

THE NAVIGATOR



CANADA PENSION PLAN / QUEBEC PENSION PLAN

A helpful guide to government income that may be available to you

You should obtain professional advice from a qualified tax advisor before acting on any of the information in this article. This will ensure that your own circumstances have been considered properly and that action is taken on the latest information available.

After many years of contributing to the Canada Pension Plan (CPP) or Quebec Pension Plan (QPP), you may have several questions regarding the rules surrounding these plans. This article provides you with detailed information as to what you may be entitled to receive and how your decision regarding when to receive these amounts may affect your overall benefit.

WHAT IS THE CPP AND QPP?

CPP and QPP provide retirement, disability and survivor benefits for individuals that have contributed to CPP, QPP or both.

CPP is for individuals who work in provinces and territories outside of Quebec and QPP is for individuals who work in Quebec.

HOW DO I QUALIFY TO RECEIVE CPP/QPP?

If you worked, made at least one valid contribution (payment) to CPP/QPP

and you are at least 60 years of age, then you qualify to receive CPP/QPP retirement benefits. While you can begin receiving CPP/QPP payments when you turn 60 years of age, you are not required to begin receiving CPP payments until you are at least 70 years of age.

IF I TAKE CPP/QPP AT 65, HOW MUCH CAN I EXPECT TO RECEIVE?

Your monthly CPP/QPP payment will depend on numerous factors including your average salary and how many years you worked and contributed.

To determine the monthly CPP/QPP rates, please visit the Service Canada website (<http://www.servicecanada.gc.ca>) or the Régie des rentes du Québec (RRQ) website (<http://www.rrq.gouv.qc.ca>).

WHY WOULD I WAIT TO TAKE CPP/QPP?

In 2013, if you begin taking CPP before the age of 65, your CPP is reduced by 0.54% for each month before you reach age 65, calculated from the time you begin receiving your pension. This monthly reduction will increase each



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Your CPP retirement pension is increased by 0.7% for each month after age 65 (and up to age 70) that you delayed receiving it. This means that if you begin receiving CPP at 70, your monthly CPP income will be 42% higher than it would have been if you had elected to begin CPP when you reached 65.

year as indicated in the table below:

Year in Which Early CPP is Taken	% Monthly Decrease	Maximum Reduction (if pension taken at 60)
2013	0.54%	32.4%
2014	0.56%	33.6%
2015	0.58%	34.8%
2016	0.60%	36.0%

In 2013, your CPP retirement pension is increased by 0.7% for each month after age 65 (and up to age 70) that you delayed receiving it. This means that if you begin receiving CPP at 70, your monthly CPP income will be 42% higher than it would have been if you had elected to begin CPP when you reached 65.

The amount of QPP that can be received is also impacted by when you decide to begin receiving it. Although the rates are different than presented in the table above, if an individual decides to take QPP before 65, the amount of monthly QPP is reduced. Additionally, if an individual decides to take QPP after 65, the amount of monthly QPP received is increased. Changes to the monthly reduction and addition are being phased in over the next few years, as summarized in the table below, as follows:

QPP taken at:	2013	2014	2015	2016
	Monthly Increase/(Decrease)			
Over age 65	+ 0.70%	+ 0.70%	+ 0.70%	+ 0.70%
Under age 65	(0.50%)	(0.53%)	(0.56%)	(0.60%)

Service Canada recommends that you apply at least six months before you want your CPP pension to begin. For QPP, you must apply for it one to three months prior to the date on which you wish to receive your first payment.

HOW CAN I CALCULATE AN ESTIMATE OF HOW MUCH CPP/QPP I WILL RECEIVE?

Service Canada's website provides a Canadian Retirement Income Calculator which provides an estimate of your CPP/QPP pension. You will need certain information when using this calculator including your CPP Statement of Contributions/QPP Statement of Participation. Please visit the Service Canada website for more details.

WHEN SHOULD I TAKE CPP/QPP?

Determining when you should begin taking CPP/QPP involves consideration of your financial needs. If you are trying to maximize the total benefit you will receive in your lifetime, you need to consider the expected rate of return, your life expectancy and inflation.

Speak to your RBC advisor regarding the CPP/QPP calculator. This calculator uses the estimated CPP/QPP benefit provided by Service Canada/Regie des rentes du Quebec to help evaluate whether it is best to take a reduced retirement benefit earlier than age 65 or wait for a larger benefit between the ages of 65 and 70.

Alternatively, you can contact 1-800-277-9914 (or 1-800-277-9915 for service in French) for your own personal CPP estimate or 1-800-463-5185 for your own personal QPP estimates.

I'VE DECIDED I WANT TO START RECEIVING CPP/QPP PAYMENTS. WHEN SHOULD I APPLY?

Service Canada recommends that you apply at least six months before you want your CPP pension to begin. For QPP, you must apply for it one to three months prior to the date on which you wish to receive your first payment.

ARE THERE LIMITS ON BACK PAYMENTS OF CPP/QPP BENEFITS?

Generally, Service Canada can make retroactive payments of CPP benefits for up to 12 months (11 months plus the month you apply). For this reason, Service Canada states that if you delay applying for CPP after you turn 70 years of age, you are at risk of losing benefits.

For QPP, a retroactive retirement pension can cover a maximum of 60 months and cannot begin before the individual turns 65 years of age. However for applications received after December 31, 2013, the maximum



If you have contributed to both CPP and QPP, you apply to QPP if you are living in Quebec at the time of your application and to CPP if you are living anywhere else in Canada.

retroactive pension will decrease to 12 months, except where a person, aged 65 or more on January 1, 2014, applies for the pension in 2014. In this situation, the applicant may receive a retroactive retirement pension of 60 months.

DO I HAVE TO STOP WORKING OR LIMIT MY MONTHLY INCOME BEFORE RECEIVING CPP/QPP?

No; this was the case under old CPP rules but as of 2012 the requirement to stop working or significantly reduce your earnings to take-up early CPP no longer applies. This may help you phase into retirement or supplement your employment earnings. For example, with CPP pension, you may be able to reduce your work hours and still maintain the same income from the combined CPP and reduced employment earnings.

For QPP, if you are 65 years of age or over, you can receive QPP pension whether you are working or not. If you are between 60 and 65 years of age, you must stop working in order to receive QPP pension unless your estimated earnings for the 12-month period following the date your QPP pension begins do not exceed a certain threshold or your salary is reduced by at least 20% per pay period, based on a mutual agreement with your employer to reduce your hours.

As of January 1, 2014, individuals who are 60 years of age or over who contributed to QPP for at least one year will be able to apply for QPP even if they are still working.

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 and are

receiving your CPP monthly pension and continue to work, you and your employer are required to continue to contribute to CPP. If you are between the ages of 65 to 70, collecting a CPP pension and continue to work, the decision to continue to contribute to the CPP is voluntary so you may elect not to make CPP contributions. However, if you opt to participate in the CPP your employer will be required to also contribute. These contributions will result in increased retirement benefits.

The additional contributions after CPP take-up are intended to increase your retirement benefits at a maximum rate of approximately 2.5% of the maximum pension amount per year of additional contributions. Depending on your earnings level, these changes have the potential to increase your CPP pension above the maximum monthly benefit limits.

In Quebec, if you are receiving QPP, you can work and continue to receive QPP pension. However, you must contribute to QPP once earnings exceed \$3,500. Similar to CPP, these additional contributions result in an increase in the monthly QPP. The total increase for the year is 0.5% of the earnings on which you contributed during the previous year.

WHAT HAPPENS IF I PAID INTO QPP AND THEN MOVED TO A DIFFERENT PROVINCE?

If you only paid into QPP, you will receive QPP no matter which province you reside. If you have contributed to both CPP and QPP, you apply to 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 apply

By electing to share, a portion of the higher income spouse's retirement pension may be received by the lower income spouse and taxed in the lower income spouse's hands.

according to the last province in which you lived.

I RECEIVE MORE CPP/QPP THAN MY SPOUSE. ARE THERE ANY TAX PLANNING STRATEGIES AVAILABLE TO US?

Yes. Spouses or common-law partners who are together, who are both at least 60 years old, and who are both receiving the CPP/QPP retirement pension can share their CPP/QPP retirement benefits. This is called pension sharing, and may result in tax savings. If only one of you is a CPP/QPP contributor, you share that one pension. The overall benefits paid do not increase or decrease with pension sharing.

By electing to share, a portion of the higher income spouse's retirement pension may be received by the lower income spouse and taxed in the lower income spouse's hands.

ARE THERE CPP/QPP SPLITTING OPPORTUNITIES AVAILABLE FOR DIVORCED INDIVIDUALS?

When couples divorce, the person who earned a lower wage, and therefore has fewer CPP/QPP credits, can receive some of the CPP/QPP credits earned by the ex-spouse, the higher wage earner. To have the CPP credits split, you will have to contact

Service Canada and provide them with certain documents including proof of marriage and a proof of divorce. Similarly, to have QPP credits split, you should contact RRQ.

WHAT CPP/QPP DISABILITY BENEFITS ARE AVAILABLE?

CPP disability benefits are available to certain individuals who have made contributions to CPP and are disabled. The CPP definition states that a disability has to be both "severe" and "prolonged". Additionally, to receive this benefit, you must be under 65, stopped working because of your medical condition and either paid into CPP for at least four of the last six years or for at least 25 years including three of the last six years. To find out more details regarding eligibility and how to apply, please visit the Service Canada website.

QPP disability benefits are available to an individual under 65 who has a severe and permanent disability and has contributed sufficiently to QPP. To be considered to have contributed sufficiently to QPP, you must have:

- Contributed for at least two of the last three years in your contributory period;
- Contributed for at least five of the last 10 years in your contributory



You can cancel receiving CPP/QPP up to six months after you begin receiving it. In both cases, the cancellation must be requested in writing and all previous CPP/QPP must be repaid.

period; or

- Contributed for at least half of the years in your contributed period, but not less than two years.

As of January 1, 2013, a person 60 to 65 years of age, will be entitled to a disability pension, provided he/she contributed to the plan for at least four of the last six years in the contributory period and the person has been deemed to be disabled. For more information regarding eligibility and how to apply for QPP disability benefits, please visit the Régie des rentes du Québec website.

WHAT ARE CPP SURVIVOR BENEFITS?

There are three types of survivor benefits provided by CPP, as follows:

- 1) The death benefit is a one-time, lump sum payment made to the deceased contributor's estate. This benefit is equal to six months worth of the calculated CPP the individual would have received, up to a maximum of \$2,500;
- 2) The survivor pension, a monthly pension paid to the deceased contributor's spouse or common-law partner. The amount received depends on several factors including whether the spouse/common-law partner is already receiving CPP, the age of the spouse/common law partner, how long the contributor contributed to CPP and how much was contributed; and
- 3) The children's benefit, paid to a child who has lost at least one parent who met certain CPP contribution requirements.

For more information on these

benefits, when to apply, when you can receive them and the contribution and other eligibility requirements, please visit the Service Canada website.

WHAT ARE QPP SURVIVOR BENEFITS?

Similarly, there are three types of survivor's benefits provided by QPP, as follows:

- 1) The death benefit, a lump sum payment of \$2,500, is either paid to the person or charitable organization that paid for the funeral costs of the deceased individual or to the deceased individual's heirs if the deceased individual contributed sufficiently to QPP;
- 2) The surviving spouse's pension, a monthly pension paid to the deceased contributor's spouse or civil partner. The amount received depends on several factors including whether the spouse/civil partner is already receiving QPP, the age of the spouse/civil partner, the contributions of the deceased individual to QPP; and
- 3) The orphan's pension, paid to a minor child of the deceased individual who meets certain requirements.

For information on this benefits, please visit the Revenu Quebec website.

WHAT IF I WANT TO STOP RECEIVING CPP/QPP?

You can cancel receiving CPP/QPP up to six months after you begin receiving it. In both cases, the cancellation must be requested in writing and all previous CPP/QPP must be repaid.

U.S. resident recipients of CPP/QPP will not be subject to the 25% non-resident withholding tax. Furthermore, only 85% of the CPP/QPP benefit will be taxable on their U.S. tax return.

IF I LIVE OUTSIDE OF CANADA, WILL MY CPP/QPP PAYMENTS BE SUBJECT TO NON-RESIDENT WITHHOLDING TAX?

Yes, there will be a non-resident withholding tax of 25% on the CPP/QPP benefit if paid outside of Canada, subject to any tax treaty reductions.

U.S. resident recipients of CPP/QPP will not be subject to the 25% non-

resident withholding tax. Furthermore, only 85% of the CPP/QPP benefit will be taxable on their U.S. tax return. These reduced rates are the result of the Canada-US Tax Treaty.

IS THERE ANY RELIEF AVAILABLE ON THE NON-RESIDENT WITHHOLDING TAX ON MY CPP/QPP?

If a non-resident is subject to withholding tax on their CPP/QPP

benefit and this withholding tax is greater than the Canadian marginal tax rate if the individual reported their worldwide income on a resident Canadian tax return, then a special election can be filed. This election can recover any excess withholding tax. As a result, low-income non-resident recipients of CPP/QPP benefits can pay little or no tax on these benefits.

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

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