Wealth Management

RBC Wealth Management Services

Canada Pension Plan / Quebec Pension Plan

Understanding the government income that may be available to you in retirement

After years of contributing to the Canada Pension Plan (CPP) or Quebec Pension Plan (QPP), you may be wondering how these plans will help you in retirement. This article looks at how the plans work, the choices you have and the implications of the various choices.

This article may outline strategies, not all of which will apply to your particular financial circumstances. The information in this article is not intended to provide legal or tax advice. To ensure that your own circumstances have been properly considered and that action is taken based on the latest information available, you should obtain professional advice from a qualified tax and/or legal advisor before acting on any of the information in this article.

Please contact us for more information about the topics discussed in this article.

What are the CPP and QPP?

CPP and QPP provide retirement, disability and survivor benefits for individuals who have contributed to CPP, QPP or both. Almost all individuals who work in Canada contribute to either the CPP or the QPP. CPP applies to individuals who work in provinces and territories outside Quebec and QPP applies to individuals who work in Quebec.

As mentioned previously, in addition to retirement benefits, the CPP/QPP also provides supplementary benefits, including:

- **Disability benefits** — a monthly benefit provided to those who have made sufficient contributions and whose disability prevents them from working at any job on a regular basis and a monthly benefit for their dependent children (this article does not discuss disability benefits but focuses on the retirement benefits);
- **Survivor benefits** — a monthly benefit provided to the surviving spouse of a deceased contributor and a monthly benefit to their dependent children; and
- **A death benefit** — a one-time, lump-sum benefit usually paid to the estate of the deceased or the person that paid the funeral expenses of the deceased.

How do I qualify for CPP/QPP?

If you worked in Canada, made at least one valid contribution to CPP and are at least 60 years of age, The standard age to begin receiving a CPP/QPP retirement pension is the month after your 65th birthday. You can take a reduced CPP/QPP retirement pension as early as the month after your 60th birthday. If you wait until after age 65 to apply for your CPP/QPP, your entitlement increases monthly until age 70. There is no benefit to waiting past age 70 to apply for your CPP/QPP.

then you qualify for CPP retirement benefits. CPP benefits do not start automatically. You must apply to start receiving CPP retirement benefits.

If you worked in Quebec, contributed to QPP for at least a year and are at least 60 years of age, then you qualify for QPP retirement benefits. QPP benefits do not start automatically. You must apply to start receiving QPP retirement benefits.

The standard age to begin receiving a CPP/QPP retirement pension is the month after your 65th birthday. You can take a reduced CPP/QPP retirement pension as early as the month after your 60th birthday. If you wait until after age 65 to apply for your CPP/QPP, your entitlement increases monthly until age 70. There is no benefit to waiting past age 70 to apply for your CPP/QPP.

I've contributed to both plans. Do I get benefits from both plans?

CPP and QPP have sharing agreements with each other and offer similar benefits at retirement. The benefit amount you will be paid will take into consideration all contributions made to both plans. However, you do not have to apply to both plans.

If you have contributed to both CPP and QPP, you would apply to receive QPP if you are living in Quebec at the time of your application and to CPP if you are living anywhere else in Canada. If you are living outside Canada, you would apply for CPP or QPP according to the last province in which you lived.

What happens if I paid into QPP and then moved to a different province?

If you only paid into QPP, you will receive QPP irrespective of the province where you live during retirement.

When should I apply?

Service Canada recommends that you apply about six months before you want your CPP pension to begin. However, you can apply as early as 12 months before you want to start receiving your CPP retirement benefit.

Retraite Quebec recommends that you apply three months prior to the month you wish to receive your first payment. However, you may apply a maximum of 12 months in advance.

What happens if I apply late?

If you apply for CPP/QPP after your 65th birthday, you can request retroactive payments for up to 12 months (11 months plus the month you apply), or back to the month after your 65th birthday, whichever is shorter. You need to be at least 65 plus one month when you make the request. Periods before the month after your 65th birthday are not eligible for retroactive payments.
If you apply for CPP/QPP any time after the month you turn 71, you will lose benefits. To avoid losing any retroactive payments you must apply for CPP/QPP retirement benefits no later than the month you turn 71.

How much can I expect to receive at age 65?

The best place to get an estimate of how much CPP retirement benefit you can expect to receive is from your CPP Statement of Contributions. The Statement of Contributions is a record of your pensionable earnings and your contributions to the Plan. It also provides an estimate of what your CPP pension benefit would be if you were eligible to receive it today. For your personalized CPP entitlement, you can obtain your Statement of Contributions online by registering for the My Service Canada Account online service or you can request a copy of your statement from Service Canada by mail.

Your monthly CPP/QPP retirement pension is based on how much you have contributed and how long you have been contributing at the time you start to receive retirement benefits. The amount you receive is also affected by your age when you start receiving your retirement benefit.

For your personalized QPP entitlement, you can obtain your Statement of Participation in the Québec Pension Plan online by registering for a clicSÉQUR account or by contacting Retraite Quebec by mail. Your Statement of Participation shows your employment earnings and contributions to the QPP and the CPP, if you also contributed to CPP. It also provides, among other things, the amounts that could be paid to you at retirement.

Maximum monthly CPP/QPP payment amounts are indexed annually and posted publicly on the Government of Canada website for the CPP, and on the Retraite Quebec website for the QPP.

Your monthly CPP/QPP retirement pension is based on how much you have contributed and how long you have been contributing at the time you start to receive retirement benefits. The amount you receive is also affected by your age when you start receiving your retirement benefit.

A certain number of months where your income was low or nil may be deducted from the CPP/QPP retirement pension calculation. This may increase the amount of your retirement benefit.

You may also be able to drop out a certain number of years from the CPP/QPP retirement pension calculation where you had zero or low earnings because you were the primary caregiver raising your children. This may increase your retirement pension amount.

The amount of your CPP retirement pension is 25% of pensionable earnings on which you contributed to CPP, if you apply to receive your retirement pension at age 65. This means that, at retirement, an individual with $50,000 in constant pensionable earnings throughout their working life would receive a yearly CPP benefit of approximately $12,500 ($50,000 x 25%).

The government has made enhancements to CPP to increase the retirement benefit to $33\frac{1}{3}\%$ of pensionable earnings on which you contributed to CPP. However, because of the very long and gradual implementation period for these enhancements, it is projected that full enhanced CPP benefits will only be available after approximately 40 years of making enhanced CPP contributions. Each year of contributing to the enhanced CPP will allow you to accumulate partial additional benefits. Partial benefits will be based on years of contributions and the amount of contributions. If you are already receiving CPP benefits or if you retire before implementation, you will not benefit from these changes. The CPP enhancements will be implemented gradually over a 7-year period beginning January 1, 2019 with full implementation expected by 2025.

These enhancements do not affect the QPP. However, the Quebec government has submitted proposals to its citizens regarding enhancements to QPP.

The amount of your QPP retirement pension is 25% of pensionable earnings on which you contributed to QPP, if you apply to receive your retirement pension at age 65.

If you start receiving your CPP/QPP pension before age 65, you will receive a permanently reduced pension for the duration of your retirement. Conversely, if you start receiving your CPP/QPP pension after age 65, you will receive a permanently increased pension for the duration of your retirement. There is no further benefit in delaying receipt of your CPP/QPP retirement benefit after age 70.

Determining when you should begin taking CPP/QPP involves many considerations and a complete analysis of your financial needs and resources.

How much will my CPP be reduced if I choose to take it before age 65?

If you begin taking CPP before age 65, your CPP is reduced by 0.6% for each month up to and including the month you turn 65, calculated from the month you begin receiving your pension. This amounts to a maximum reduction of 36% if you start receiving CPP the month after your 60th birthday.

How much will my QPP be reduced if I choose to take it before age 65?

If you were born before January 1, 1954 and you start receiving your QPP retirement benefit before age 65, your pension will be reduced by 0.5% for each month up to and including the month you turn 65, calculated from the month you begin receiving your QPP pension. If you were born in 1954 or later and you start receiving your pension before age 65, the reduction percentage varies from 0.5% to 0.6% depending on the amount of your retirement pension. The reduction is 0.5% per month if you are receiving a very small QPP pension but is 0.6% per month if you are receiving the maximum QPP pension. The formula for determining the reduction percentage that will be applied is complex and beyond the scope of this article. Therefore, the best way to determine the reduction that would apply to you is to contact Retraite Quebec or to view your Statement of Participation in the QPP online.

How much will my CPP/QPP be increased if I choose to take it after age 65?

If you start receiving your CPP/QPP retirement pension after age 65, your CPP/QPP benefit will increase by 0.7% for each month you delay receiving it, starting from the month after your 65th birthday. This means if you begin receiving CPP/QPP in the month after your 70th birthday, your monthly CPP/QPP retirement benefit will be 42% higher than it would have been if you had elected to begin CPP/QPP at age 65. The maximum possible increase in your CPP/QPP retirement benefit is 42%.

When should I take my CPP/QPP retirement pension?

Determining when you should begin taking CPP/QPP involves many considerations and a complete analysis of your financial needs and resources. This is a topic for an entire article but we will briefly touch on some factors you need to consider.

The longer you wait, the higher your benefit payments will be. Benefits are also sheltered from inflation and are guaranteed for the rest of your life. This may be an incentive to wait until later to start receiving your CPP/QPP if you don't have sufficient income to retire comfortably. In this case you may also decide to continue working and contributing to CPP/QPP.

If you plan on continuing to work, have sufficient income for your desired lifestyle and are in a high tax bracket, then it may make more sense to delay taking your CPP/QPP retirement pension. Similarly, if you have other sources of income such as a business, rental income, a company pension or other investment income you may again want to delay taking your CPP/QPP. Waiting to take CPP/QPP until later would increase the monthly payments and you may also be in a lower tax bracket at that time allowing you to keep more of your benefits.

Alternatively you may decide that you want to stop working now or reduce your working hours but you don't have sufficient other income to maintain your lifestyle without the CPP/QPP income. In that case there may be no choice but to take it earlier.

Other considerations include your current health, and family health history. If you have a shortened life expectancy then it may make more sense to take CPP/QPP early.

Speak to an RBC advisor about

You do not have to stop working or limit your earnings to start receiving CPP or QPP retirement benefits.

the CPP/QPP calculator. The calculator uses the estimated CPP/QPP retirement benefit provided by Service Canada or Retraite Quebec to help evaluate whether it is best to take a reduced retirement benefit before age 65 or wait for a larger benefit after age 65.

There are also tools available on both Service Canada's and Retraite Quebec's websites that can help you determine the best time to start your CPP/QPP retirement pension and get an estimate of how much you might receive.

Do I have to stop working or limit my monthly income before receiving CPP/QPP?

You do not have to stop working or limit your earnings to start receiving CPP or QPP retirement benefits. However, you may want to delay receiving CPP/QPP if you are still working, you are not yet age 70 and your income is relatively high, or you do not need the CPP/QPP retirement income. If you are in this situation, you are probably in a very high tax bracket which means you will keep less of your CPP/QPP income. By delaying your CPP/QPP you will receive a larger monthly benefit once you do start to receive it. This is part of the analysis that has to be done in deciding when to start receiving your CPP/QPP retirement pension. Alternatively, you may decide that you want to continue working but only part-time. Choosing to receive your CPP/QPP retirement pension may allow you to reduce your working hours and still maintain your current standard of living for a period of time until you decide to completely retire. This may be a great way to help you transition into retirement.

If I receive CPP/QPP and decide to go back to work, do I have to begin contributing to CPP/QPP again?

If you are under age 65, already receiving your CPP retirement pension and still working, you and your employer are required to contribute to CPP when your earnings are over $3,500. If you are 65 or older but not yet 70, collecting your CPP retirement pension and still working, the decision to contribute to the CPP is voluntary. In this case, you may elect not to make CPP contributions. However, if you opt to participate in the CPP your employer will also be required to contribute.

The CPP contributions you make after you are already receiving a CPP retirement pension will increase your retirement benefits. This additional pension income is called the Post-Retirement Benefit (PRB). The maximum PRB you can receive in one year equals 1/40th of the maximum CPP retirement pension. If you contribute less than the maximum, the PRB you receive will be proportionate to your contributions. For example, if you contributed half of the maximum contribution level, you will receive 50% of the maximum PRB.

For each year that you make a contribution to the CPP while already receiving your CPP retirement pension, you become eligible for a PRB the following January. Generally, the Post-Retirement Benefit will be paid to you automatically starting the year after your CPP contributions. Each new PRB will be added to any previously earned PRB up to a maximum PRB of 1/40th of the maximum CPP retirement pension.

In Quebec, you can continue to work, even if you are receiving your QPP pension but you must contribute to QPP when your annual earnings exceed $3,500. There are no more QPP contributions required after age 70. Similar to CPP, these additional contributions result in a permanent increase in your retirement benefits. This additional pension income is called the retirement pension supplement. The calculation of the supplement for a contribution year

CPP/QPP rules allow pension sharing which can result in tax savings if you and your spouse are in different income tax brackets.

is 0.5% of the earnings on which you contributed during the year. The supplement earned is then paid to you for life starting in January of the following year. Each year you continue working and contributing to the QPP while already receiving your QPP retirement pension results in an additional supplement. Generally, the retirement pension supplement is paid to you automatically and no application is required.

Even if you are already receiving the maximum CPP/QPP retirement pension, you will still receive an increase in your pension income from the PRB or the retirement pension supplement.

What if I want to cancel CPP/QPP?

You can request a cancellation of your CPP/QPP pension up to six months after you begin receiving it. You must request the cancellation in writing and repay all the CPP/QPP benefits you received.

I receive more CPP/QPP than my spouse. Are there any tax planning strategies available to us?

CPP/QPP retirement benefits are taxable to the recipient in the year received and are not eligible for the pension income tax credit. In addition, you cannot split your CPP/QPP pension income with your lower income spouse under the pension income splitting rules in the Income Tax Act. However, CPP/QPP rules allow pension sharing which can result in tax savings if you and your spouse are in different income tax brackets. Pension sharing is very different to pension income splitting.

You must apply to share your CPP/QPP retirement pension. Pension sharing involves an actual transfer of the payments from one spouse to the other but, the overall benefits paid do not increase or decrease. Retirement pension sharing is not necessarily fifty-fifty but is based on the period that you and your spouse lived together while accumulating retirement benefits.

If you live with your spouse (married or civil union) or common-law partner (de facto spouse in Quebec[1]), and you are both receiving the CPP/QPP retirement pension, you can share your CPP/QPP retirement benefits. If only one of you is a CPP/QPP contributor, you can share that one pension but the CPP/QPP contributor must be receiving their pension and the non-contributor spouse must be at least 60 years old.

When sharing CPP/QPP, a portion of the higher income spouse's CPP/QPP retirement pension may be paid to the lower income spouse and taxed in the lower income spouse's hands. This can result in a reduction of your family's income taxes.

Are there CPP/QPP splitting opportunities available for divorced individuals?

The CPP/QPP contributions you and your spouse (married or civil union) or common-law partner (de facto spouse in Quebec) made during the time you lived together can be equally divided after a divorce or separation. CPP/QPP contributions can be divided even if one spouse or common-law/de facto partner did not make contributions to the CPP/QPP. This is called CPP credit splitting or partition of employment earnings between spouses for QPP.

Eligibility for CPP credit splitting varies depending on when you divorced or separated, and whether you were married or living in a common-law relationship. You have to complete an application form and provide other required documentation to request CPP credit splitting. Either you or your former

[1]Note that the definition of common law spouse for CPP and de facto spouse for QPP is different in the respective legislations.

The CPP/QPP provides three types of survivor benefits.

spouse or common-law partner can request the CPP credit split.

Eligibility for partitioning of employment earnings for QPP varies depending on whether you were married/in a civil union or were de facto spouses.

If you were married or in a civil union and the judgment of divorce, separation or annulment was rendered in Québec, Retraite Quebec automatically partitions the employment earnings on which you and your former spouse paid contributions to the QPP for the period of marriage or civil union, unless you and your former spouse have expressly renounced such partition. If the judgment was rendered outside Québec, you or your former spouse must file the Application for Partition of Employment Earnings between Former Spouses.

If you were de facto spouses at the breakdown of your union, partition is not automatic. You must file a joint application for partition to be carried out.

What if I decide to leave Canada?

You can still receive your CPP/QPP retirement benefits even if you decide to leave Canada. However, if you receive CPP/QPP while living outside Canada, non-resident withholding tax of 25% will be withheld from your CPP/QPP pension payments, unless this rate is reduced by a tax treaty between Canada and the country where you reside.

If you are a U.S. resident receiving CPP/QPP, the Canada-US Tax Treaty reduces the non-resident withholding tax to NIL so your pension will not be subject to the 25% non-resident withholding tax. Furthermore, the maximum amount of your CPP/QPP pension that may be subject to tax in the U.S. is 85%.

What are Survivor Benefits?

The CPP/QPP provides three types of survivor benefits. The following is a very brief description of the three types of benefits.

CPP/QPP Death Benefit

The death benefit is a maximum lump-sum payment up to a maximum of $2,500. The CPP death benefit is paid to the deceased contributor's estate and the QPP death benefit is paid to the person or charitable organization that paid the funeral expenses of the deceased or to the decease's heirs.

CPP Survivor's Pension/QPP Surviving Spouse's Pension (CPP/QPP survivor pension)

The CPP/QPP survivor pension is a retirement pension paid to the deceased contributor's spouse (married or civil union) or common-law partner/de facto spouse that they were living with at the time of death. The amount paid depends on several factors including: how much the deceased contributed to the plan, whether the surviving spouse is already receiving CPP/QPP disability or retirement benefits, the surviving spouse's age, whether the surviving spouse supports dependent children of the deceased person and whether the surviving spouse is disabled.

A surviving spouse can combine their CPP/QPP survivor pension with either a CPP/QPP disability benefit or retirement pension but there are restrictions on the total amount that can be received under the CPP/QPP system. The most that can be paid to a person 65 or over who is eligible for both the retirement pension and the survivor pension is the maximum retirement pension.

CPP Children's Benefit/QPP Orphan's Pension

The CPP children's benefit provides a monthly payment to dependent children of a disabled or deceased CPP contributor. The monthly

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children's benefit is a flat rate for each child that is adjusted annually for inflation. The child must be either under age 18 or between the ages of 18 and 25 and in full-time attendance at a recognized school or university.

The QPP orphan's pension is a monthly amount paid to the individual who supports a minor child of the deceased if the deceased contributed enough to the QPP. The orphan's pension is a fixed monthly amount for each child that is adjusted annually for inflation. It is paid until the child turns 18.

What is my next step?

This article discussed the CPP and QPP plans focusing on the retirement and survivor benefits. Now that you have an idea of what's available to you in retirement you can start thinking about what you want your retirement to look like and determining when you want to retire.

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