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# Business Report

## CHANGES TO THE CANADA PENSION PLAN

January 2012

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### Changes to the Canada Pension Plan

There were some significant changes made to the Canada Pension Plan ("CPP") that took effect on January 1, 2012. These changes will have implications both for individuals collecting CPP benefits and for individuals between the ages of 60 and 70 who are working and collecting CPP benefits. The following is a summary of the changes. As always, please contact your D&H Group LLP advisor for more information.

#### Individuals Collecting CPP

The CPP changes do not affect the benefits of anyone who began collecting CPP retirement benefits before January 1, 2012, **unless** they are still earning pensionable earnings. The changes to the program take place gradually over the next five years and are generally designed to encourage people to work longer before they start drawing a government pension.

**Monthly CPP retirement pension benefit amounts will decrease by a larger percentage if you begin collecting CPP before age 65.**

The decreases will take effect between January 2012 and January 2016 as follows:

Early CPP pension reduction	2010	2011	2012	2013	2014	2015	2016
Monthly	0.5%	0.5%	0.52%	0.54%	0.56%	0.58%	0.60%
For each year under age 65	6%	6%	6.24%	6.48%	6.72%	6.96%	7.20%
Maximum (i.e., start receiving CPP at age 60)	30%	30%	31.2%	32.4%	33.6%	34.8%	36.0%

Thus, by 2016, if you start receiving CPP at age 60, your pension amount will be 36% less than it would have been if you had waited to take it at age 65. This decrease is larger than the 30% discount that applied before 2012.

#### **Example – CPP retirement pension at age 60**

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 age 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. If Richard had turned 60 and began taking his CPP pension prior to 2012, his pension would have only been reduced to \$ 9,504.

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**Monthly CPP retirement pension benefit amounts will increase by a larger percentage if you don't collect CPP until after age 65.**

The increases will take effect between January 2011 and January 2013 as follows:

<b>CPP pension increase</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
For each month after age 65 (and up to age 70)	0.5%	0.57%	0.64%	0.70%
For each year after age 65 (and up to age 70)	6%	6.84%	7.68%	8.40%
Maximum (i.e., start receiving CPP at age 70)	30%	34.2%	38.4%	42.0%

Thus, by 2013, if you start receiving CPP at age 70, your pension amount will be 42% more than it would have been if you had taken it at age 65. This increase is higher than the 30% premium that previously existed.

***Example – Increase in CPP retirement pension after age 65***

Although Amrita enjoys her job as a nurse, she plans to retire when she reaches age 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. Prior to 2012, the increase would have only been \$ 373.

**Elimination of Work Cessation Test**

Prior to 2012, if you took your CPP retirement pension before age 65, but wanted to keep working, you had to either stop working or significantly reduce your earnings for at least two consecutive months, as required by the CPP "work cessation test". Beginning January 1, 2012, the work cessation test is eliminated. If you are 60 to 64 years old, you will now be able to take your CPP retirement pension without having to stop working or reduce your earnings.

***Individuals Between the Ages of 60 to 70  
With Pensionable Earnings***

Changes have also been made which will affect those individuals who choose to continue to work after they start receiving CPP retirement benefits. Under the old rules, once you began collecting CPP benefits, you stopped contributing to the plan. Beginning January 1, 2012, if you are under age 65 and working while receiving a CPP pension, you (and your employer) will have to continue making CPP contributions. These contributions will, however, increase your CPP benefits beginning in 2013 through a new Post-Retirement Benefit "PRB". For example, those collecting their pension prior to 2012 will be **required to** start contributing again in 2012 if they are earning pensionable earnings, and have not yet reached 65 years of age.

In addition, if you are between the ages of 65 and 70 and work while receiving CPP benefits, by default you are also expected to continue to make CPP contributions (in which case you will again have an increase in your CPP benefits in 2013 through the PRB). However, you can elect to stop making further contributions to the CPP by completing form CPT30 and sending it to the Canada Revenue Agency, and also providing a copy to your employer. The election would take effect on the first day of the month following the month that the form is filed with the employer.

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The election can be revoked by completing form CPT30 again, but not until the following calendar year.

Individuals who are age 65 to 70, are not employees, and only have self-employed earnings, can elect to not make contributions to the CPP by completing Schedule 8 and filing it with their tax return after the year is complete. This election would take effect on the first day of the month indicated on Schedule 8.

**Example – Continue CPP contributions after age 65**

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, under the new rules, 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 (PRB) 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.

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