible retirement provisions." These changes were included in Bill C-51, which received Royal Assent on December 15, 2009. If you are currently collecting CPP retirement, disability or survivor benefits or will begin collecting your pension prior to 2012, you will not be impacted by these changes unless you are a CPP recipient who continues to work.

There are four significant changes and we will discuss each.

1) Adjustments for early or late CPP.

Under previous rules, CPP monthly retirement benefits were reduced by 0.5% for every month that the pension was taken prior to age 65. Thus, for an individual commencing his or her pension at age 60, the basic pension benefit was reduced by 30%. Likewise, they could also delay collecting the benefit to as late as age 70. In this case, the pension was adjusted upwards by an equivalent 0.5% for every month the pension was delayed (to a 30% maximum).

Under the new rules, the early pension reduction will gradually be increased to 0.6% (by 2016), starting in 2012. This results in a maximum reduction of benefits by 36%. The late pension augmentation will be gradually increased over a period of three years starting in 2011 to 0.7% for every month the pension is delayed and could improve the monthly benefit by as much as 42%.

The chart below details how the changes will be phased in:

Age At Start	Previous Adjustment	2011	2012	2013	2014	2015	2016 ONWARD
60	-30%	-30%	-31.20%	-32.40%	-33.60%	-34.80%	-36.00%
61	-24%	-24%	-24.96%	-25.92%	-26.88%	-27.84%	-28.80%
62	-18%	-18%	-18.72%	-19.44%	-20.16%	-20.88%	-21.60%
63	-12%	-12%	-12.48%	-12.96%	-13.44%	-13.92%	-14.40%
64	-6%	-6%	-6.24%	-6.48%	-7.28%	-6.96%	-7.20%
65	0%	0%	0%	0%	0%	0%	0%
66	6%	6.84%	7.68%	8.40%	8.40%	8.40%	8.40%
67	12%	13.68%	15.36%	16.80%	16.80%	16.80%	16.80%
68	18%	20.52%	23.04%	25.20%	25.20%	25.20%	25.20%
69	24%	27.36%	30.72%	33.60%	33.60%	33.60%	33.60%
70	30%	34.20%	38.40%	42.00%	42.00%	42.00%	42.00%

2) Removal of the Work Cessation Test.

Under the previous rules, in order to qualify for CPP benefits before age 65, you could not earn more than the maximum monthly CPP retirement pension ($960 for 2011) in the month prior to pension commencement and the month the pension commenced.

Under the new legislation the Work Cessation Test is removed effective 2012. Therefore, individuals who plan to apply for early CPP in 2012 and beyond will not need to reduce their hours worked or have any interruption in earnings. This is a positive change for everyone involved, particular for those who have a steady stream of income that cannot easily be altered.

3) Continued CPP participation while receiving benefits.

Under the previous rules, individuals were not required to make contributions to CPP once they began collecting retirement benefits. As a result, they were not able to increase their pensions going forward. The new rules will require individuals collecting a CPP benefit under the age of 65 and still working to continue making contributions to CPP (along with their employer). Additional contributions made in a given year will increase the benefits collected beginning the following calendar year. As for individuals over the age of 65 and still working, they will have the option of making further contributions to CPP if they so desire and wish to increase future benefits.

Although this new provision could cost working retirees hundreds of dollars more a year in payroll deductions, these contributions will result in increased retirement benefits, even for persons already receiving the maximum pension amounts. Employees will receive an additional CPP pension benefit of up to 2.5% of the maximum CPP pension.

4) Change to calculating average career earnings.

Previously, the general low-earnings drop-out provision removed 15% of an individual's income earning years from the calculation of their retirement pension benefit. For an individual who begins to collect a CPP retirement pension at age 65, it means that seven years of low earnings are removed from the benefit calculation. Under the new CPP platform, the low-earnings drop-out provisions will be increased to 16% in 2012 and 17% in 2014. This change positively impacts anyone contributing to CPP and eligible to collect a retirement, disability and/or survivor pension. It also helps individuals who decide to take time away from work to go back to school, improve their skills, or stay at home to care for a family member.

In summary, some analysts interpret the changes as a disincentive to early retirement. Others see these changes as an attempt on the part of the Government to gradually alter behaviour and encourage Canadians to remain at work longer.

The nature of the changes may shift the advantage to retiring later if you need more years to qualify for a maximum benefit, but not if you need extra income right away. Each individual situation is different and your Solguard advisor would be pleased to assist you in determining how best to take advantage of the new provisions.

As is our practice at the beginning of a new year, we have outlined below tax rates for 2011.

Marginal Tax Rates for 2011 (BC)

Taxable Income	Federal Tax Rate (%)	Provincial Tax Rate (%)	Total Tax Rate (%)
0 – 36,146	15	5.06	20.06
36,146 – 41,544	15	7.70	22.70
41,544 – 72,293	22	7.70	29.70
72,293 – 83,001	22	10.50	32.50
83,001 – 83,008	22	10.50	34.29
83,008 – 100,787	26	12.29	38.29
100,787 – 128,800	26	14.70	40.70
128,800+	29	14.70	43.70

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

Best Current Rate: 3.35%

Age	1st Year	TOTAL PAYMENTS TO AGE 100
55	$239.00	$172,106.00
60	278.00	159,385.00
65	334.00	147,757.00
71	616.00	134,313.00

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: $1800.00
For 10 years: $980.00
For 15 years: $696.00

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	$521.24	$476.36	$512.48	$472.21	$437.04
60	573.77	520.64	557.28	512.79	471.59
65	650.11	579.33	617.01	563.80	511.74
71	790.46	670.27	706.91	638.72	580.01

The material contained herein is intended to provide the clients of Solguard Financial Ltd. with advice and guidance of a general nature, and is believed to be accurate at the time of writing. However, due to rapid changes in interest rates, market conditions, tax rulings and other investment factors, readers should seek further advice specific to their situation, before proceeding with investment action.

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