

Upcoming changes to the CPP rules

November 2011

The Canada Pension Plan (CPP) rules are changing, with the majority of these changes effective January 1, 2012. These new rules will impact you if you're between the ages of 60 and 70, and have either started collecting CPP benefits or will soon have to decide when to start collecting benefits.

Current rules

Under the current rules, if you're aged 60 to 70 and you have started collecting CPP benefits, you're no longer required to pay CPP premiums on your employment or self-employment earnings. In order to commence collecting benefits, you can't be working in either the month before or the month in which CPP benefits have commenced, unless the remuneration for those months is below certain specified levels (work cessation test).

If you begin to collect CPP benefits early—between the age of 60 and 65—the amount of CPP benefits you receive is reduced by up to a maximum of 30%. Likewise, there's an increase in benefits of up to a maximum of 30% if you delay beginning to receive CPP benefits to after your 65th birthday (up to age 70).¹

New rules

Work cessation test and requirement to remit premiums

If you're 60 years of age or older, you'll no longer be required to cease work (or significantly reduce your earnings) for a two-month period in order to begin collecting CPP benefits.

If you are under age 65, you will be subject to CPP premiums on your employment or self-employment income even if you are already collecting CPP benefits.



¹ The reduction in benefits is 0.5% for each month before age 65 in which benefits commence to be received. The increase in benefits is 0.5% for each month after age 65 that benefits commence to be received. Note that individuals who commenced receiving benefits in 2011 after their 65th birthday are subject to one of the new rules discussed below.

If you're between the ages of 65 and 70, you'll be subject to CPP on your employment or self-employment income by default, but if you're already collecting CPP benefits you'll be able to elect out of the requirement to pay premiums. In order to opt out of CPP on employment income, an election (Form CPT30) must be completed and filed with the Canada Revenue Agency (CRA) with copies provided to each employer. The election is effective the month following the month you file the election with the CRA. The election to opt out can also be revoked, such that you will again be able to contribute to CPP. However, you must wait until at least the calendar year following the year you made the election to opt out.² If you're self-employed, you can elect to stop contributing to the CPP by completing the applicable section of Schedule 8, *CPP Contributions on Self-Employment and Other Earnings* for 2012 and file it with your 2012 tax return.

For example, assume you're 66 years of age, employed and currently in receipt of CPP benefits. If you don't want to continue to make CPP contributions in January 2012, then you need to elect to stop your contributions by providing a copy of a signed and completed Form CPT30 to each of your employers as early as possible in December. The original form should be sent to the CRA.

If you continue contributing to CPP while already collecting benefits you'll receive a "post-retirement benefit" which will be effective the calendar year following the premium payment, so that your CPP benefits will increase each year you continue your CPP contributions. For example, assume you began receiving CPP benefits in 2011 when you were 65 years old. You decide to continue to work part-time in 2012 and earn \$24,800, making CPP contributions of \$1,054 (you don't file the election to opt out). As a result, your benefits will grow by an estimated post-retirement benefit amount of \$164 beginning in 2013 and then increase by a cost of living factor thereafter.

Increase or decrease in benefits

If you commence to receive CPP benefits before age 65, the reduction in your benefit entitlement will gradually increase from 0.5% to 0.6% per month by 2016, so that the maximum reduction in benefits will be 36% if you start to collect benefits at age 60. Likewise, if you delay initial receipt of your benefits to past age 65, your benefit entitlement will gradually increase from 0.5% to 0.7% per month over a three-year period (from 2011 to 2013). Therefore, the maximum increase in your benefits will be 42% if you wait until age 70 instead of age 65 before beginning to collect benefits.

For example, assume you're thinking of retiring at age 65 in 2014. Based on your CPP Statement of Contributions you expect your retirement pension to be \$6,220 starting in 2014. However, if you delay beginning to draw CPP benefits to age 70 in 2019, your annual pension entitlement will be 42% higher (plus any cost of living increase). This is compared to a 30% increase under the old rules.

² These legislative amendments don't affect the salary or wages of an employee who is considered to be disabled under the CPP rules.

Conclusion

Determining when to start receiving your CPP benefits has become a much more complex planning issue than in the past. If you're working past age 64, and in receipt of CPP benefits, you'll also have to consider if you want to continue to pay into the plan or opt out. Employers will also be impacted by these changes, since an employer who fails to withhold and remit CPP premiums when required could be liable for considerable costs and penalties. An employer that isn't withholding for an employee age 65 to 70 who is in receipt of CPP benefits is required to maintain copies of the CPT30 forms.

Please contact your Grant Thornton LLP adviser if you would like more information about these new rules.

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