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Management

# the Navigator

INVESTMENT, TAX AND LIFESTYLE PERSPECTIVES FROM RBC WEALTH MANAGEMENT SERVICES

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## CPP retirement pension sharing

A tax planning strategy involving your retirement pension

You may be able to share your Canada Pension Plan (CPP) retirement benefits with your spouse to reduce your family's overall taxes. By applying to share your pensions, the lower-income spouse can receive a portion of the higher-income spouse's retirement pension and pay tax on that pension income at their lower marginal tax rate.

Any reference to a "spouse" in this article also refers to a common-law partner.

### Are you eligible to share CPP?

To qualify for CPP retirement pension sharing:

- You and your spouse must both be 60 years of age or over;
- You must be living with your spouse; and
- You must have lived with your spouse during the time you, your spouse or both of you contributed to CPP.

In addition, if you both contributed to CPP, you must both be receiving your pension, or have applied to receive it. If only one of you contributed to CPP, the spouse who contributed to CPP must be receiving their pension, or have applied to receive it.

### How does CPP pension sharing work?

CPP pension sharing generally doesn't result in an equal split of your CPP retirement benefits. The portion of your and your spouse's CPP retirement pension that can be shared is based on the number of months you and your spouse lived together during your "joint contributory period." Your joint contributory period generally starts when the older of you and your spouse turns 18 and ends when both of you start receiving your CPP retirement pensions. If one of you never contributed to CPP, the joint contributory period ends when the non-contributing spouse turns 70 or when you apply to share the one CPP pension.

CPP pension sharing does not change the total CPP you would have otherwise received as a couple; however, it may result in an overall family tax savings. This may be the case if one spouse is receiving more CPP and is in a higher tax bracket than the other spouse.

Note that CPP sharing may not benefit you in every case. For example, if the retired lower-income spouse has accumulated a larger pension entitlement than the higher-income spouse during the time they've lived together, there may be no benefit to pension sharing.

### An example of CPP pension sharing

Alice and Brad are married and are both receiving their CPP retirement pensions. Alice is three years older than Brad and they both decided to take their CPP starting at age 65. Without CPP pension sharing, Alice's CPP retirement pension is \$900 per month while Brad's is \$400 per month, a difference of \$500 per month. Their qualified financial advisor urged them to consider pension sharing as a way of reducing their overall tax liability.

Since the joint contributory period began when Alice turned 18 and ended when Brad turned 65, their joint contributory period is 50 years. The amount of CPP that can be shared depends on how many years Alice and Brad have lived together as a proportion of their joint contributory period.

For example, if Alice and Brad had been living together for 30 years (or 60% of their joint contributory period), then \$300 of their retirement pension can be shared (\$500, representing the difference between Alice's and Brad's CPP retirement pensions x 60%). Half of that amount, or \$150, can be subtracted from Alice's retirement pension and added to Brad's retirement pension. The only instance where CPP pension sharing would result in an equal split of their pensions would be where Alice and Brad have lived together during their entire joint contributory period.

| Number of years lived together | % of joint contributory period | Monthly CPP from pension sharing |       |
|--------------------------------|--------------------------------|----------------------------------|-------|
|                                |                                | Alice                            | Brad  |
| 30                             | 60%                            | \$750                            | \$550 |
| 35                             | 70%                            | \$725                            | \$575 |
| 40                             | 80%                            | \$700                            | \$600 |
| 45                             | 90%                            | \$675                            | \$625 |
| 50                             | 100%                           | \$650                            | \$650 |

### How do you apply for CPP pension sharing?

If you and your spouse meet the eligibility requirements and would like to share your CPP retirement pensions, you can apply through Service Canada. CPP pension sharing begins as soon as Service Canada approves your application. You cannot backdate your application.

If you have not yet applied for your CPP retirement pension and would like your pension sharing to be effective immediately, you can include an application for pension sharing with your CPP retirement pension application. You cannot submit your pension sharing application before you apply for CPP.

The application form for CPP sharing is available on the Service Canada website. You must include certain supporting documents with your application. Depending on your situation, this may include:

- A certified copy of your marriage certificate; or
- Proof of your common-law relationship (i.e. a statutory declaration of a common-law union, which can also be obtained from Service Canada's website).

Mail the completed application form, with the supporting documents, to the Service Canada office nearest to you. There is a list of Service Canada offices on the application form.

## When does CPP pension sharing end?

CPP pension sharing ends when the earliest of the following events occurs:

- The month either spouse passes away;
- The month you divorce or, if you are common-law partners, the 12th month following the month in which you and your common-law partner started to live separate and apart;
- The month the non-contributing spouse starts contributing to CPP; or
- The month after the month Service Canada approves a written request by both of you to terminate the CPP sharing arrangement.

## Spouses who contribute to different plans

If one spouse receives CPP retirement benefits and the other spouse receives Québec Pension Plan (QPP) retirement benefits, pension sharing will be similar to if you both receive benefits under the same plan. Each spouse should complete and submit the application form relevant for the pension they are receiving and indicate that their spouse contributed to the other plan.

When you're evaluating whether or not to share CPP with your spouse, consider the income you and your spouse expect to receive from the plan as well as your other sources of retirement income.

## Conclusion

When you're evaluating whether or not to share CPP with your spouse, consider the income you and your spouse expect to receive from the plan as well as your other sources of retirement income. You should then evaluate your expected income levels to determine whether pension sharing may help minimize your family's overall tax bill.

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