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Newsletter

February, 2013

This month's Newsletter deals with the proposed changes to the Canada Revenue pension plans including CPP, OAS and GIS. Some of the CPP changes have already been implemented and this Newsletter serves as a reminder. Other changes such as those proposed for OAS and GIS are more recent, but taken together they represent a fairly significant change in policy for the Government of Canada and what may mean a change in retirement planning for most of us.

CPP Reforms 2011 - 2014

If you are under 65 and already collecting CPP but still working these changes affect you! If you are between 65 and 70 and still working these changes affect you! Read more about Revenue Canada forms to stop contributing to CPP after January 2012.

Canada Pension Plan Reforms

On May 25, 2009, the Ministry of Finance announced changes to the Canada Pension Plan (CPP). These changes were legislated in December 2009. These changes will become effective between 2011 and 2014. They will benefit workers to various degrees depending on their age, history of earnings and their ability or desire to work past age 60.

❖ Contribution to CPP

Until January 2012 we were not required to make contributions to CPP once we begin collecting retirement benefits. Accordingly, we are not able to increase our pensions going forward. The new rules will require any individual 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 even though the individual is already entitled to the maximum monthly pension benefit. 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, leading to increased future benefits.

It appears that the new rules will affect new pensioners, as well as others who are already receiving CPP benefits under the age of 65. Those who are currently under the age of 65, still working and collecting an earlier retirement pension may be required to make further contributions to the CPP under these new rules.

❖ Pension Adjustments for early and late CPP Take-UP

The normal age of CPP take-up is age 65 - the 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.
Currently, our CPP monthly retirement benefits are reduced by 0.5% for every month that the pension is taken **prior** to age 65.

Thus if an individual chooses to take the pension at age 60, the basic amount will be reduced by 30%. If the pension is taken **after** age 65, the late pension is increased by 0.5% per month for each month after age 65 up to age 70. Thus, if an individual chooses to take the pension at age 70, the basic amount will be increased by 30%.

Under the new rules, the early pension reduction will gradually be increased to 0.6% per month for each month that the pension is taken before age 65. This would be done over a period of five years, starting in 2012. This results in a maximum reduction of benefits of 36%.

The late pension augmentation will 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 will be done over a period of 3 years, starting in 2011.The monthly benefit could be improved by as much as 42% if the pension is delayed.

These rules do provide an **incentive** for persons to delay the collection of the monthly benefit beyond age 65. There is a **disincentive** to start early due to the lower monthly benefit amounts. Keep in mind that those who are still working, will be required to make further contributions to CPP and will be eligible for higher benefits in later years.

❖ Removal of the Work Cessation Test

Under current rules, in order to qualify for a CPP benefit before age 65, there is a requirement to either stop working or reduce earnings below the monthly CPP retirement pension maximum (currently $934) for a period of 2 months. This earnings test is referred to by the government as the 'Work Cessation Test'.

Under the new rules, the Work Cessation Test will be removed for employees who commence their CPP pension in 2012 and later. However, employees under the age of 65 will be required to continue to contribute while working in return for an increased benefit. This is a positive change for everyone, including those who has a stream of revenues that cannot easily be altered.

❖Increase in the General Low Earnings Drop-Out (Average career Earnings):

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. *Specifically, it is calculated as twenty-five-percent (25%) of an individual's "average career earnings", starting at age 18 and ending at the age of CPP take-up*.

Example: an individual takes the CPP at age 65, the span of the career is considered to be 47 years.

Example: the CPP is taken at age 60, the span of the career is 42 years.

The **average of earnings** over the span of the career is calculated allowing for fifteen-percent (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 fifteen-percent (15%) gives individuals who take their CPP at age 65 almost seven years of low or zero earnings years that can be dropped from the calculation of their average career earnings. Virtually everyone benefits from the CPP's drop-out provisions. Without these provisions, almost everyone's "basic" pension amounts – that is, the pension amount if the CPP is taken-up at age 65 without any adjustments for early or late take-up – would be lower.

Under the new legislation, 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 those who decide to take time away from work to go back to school or stay at home to care for a family member.

IN SUMMARY:

1. **If you are under age 65 and already collecting CPP, but continuing to work you and your employer must now continue to pay CPP until age 65.**
2. **If you are between ages 65 and 70 and continuing to work but elect to stop contributing to the CPP you must complete a form CPT30 for your employer AND SEND A COPY TO REVENUE CANADA. If you do not elect to stop, you and your employer must continue to pay CPP until age 70.**

A copy of the CPT30 form is attached to the end of this Newsletter for your information

OAS and GIS Reforms

Currently the Old Age Security (OAS) Pension is a monthly benefit available to Canadian applicants 65 years of age who meet the Canadian legal status and residence requirements. However, the Government of Canada is proposing to change the eligibility rules for the Old Age Security and Guaranteed Income Supplement payments. If you were born before 1957 this will not affect you, but for the rest of us it may mean changing the way we plan our retirement years.

Proposed change to eligibility for the Old Age Security pension and the Guaranteed Income Supplement.

The Government of Canada has introduced measures to gradually increase the age of eligibility for the Old Age Security (OAS) pension and the Guaranteed Income Supplement (GIS) between the years 2023 and 2029, from 65 to 67. However, those currently receiving OAS benefits will not be affected by the changes.

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Year of birth: 1957 or earlier

Anyone born in 1957 or earlier will be eligible for Old Age Security (OAS) and/or Guaranteed Income Supplement (GIS) benefits at the age of 65. In fact, everyone 54 or older as of March 31, 2012 (born before April 1, 1958) will not be affected by the change to the age of eligibility for the OAS or GIS benefits.

In line with the increase in age of OAS/GIS eligibility, the ages at which the Allowance and the Allowance for the Survivor are provided will also gradually increase from 60-64 today to 62-66, starting in April 2023.

The eleven-year advance notification and the subsequent six-year phase-in period will allow those affected by these changes ample time to make adjustments to their retirement plans.

Voluntary deferral of the Old Age Security pension

The Government of Canada also introduced a voluntary deferral of the Old Age Security (OAS) take-up of their OAS pension by up to five
years past the age of eligibility, and subsequently receive a higher, actuarially adjusted pension.

OAS/GIS Age of Eligibility by Date of Birth

Month of Birth	**1958**	**1959**	**1960**	**1961**	**1962**
	OAS/GIS Eligibility Age				
Jan.	65	65 + 5 mo	65 + 11 mo	66 + 5 mo	66 + 11 mo
Feb. – Mar.	65	65 + 6 mo	66	66 + 6 mo	67
Apr. – May	65 + 1 mo	65 + 7 mo	66 + 1 mo	66 + 7 mo	67
June – July	65 + 2 mo	65 + 8 mo	66 + 2 mo	66 + 8 mo	67
Aug. – Sept.	65 + 3 mo	65 + 9 mo	66 + 3 mo	66 + 9 mo	67
Oct. – Nov.	65 + 4 mo	65 + 10 mo	66 + 4 mo	66 + 10 mo	67
Dec.	65 + 5 mo	65 + 11 mo	66 + 5 mo	66 + 11 mo	67

Note: In line with the increase in age of OAS/GIS eligibility, the ages at which the Allowance and the Allowance for the Survivor are provided will also gradually increase from 60-64 today to 62-66, starting in April 2023.

Proactive enrolment for OAS benefits:

To improve services for seniors, the Government of Canada will start a proactive enrolment process that will remove the need for many seniors to apply for the OAS pension and the GIS. This means that eligible seniors will no longer need to complete an OAS pension or GIS application

Proactive enrolment will be implemented in a phased-in approach from 2013 to 2016. People who are eligible for proactive enrolment will be notified personally by mail. Service Canada will continue to send applications to those seniors who cannot be proactively enrolled for OAS benefits. Applications are also available on the Service Canada website. Further information on proactive enrolment will be provided as it becomes available.

We do understand that determining whether or not how changes may affect you may be difficult and require further explanation. Please be assured that we would be pleased to discuss these and any other Retirement or tax planning issues with you at any time. Please feel free to call us to discuss how we may assist you!

The information presented is only of a general nature, may omit many details and special rules, is current only as of its published date, and accordingly cannot be regarded as legal or tax advice. Please contact our office for more information on this subject and how it pertains to your specific tax or financial situation.

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ELECTION TO STOP CONTRIBUTING TO THE CANADA PENSION PLAN, OR REVOCATION OF A PRIOR ELECTION

Use this form if you are an employee who is at least 65 years of age but under 70, and:

- you are currently receiving a Canada Pension Plan (CPP) or Quebec Pension Plan (QPP) retirement pension and you want to elect to stop contributing to the CPP; or
- you elected in a previous year to stop contributing and you want to revoke that election and start making CPP contributions.

You must provide a copy of this completed form to all current and future employers. Send the original form to the Winnipeg Tax Centre at the address on the back of this form, and keep a copy for yourself.

Notes:

- An election or revocation applies to all income from pensionable employment, including self-employed earnings, if applicable. However, if your income is only from self-employed earnings, do not use this form. Complete Schedule 8, CPP Contributions on Self-Employment and Other Earnings instead, and file it with your income tax return.
- If you elect to stop contributing to the CPP, the election takes effect on the first day of the month following the date you give this form to your employer.
- If you revoke a prior election, the revocation takes effect and CPP contributions will restart on the first day of the month following the date you give this form to your employer. If you do not advise all of your employers that you wish to restart CPP contributions, for those you did not advise, you may elect to contribute both your share and the employer's share of CPP contributions by completing Form CPT20, Election to Pay Canada Pension Plan Contributions
- You may not use this form to stop contributing to the Quebec Pension Plan. For more information, go to www.revenuquebec.ca .

A – Identification

First name and initial | Last name | Social insurance number

Mailing address: Apt. No – Street No. Street name

City | Prov./Terr. | Postal Code | Date of birth (YYYY-MM-DD)

B – Eligibility

1. Are you an employee who is at least 65 years of age but under 70? Yes No

2. Are you currently receiving a CPP or a QPP retirement pension? Yes No

   If you answered yes to questions 1 and 2, you may be able to elect to stop contributing to the Canada Pension Plan or to revoke a prior election. Go to question 3 below. If you answered no to either question, you are not eligible to make this election or revocation at this time.

3. Have you made an election or revoked a prior election during the current calendar year? Yes No

   If you answered yes to question 3, you cannot make another election or a revocation until a following calendar year.

   If you answered no to question 3, complete Part C to make an election to stop contributing to the CPP, or Part D to revoke a prior election to restart contributing, whichever applies.

C – Election and certification

I elect to stop contributing to the CPP. I have demonstrated in Part B that I am eligible to make this election. I will give a copy of this form to my employer or employers, as the case may be, by the end of the month indicated below.

OR

D – Revocation and certification

I revoke an election made in a previous year in order to start contributing to the CPP again. I have demonstrated in Part B that I am eligible to make this revocation. I will give a copy of this form to my employer or employers, as the case may be, by the end of the month indicated below.