Today's Objectives

- To discuss the Canada Pension Plan (CPP)

Recall that:

- CPP Benefits include:
    - Retirement Benefits
    - Disability Benefits
    - Survivors Benefits-dependent pension, Death Benefit

- CPP Contributions are paid on earnings between the:
    - YBE – Year's Basic Exemption and
    - YMPE – Year's Maximum Pensionable Earnings
- 2020 employee and employer contributions are:

$$Total = \frac{10.5\%}{2} \times \min[(YMPE - YBE), (actual\ income - YBE)]$$

    - If self-employed, contributions are at full 10.5%

Example – CPP contribution calculation

- Given that the 2020 YMPE is 58,700 and the 2020 YBE is $3,500, what is the total amount contributed to the CPP in 2020 if:

    a) Your income for 2020 is $55,000.

    b) Your income for 2020 is $64,700.

    c) How would you answer change for (a) and (b) if you are self-employed?

a) Total contribution $= \frac{10.3\%}{2} \times \min\left[(55000 - 3500), (58700 - 3500)\right]$.

$= 2703.25$.

b) T $= \frac{10.5\%}{2} \times \min\left[(64700 - 3500), (58700 - 3500)\right]$.

$= 2898$.

c) $2x$ a) / $2x$ b).

3) <u>Canada/Quebec Pension Plan (C/QPP)</u>

Eligibility (Qualification) Criteria (by benefit)

CPP Retirement Pension Benefit (RPB)

- One must apply to receive the CPP RPB

- The 'normal' retirement age is 65 but can start receiving CPP RPB pension anywhere from age 60-70

  – There is no longer any requirement to retire to get the CPP and no longer limits on what you are earning if receiving CPP (prior to 2012 there was)

3) Canada/Quebec Pension Plan (C/QPP)

Eligibility (Qualification) Criteria (by benefit)

CPP Retirement Pension Benefit (RPB)

- CPP RPB are adjusted upwards/downward if you retire after age 65/before age 65 (adjustment changes recently phased in)
  - If start to receive **payments after age 65** (postponed retirement, PR) → benefit is now **increased by 0.70% per month** older than age 65
  - If start to receive **payments prior to age 65** (early retirement, ER) → benefit is now **reduced by 0.60% per month** younger than age 65
  - QPP differs a bit (ER factors for those with less than max benefit)

3) Canada/Quebec Pension Plan (C/QPP)

Eligibility (Qualification) Criteria (by benefit)

CPP Retirement Pension Benefit (RPB)

- A **post retirement CPP benefit (CPP PRB) adjustment** was recently introduced
  - Can earn a PRB for each year CPP contributions made (while being paid CPP pension), same age adjustments as above
  - The post retirement benefit is **2.5% (or 1/40) of max CPP payable, adjusted for a person's age and actual earnings**

Example – CPP benefit calculation

- Given that the 2020 CPP maximum monthly benefit = $1,175.83

  a) If someone starts receiving CPP benefits in 2020 at age 67 years, 7 months old, what is the maximum monthly CPP benefit that they would be entitled too?

  b) If someone starts receiving CPP benefits in 2020 at age 61 years, 4 months old, what is the maximum monthly CPP benefit that they would be entitled to?

  c) Suppose someone was age 65 on Jan 1, 2019 and started drawing the CPP in 2019 but was still working. What is the maximum CPP Post Retirement monthly benefit he/she would be paid in 2020?

b) 3Y 8mths. => 44mths.

44 x 0-6% = 26.4%.

1175.83 x 73.6%.

a) 2Y 7mths => 31 mths

Increase: 31 x 0-7% = 21.7%.

1175.83 x 121.7% = .----

Post Retirement c) Increase : 0-7% 12 = 8.4%
Benefit.

→ PRB = 1175.83 x 108.4% x 2.5%.

3) Canada/Quebec Pension Plan (C/QPP)

Eligibility (Qualification) Criteria (by benefit)

Disability Benefit

- Under CPP **disability is defined to be "unable to engage in any substantial gainful employment"**
- CPP rules were tightened up considerably in 1998
  - Effective in 1998, to be eligible you **must have made CPP contributions in 4 of the last 6 years** to receive any sort of disability benefit
  - This was **changed to 3 of the last 6 years** in 2007
- Disability payments begin in the 4th month following month of disability and are payable as long as the individual is disabled OR until age 65 (individual would then start getting CPP RPB)
- There are some differences with QPP eligibility (e.g. QPP disability definition less strict (more generous) if age 60-64)

3) Canada/Quebec Pension Plan (C/QPP)

Eligibility (Qualification) Criteria (by benefit)

Survivor Benefit

- Survivor Benefits include pension(s) payable to an eligible spouse and to dependent children and a small Lump Sum Death Benefit ($2,500 maximum)

- Eligibility criteria:

  - If contributions were made to CPP for not less than 1/3rd of the total number of calendar years within the contributory period (but not less than 3 years) OR for at least 10 years

3) Canada/Quebec Pension Plan (C/QPP)

Determination of CPP Payments

CPP Retirement Pension Benefit (RPB) Payments

$$Annual\ RPB = 0.25 \times \text{"average adjusted pensionable earnings"} \text{ OR}$$

$$Annual\ RPB = 0.25 \times Avg\ 5\ year\ YMPE_{when\ applying} \times AER \text{ and } AER \leq 1$$

Average earning ratio.

- The RPB benefit paid is **based on contributor's earnings history (up to YMPE)** from age 18 to when they apply

- To compensate for periods of unemployment, low earnings, and sickness/disability, **certain periods of a person's working lifetime can be "dropped" or "ignored"** in computing average earnings

3) Canada/Quebec Pension Plan (C/QPP)

Determination of CPP Payments

CPP Retirement Pension Benefit (RPB) Payments

- The 'dropout provisions' include:
    - Any month where you were eligible for a CPP disability pension
    - Periods when you stopped working to look after kids < 7 yrs old
    - Up to 17% of lowest earning years (used to be 15%), provided there's at least 120 months left
    - Periods after age 65 while contributing to CPP

3) Canada/Quebec Pension Plan (C/QPP)

Determination of CPP Payments

CPP Retirement Pension Benefit (RPB) Payments

1. Every year of your earnings from age 18 to the date of claim are considered
    – The allowable "drop out" earning years are removed

2. Calculate **YMPE 5 year Average** (current yr + previous 4 years)

3. Calculate the **adjusted pensionable earnings (APE)** for each year (or month) using

$$APE = \left(\frac{\min \left(Earnings_{given\ yr}, YMPE_{given\ yr} \right)}{YMPE_{given\ yr}} \right) \times YMPE_{5\ yr\ avg}$$

$$= ER_{given\ yr} \times YMPE_{5\ yr\ avg}$$

Note: $APE = YMPE_{5\ yr\ avg}$ if $Earnings_{given\ yr} < YMPE_{given\ yr}$

3) Canada/Quebec Pension Plan (C/QPP)

Determination of CPP Payments

CPP Retirement Pension Benefit (RPB) Payments

4. Total the yearly adjusted pensionable earnings (excludes drop out years) and divide this by the number of years in the non-drop out period

   – This gives you the average adjusted pensionable earnings

5. Annual RPB equals 25% of your average adjusted pensionable earnings

   – Divide this by 12 to get monthly CPP RPB payment

- Note: If you earn more than the YMPE in every year you worked and you worked every year in the "non-drop out period" then you are eligible for maximum monthly RPB

Example 1 – CPP RPB calculation

- Calculate the monthly CPP Retirement Pension benefit for someone age 65 who applied for the CPP this month (January 2020) that earned in excess of the YMPE every year for 40 years.

- You are given that the 2020 YMPE is $58,700. Other values needed are provided below.

Year	Year's Maximum Pensionable Earnings (YMPE)
2020	$58,700
2019	$57,400
2018	$55,900
2017	$55,300
2016	$54,900