

## PROPOSED CHANGES TO THE CANADA PENSION PLAN

Proposed by Federal, Provincial and Territorial Ministers of Finance  
Ottawa, May 25, 2009

For further information go to the Department of Finance Canada web page at: <http://www.fin.gc.ca/fin-eng.asp>

### Background

Changes to the Canada Pension Plan (CPP) were recommended by federal, provincial and territorial Ministers of Finance on May 25, 2009, as part of the regular reviews of the Plan that they are required to undertake every three years.

The proposed changes are intended to modernize the Plan to better reflect the many different paths people take to retirement today. When Ministers met to review the Plan three years ago, they agreed to examine whether changes needed to be made to the CPP to reflect this.

The proposed changes will provide greater flexibility for older workers to combine pension and work income if they so wish; modestly expand pension coverage; and improve fairness in the Plan's flexible retirement provisions. The proposed package is affordable within the current CPP contribution rate of 9.9% on earnings up to average wages and could improve the long-term sustainability of the Plan.

The proposed changes will begin to come into force in 2011 following approval by the Parliament of Canada and provincial governments. The majority of the proposed changes will be phased in gradually.

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### The Context of CPP



The CPP:



- Is a public pension plan that was established in 1966 to provide working Canadians and their families with income for retirement and with basic financial protection against the loss of earnings in the event of death or disability. (The Plan operates throughout Canada, except in Quebec, where the Quebec Pension Plan (QPP) provides similar benefits.)
- Is a federal-provincial-territorial partnership.
- Replaces up to 25 percent of pre-retirement employment earnings up to a maximum amount. (This maximum amount is a five-year average of the Year's Maximum Pensionable Earnings (YMPE) which increases with average wages. The YMPE is \$46,300 in 2009. The pension amount is based on the number of years a person has worked and contributed to the Plan as well as on the salary or wages they earned. The maximum annual retirement pension amount is \$10,905 in 2009. This secure, lifelong pension is paid monthly and is fully indexed to price inflation.)
- Is financed through mandatory contributions from virtually all workers and their employers, including the self-employed.


The contribution rate is 9.9% of earnings between \$3,500, which is the Year's Basic Exemption and the Year's Maximum Pensionable Earnings (\$46,300 in 2009). The contribution rate is split equally between employees and employers so that the maximum amount paid by employees and employers per year is \$2,118.60 (2009) each.

The self-employed pay both the employee and employer share of the contributions (maximum contribution of \$4,237.20 in 2009).

Here is what is planned:

Issue	Proposed change	Impact of change	Example
<p><b>Removal of the Work Cessation Test</b></p> <p>The Work Cessation Test requires individuals who apply to take their CPP benefit early, (i.e., before age 65) to either stop work or reduce their earnings. After having stopped work or reducing earnings for at least two months, the individual may return to work and/or earn more. There is currently no Work Cessation Test for those who are 65 or older.</p>	<p>To remove the Work Cessation Test in 2012. Individuals would be able to take their benefit as early as age 60 without any work interruption or reduction in hours worked or earnings.</p> <p><i>This change would not affect existing CPP beneficiaries or those who take their CPP retirement pension before 2012.</i></p>	<p>This change would benefit those who would like to take-up their CPP pension while continuing to work either full or part-time. The change could help individuals to use income from their CPP pension to phase into retirement or supplement their earnings. No reduction in work would be required.</p>  <p><small>► THIS APPROACH RECOGNIZES that the perceived risk of each retirement income decision is defined by what the consumer will do with that income.</small></p>	<p>Connie turns 60 years old in 2012. She is a nurse at a hospital and she loves her job. Connie would like to continue working past age 60, but is increasingly finding the long shifts of a full-time job too tiring. With the removal of the Work Cessation Test, she will be able to cut down her work from 40 to 30 hours per week and take her CPP pension. Her combined income from the CPP and the hospital job will therefore remain roughly the same as before.</p>
<p><b>Improved Pension Coverage – Working Beneficiaries to Participate in the CPP (Mandatory before 65 and voluntary after 65)</b></p> <p>Currently, those who receive a CPP pension and return to work (i.e., working beneficiaries) do not pay CPP contributions and, therefore, do not continue to build their CPP pension. Virtually all other workers in Canada are required to pay CPP contributions</p>	<p>To require individuals under the age of 65 <b>who receive a CPP retirement benefit and work</b>, as well as their employers, to make CPP contributions that will increase their CPP retirement benefit. This would be voluntary for individuals aged 65 or over, but employers of those opting to participate in the CPP would be required to also contribute.</p> <p>These contributions will result in increased retirement benefits, including persons already receiving the maximum pension amounts.</p> <p>The additional benefits would be earned at a rate of 1/40th of the maximum pension amount (\$10,905 in 2009) per year of additional contributions. The exact amount of the additional benefit would depend on the earnings level of the contributor. The resulting pension could be above the maximum.</p>	<p>This change would allow working beneficiaries to continue to build their CPP pension – a secure, inflation-protected, lifetime stream of income. This could particularly help those without a CPP pension close to the maximum amount and/or those without other sources of retirement income that are protected against inflation and financial market volatility.</p> 	<p>Jean-Philippe Grignon came to Canada at age 36 and was re-certified as a professional engineer. He started working at age 38. In 2012, he will be 65 years old and plans to take-up his CPP pension but continue working. He would like to continue to increase his CPP pension since, with only 27 years of contributions to the Plan, his pension amount will not be at the maximum.</p> <p>In 2012, he earns \$24,800 and makes a CPP contribution of \$1,054. (His employer also contributes \$1,054.) From that contribution, he will get an additional pension amount in 2013 and every subsequent year.</p>

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<p><b>Increase in the General Low Earnings Drop-Out</b></p> <p>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 25 percent of an individual's "average career earnings", starting at age 18 and ending at the age of CPP take-up. If, for example, an individual takes the CPP at age 65, the span of the career is considered to be 47 years. If, for example, the CPP is taken at age 60, the span of the career is 42 years.</p> <p>The average of earnings over the span of the career is calculated allowing for 15 percent 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 15 percent gives individuals who take their CPP at age 65 almost 7 years of low or zero earnings years that can be dropped from the calculation of their average career earnings. In addition, there are drop-out provisions specifically for child rearing and periods spent receiving a CPP disability benefit.</p> <p>These drop-out provisions are intended to ensure that an individual's average career earnings are not affected by a certain number of years of unusually low earnings that occur in most people's career for various reasons. Virtually everyone benefits from the CPP's drop-out provisions. Without these provisions, virtually 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.</p>	<p>To increase the general drop-out:</p> <p>To 16 percent in 2012. This would allow a maximum of almost 7.5 years to be dropped.</p> <p>To 17 percent in 2014. This would allow a maximum of 8 years to be dropped.</p> <p><i>This change would not affect existing CPP beneficiaries or those who take their benefit before the change comes into effect.</i></p> 	<p>This change would benefit virtually all CPP contributors and improve their basic retirement pensions. It would also increase the average CPP disability and survivor pensions, as the calculation of these benefits is based on the retirement benefit calculation.</p> <p>While the change would increase the average retirement benefit of virtually all contributors, it would be particularly helpful to those whose careers suffer more work interruptions for a variety of reasons.</p> <p>For instance, those who pursue post-secondary studies or other educational opportunities, those who reduce their participation in the labour force to provide care to a family member, or those who immigrate to Canada as adults will benefit.</p> 	<p>Harriet Keane is a high school teacher. She started university at age 18 and completed two post-secondary degrees over five years, then started teaching immediately and always earned more than "average wages". In her late 40s, she took a two-year leave of absence from work to care for her mother. She plans to take her CPP retirement pension after she turns 60 in 2015. Harriet will be able to drop all her years spent in post-secondary education and care-giving from her pension calculation. Her pension amount will be \$8,359 in 2015, and will increase each year with the cost of living. Without the proposed change, her pension amount in 2015 would have been \$8,202 (growing annually with the cost of living).</p>

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<p><b>Improved Fairness in the Pension Adjustments for Early and Late CPP Take-Up</b></p> <p>The normal age of CPP take-up is age 65. If taken-up at this age, the CPP 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.</p> <p>The CPP's flexible retirement provisions allow take-up of the retirement benefit as early as age 60. As well, take-up of the CPP can be delayed beyond age 65. To ensure that there is fairness in the provisions, regardless of the age that the retirement benefit is taken-up, a second step in the pension calculation makes "actuarial adjustments" to the basic amount that would be provided at age 65. These adjustments are made for pensions taken early (before age 65) and late (after age 65). There are no further adjustments for delaying pension take-up beyond age 70.</p> <p>The adjustments are made in order to take account of the fact that, in the case of early benefit uptake, in comparison with the normal retirement age of 65:</p> <ol style="list-style-type: none"> <li>Contributions to the CPP have been made for a lower number of years; and</li> <li>CPP benefits will be received over a larger number of years.</li> </ol> <p>The converse is true in the case of CPP uptake after the normal retirement age of 65.</p> <p>The current adjustments reduce the early pension by 0.5% per month for each month that the pension is taken before an individual's 65th birthday to age 60. Thus, if an individual chooses to take the pension at age 60, the basic amount will be reduced by 30%.</p> <p>The late pension is increased by 0.5% per month for each month that the pension is taken after age 65 up to the age of 70. Thus, if an individual chooses to take the pension at age 70, the basic amount will be increased by 30%.</p> <p>These adjustments have been left unchanged since 1987 despite shifts in the economic and demographic factors that affect their "actuarially fair" levels.</p>	<p>To gradually restore the pension adjustments to their actuarially fair levels.</p> <p>The early pension reduction would be gradually 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.</p> <p>The late pension augmentation would 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 would be done over a period of three years, starting in 2011.</p> <p>To require regular reporting on the actuarially fair level of the pension adjustments at least every nine years, starting in 2016. Finance Ministers will review these adjustments, based on an assessment by the Chief Actuary of the Plan, and recommend whether changes are needed.</p> <p><i>This change would not affect existing CPP retirement beneficiaries or those taking their benefit before these changes begin to take effect.</i></p> 	<p>This change will improve equity in the flexible retirement provisions of the CPP irrespective of the age that the CPP is taken by ensuring that amounts received by early and late retirees reflect contributions made to the Plan and the average duration of benefits.</p> 	<p>Amrita Caceres will be turning 65 in 2014. She enjoys her job as a nutritionist, but plans to retire at age 65. From her CPP statement, she is expecting that her CPP benefit will be \$6,220 in 2014. This amount will then grow with the cost of living.</p> <p>If she works for another year and delays taking her CPP pension until 2015 when she is 66, her basic pension amount of \$6,410 in 2015 will be increased by 8.4% (rather than 6% without the proposed change). Thus, the annual amount of her pension will start at \$6,948 and will grow with the cost of living.</p> <p>If Amrita's basic pension amount were at the CPP maximum of \$12,820 in 2015, her increase of 8.4% would put her pension at \$13,897 to grow with the cost of living.</p>

**Some local facts to consider:**

**Income sources for Peterborough County (source: Statistics Canada Taxfiler)**

Income Source	2003		2006	
	Number of Persons Claiming Income	Income (\$000)	Number of Persons Claiming Income	Income (\$000)
Employment Income	66,650	2,063,292	70,610	2,345,873
Wages/salaries/commissions	60,260	1,892,143	63,860	2,171,695
Self-employment income	11,100	172,149	11,770	174,178
Government Transfers	66,550	448,111	70,550	525,027
Employment Insurance	6,870	31,148	7,500	35,604
Old Age Security/net fed	22,310	137,792	23,710	155,606
Canada Pension	27,760	166,878	30,210	195,170
Canadian Child Tax Benefit	12,500	30,567	13,980	38,608
GST/HST	34,320	11,596	37,030	14,623
Workers Compensation	3,030	19,743	3,000	25,205
Social Assistance	5,690	39,045	6,260	46,114
Pro Tax Credit/Family Benefit	31,440	11,342	30,300	14,098
Investment Income	34,870	128,541	37,780	160,024
Private pension	19,610	316,018	21,260	383,675
RRSP	2,760	15,095	2,660	16,776
Other income	18,430	74,153	25,420	96,868

**Income sources for Four County Region (source: Statistics Canada Taxfiler)**

Income source	Number of Persons Claiming Income in 2006			
	Haliburton	City of Kawartha Lakes	Peterborough	Northumberland
Employment Income	7,850	39,320	70,610	42,310
Wages/salaries/commissions	6,670	34,540	63,860	38,060
Self-employment income	1,810	8,400	11,770	7,350
Government Transfers	9,360	39,760	70,550	40,530
Employment Insurance	970	4,680	7,500	4,990
Old Age Security/net fed	3,780	14,190	23,710	14,400
Canada Pension	4,900	18,270	30,210	18,280
Canadian Child Tax Benefit	1,430	7,820	13,980	8,300
GST/HST	5,020	19,830	37,030	19,410
Workers Compensation	520	1,960	3,000	1,830
Social Assistance	640	2,580	6,260	2,300
Pro Tax Credit/Family Benefit	3,830	16,060	30,300	15,920
Investment Income	4,970	21,650	37,780	22,630
Private pension	3,230	12,660	21,260	13,270
RRSP	390	1,530	2,660	1,660
Other income	2,820	14,290	25,420	14,510
Total income	12,540	56,870	101,210	59,890

NET AMOUNT PAID FOR BENEFITS, BY PROVINCE AND BY TYPE FOR THE YEAR 2006 (\$ '000)  
MONTANT NET PAYÉ POUR LES PRESTATIONS, SELON LA PROVINCE ET LE TYPE POUR L'ANNÉE 2006 (\$ '000)

Province	Retirement Retraite	Disability Invalidité	Children of Disabled Contributor Enfants de cotisant invalide		Survivor's Survivant	Children of Deceased Contributor Enfants de cotisant décédé		Death Décès	TOTAL	Combined Combinées
			-18	18-24		-18	18-24			
			NFLD.&LAB./T-N.&LAB.	338,768.6		111,396.0	6,613.0			
P.E.I./P.-É.	103,660.6	26,208.5	1,989.4	679.2	21,996.2	1,250.2	486.3	1,433.2	157,703.5	28,473.2
N.S./N.-É.	740,969.2	232,801.6	15,362.4	6,012.6	173,295.1	6,625.5	3,499.1	10,155.6	1,188,721.0	196,948.5
N.B./N.-B.	555,982.0	138,936.3	8,230.2	3,109.7	127,695.9	4,705.3	2,125.5	7,042.8	847,827.6	148,440.5
QUE./QUÉ.	66,212.7	14,817.6	824.4	436.2	17,349.6	1,001.4	609.9	1,377.4	102,629.3	13,545.4
ONTARIO	9,396,731.9	1,544,702.0	102,468.1	35,919.7	1,737,621.4	69,323.3	33,240.3	121,427.2	13,041,434.1	2,506,083.4
MANITOBA	899,907.2	113,248.3	6,988.9	2,071.2	187,559.9	7,407.7	2,944.9	12,456.5	1,232,584.7	263,822.5
SASKATCHEWAN	784,379.5	81,474.1	5,683.8	1,752.9	173,277.5	6,956.3	2,572.5	11,026.1	1,067,122.7	224,568.5
ALBERTA	1,998,173.0	309,340.2	21,387.0	5,178.9	378,160.1	22,586.7	6,581.5	26,301.5	2,767,708.9	515,358.9
B.C./C.-B.	3,285,559.1	515,770.5	32,576.0	7,398.2	560,445.1	25,436.7	7,414.1	40,212.8	4,474,812.6	794,973.1
YUKON	15,561.0	2,335.5	145.5	20.8	2,859.7	285.6	80.3	249.7	21,538.3	3,445.6
N.W.T./T.N.-O.	13,512.4	3,401.3	436.9	61.8	4,049.1	1,749.8	333.1	330.9	23,875.3	3,004.4
OUT.-EXT. CANADA	267,369.9	16,452.1	1,196.3	648.5	56,310.5	3,026.4	1,322.6	3,361.9	349,688.2	42,534.8
<b>TOTAL</b>	<b>18,466,787.1</b>	<b>3,110,883.9</b>	<b>203,902.0</b>	<b>66,057.4</b>	<b>3,530,103.6</b>	<b>153,890.8</b>	<b>62,819.8</b>	<b>240,516.8</b>	<b>25,834,961.4</b>	<b>4,822,835.6</b>

CANADA PENSION PLAN  
RÉGIME DE PENSIONS DU CANADA

Taken from: The Statistics Canada Statistical Bulletin: Canada Pension Plan/ Old Age Security, November 2007

Available at: [www.servicecanada.gc.ca/eng/isp/statistics/pdf/statbulletin1107.pdf](http://www.servicecanada.gc.ca/eng/isp/statistics/pdf/statbulletin1107.pdf)

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