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Market Overview—Canada Pension Plan

I've written the following article which will explain the proposed changes to the Canada Pension Plan.

On May 25, 2009 Finance Canada announced some proposed changes to how the Canada Pension Plan will work. In brief, the changes are proposed to take effect over a period of time from 2011 to 2016, so it will affect anyone planning to retire after 2010.

a) Early retirement (before age 65) will result in a reduction in CPP benefits by 7.2% per year, which is up from the traditional 6%. This means that if you begin to take your pension at age 60, your payments will be cut by 36%, not 30%.

b) On the flip side of this, late retirement (after age 65 but before age 71), CPP benefits will be increased, not by 7.2% but by 8.4%, which is up from the traditional 6%. This means that if you wait until age 70 to take your CPP, the benefit payments will be 42% higher, compared to the 30% higher today.

c) If you want to begin to collect CPP while you are still working (which can happen in a recession such as this; as people are having to get new employment with lower pay than the last job so they need to supplement their income), then instead of having to stay out of work for 2 months like you do now, you can begin to collect CPP at age 60 even if you continue to work - and after age 65 if you are collecting CPP but want to continue to work, the proposal is that you can contribute to CPP again through your work in order to increase your benefits.

d) The calculation for CPP will change as well - currently the lowest 7 years of earnings is deleted from the calculation - under the proposals, the lowest 8 years will be omitted so that the benefits are not weighed down by low earning years.

In my opinion - it seems that these changes are designed to discourage Canadians from taking early CPP and awarding those who delay receiving their pension.

My own personal view is that a bird in the hand is better than two in the bush, which means that there are many benefits to individuals in taking their CPP early.

If you have any questions or concerns about what really would be best for you and/or a loved one, please feel free to call me.

