

## Today's Objectives

- To discuss the Guaranteed Income Supplement (GIS) and Allowance benefits
- To discuss the Canada Pension Plan (CPP)

## Module 2 – Old Age

→ Government Pension Programs (Ch 2 of *Morneau Shepell Handbook*)

Recall that:

### *GIS Benefits*

- i. Single, widowed, divorced or separated pensioners:
  - The maximum monthly GIS benefit is currently **\$916.38**
  - This maximum is reduced by \$1 for every \$2 of other monthly income over and above the OAS pension
- ii. Married, spouse not eligible for OAS or spouse's allowance:
  - The maximum monthly benefit is also currently **\$916.38**
  - This maximum is reduced by \$1 for every \$4 of combined income (over and above OAS pension)
- iii. Married couples where both are OAS pensioners:
  - The maximum monthly benefit is currently **\$551.63** for each spouse
  - This maximum for each spouse is reduced by \$1 for every \$4 of their combined income (over and above OAS pensions)

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### Example 2 – GIS benefit calculation (single)

- Suppose Alexandra Jones, who is single is currently receiving a monthly OAS pension and a monthly GIS benefit of \$617. She has lived in Canada all of her life. What was her total income earned?
- For this problem we will also work with the current OAS pension amount of \$613.53 and the current GIS maximum payment of \$916.38

$$\begin{array}{r} \text{max GIS benefit} \quad 916.38 \\ \text{reduced - benefit} \quad 617.00 \\ \hline \text{reduction} \quad 299.38/\text{mt} \\ \quad \quad \quad 3592.56/\text{yr} \end{array}$$

$$\begin{array}{l} \text{income excl OAS} \quad 7185.12 = 2 \times 3592.56 \\ \text{Plus OAS benefit} \quad 7362.36 = 12 \times 613.53 \end{array}$$

$$\begin{array}{l} \text{income incl OAS} = 7185.12 + 7362.36 \\ \quad \quad \quad 14547.48 \end{array}$$

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### Example 3 – GIS benefit calculation (married)

- A married person is currently eligible for the full OAS monthly benefit (\$613.53). Her total income is \$11,200. Her spouse also had total earned income of \$14,300. What is the size of the GIS benefit if her spouse:
  - i. is not eligible for OAS?
  - ii. is eligible for the full OAS benefit?
- We will work with current GIS maximums in this problem, that is for (i) GIS maximum benefit is \$916.38 and for (ii) GIS maximum benefit is \$551.63.

$$\begin{array}{r} \text{Income} \quad 11,200 \\ \text{max OAS benefit} \quad 7362.36 = 613.53 \times 12 \\ \hline \text{income excl GIS} \quad 3837.64 \\ \text{Spouse's income} \quad 14300 \\ \hline 18137.64 \\ \hline \text{max GIS} \quad 916.38 \end{array}$$

less reduction 377.87  
reduced GIS \$36.51.

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### 2b) Spouse's Allowance/Allowance for the Survivor

- This is an income tested benefit paid to the spouse or widow/widower of a single income pensioner (receiving OAS)
- It is designed to recognize the difficulties faced by many surviving persons and/or couples living on the pension of only one spouse

#### *Eligibility*

- The applicants spouse must be receiving/entitled to receive OAS and GIS
- The applicant must:
  - be between the ages of 60-64 (less than age 65)
  - have lived in Canada for at least 10 years after age 18

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### 2b) Spouse's Allowance/Allowance for the Survivor

#### *Benefits*

- To qualify for any benefit, the combined annual income of the couple (or widow's income) cannot exceed certain limits
- Recipients must re-apply annually
- Benefits are indexed quarterly to CPI
- Benefits are not taxable
- Benefits are payable outside of Canada for a maximum of 6 months
- Benefits stop when applicant (i.e spouse of OAS pensioner) \*\*
  - i. becomes eligible for OAS at age 65
  - ii. dies
  - iii. remarries (if survivor allowance) or the couple separates (if spousal allowance)

\*\* Whichever of (i) – (iii) occurs first

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### 2b) Spouse's Allowance/Allowance for the Survivor

#### *Benefits*

- The current maximum monthly Allowance benefits are:
  - i. Maximum Spousal Allowance: **\$1,142.22**
    - Maximum benefit is reduced for reported income (see below)
    - Currently there would be **no spousal allowance benefit if combined income is \$33,744 or more**
  - ii. Maximum Survivor Allowance: **\$1,361.56**
    - Maximum benefit is reduced for reported income (see below)
    - Currently there would be **no benefit if survivor's (widow's) income is \$24,552 or more**

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### 2b) Spouse's Allowance/Allowance for the Survivor

*Benefit Calculations* (will not be covering)

- The spouse's allowance is reduced by \$3 for every \$4 of the couple's income from sources other than OAS, until the reduction is equal to the OAS pension
  - After that, the reduction is \$1 for every \$4 of couples combined monthly income (and \$1 for every \$2 above OAS reduction if survivor allowance)



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

OAS → 1952.

#### *Highlights*

- The CPP came into effect January 1, 1966
- The Province of Quebec opted out of the Federal plan and created the QPP which overall is quite similar to the CPP
- C/QPP are compulsory programs that cover practically all employed people, including those that are self-employed
- Benefits are supported by contributions from employers and employees (not federal taxes or government subsidy)
- Benefits are earnings related and indexed annually
- Benefits include:
  - Retirement Benefits
  - Disability Benefits - before-retirement disability
  - Survivors Benefits-dependent pension, Death Benefit

self-employed:  
double.

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

#### *Highlights*

- C/QPP Retirement Benefit (core benefit)
  - The CPP benefit level was set to provide, along with OAS, a replacement ratio of approximately 40% of income up to the national average wage whereby 15% came from OAS and 25% came from the CPP
  - With recent changes tabled (CPP expansion) the CPP benefit level (25%) will be adjusted upward (more on this later)
- C/QPP Contributions (cover all CPP benefits)
  - Contributions are paid on earnings between the:
    - YBE – Year's Basic Exemption and 3,500
    - YMPE – Year's Maximum Pensionable Earnings

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

#### *Contributions*

- From 1966 to 1986, the contribution rate was 1.8% for employees (e'ees) and 1.8% for employers (e'ers) and 3.6% for those that were self-employed
- Contribution rate was progressively increased starting in 1987
  - As a result of the **1985 CPP Actuarial Report**, when it was determined that the 3.6% rate was inadequate to meet the long-term benefit obligations of the CPP
- The contribution rate was progressively increased starting in 1987
  - The total contribution rates moved from 3.6% to 5.8% (split 50/50 between e'er/e'ee) by 1997 (see chart in text)

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

#### *Contributions*

- In the 1997 Actuarial Report, it was reported that if the contribution rate continued to rise by only 0.2% per year, CPP would run out of money by 2015
- Total contribution rates were gradually increased from 5.8% in 1997 to 9.9% in 2003 and where e'ee and e'er each contributed 4.95%
  - Note: QPP contribution rates are now a bit higher than CPP
- In 2019, the contribution rate was a total of 10.2% (e'ee and e'er each contribute 5.1%) of salary (with caps) and in 2020 it is a total of 10.5% (e'ee and e'er each contribute 5.25%)
  - Increase is in consideration of CPP enhancements (more later)

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

#### *Contributions*

- Contributions required from workers who are age 18 to the earliest of {death, start of CPP retirement pension, age 70}
- Employee contributions are based on all earned income in excess of YBE until the maximums for the year has been paid
  - Contributions are deducted from pay
  - If an employee (e'ee) works for more than one employer (e'er) in any year, deductions are made by each employer
- 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%

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### **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 your answer change for (a) and (b) if you are self-employed?

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

*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)

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### 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)
- 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