

Changes to the Canada Pension Plan

The federal government has recently adopted some significant changes to the Canada Pension Plan that will impact many individuals applying for CPP on or after January 1, 2011 (these changes will not impact those that begin receiving CPP benefits prior to this date). In particular, if you will have reached the age of 60 in 2010 and it is your intention to take an early CPP pension, it may be to your advantage to ensure that you start receiving your pension before the end of 2010, to ensure that you qualify under the old rules.

It is important that any retirement plans you have be reviewed in light of the following changes to assess how they will impact you personally.

1. Work Cessation Test

Those wanting to start receiving CPP benefits early will no longer have to meet the work cessation test. This previously required individuals to stop work for at least two months or reduce their earnings below the CPP payment threshold. This will no longer be required. Individuals will be able to start receiving CPP benefits as early as age 60 with no interruption to hours worked or earnings. This will come into effect in 2012.

2. Low Earnings Drop-Out

An individual's CPP amount is calculated based on the average of earnings over the span of their career. Currently, 15% of your lowest earning years are dropped from the calculation, increasing your average earnings. By 2014, this will be increased to 17% of your lowest earning years. This will result in an increase in CPP benefits for most individuals who have not already maxed out their average earnings.

3. Mandatory Contribution under 65

Currently, an individual receiving CPP who re-enters the work force is not required to make CPP contributions. Under the new rules, those under the age of 65 that re-enter the workforce will be required to contribute up to the CPP maximum (currently \$2,163.15 per year); however, these contributions would also increase their retirement benefit. Those over the age of 65 will now have the option to continue contributing on a voluntary basis. Under these circumstances, the resulting pension could be above the maximum.

4. Pension Adjustments for Early or Late CPP Take-Up

An individual may begin receiving CPP benefits anytime after their 60th birthday. While this will not change, the premium associated with the age of take-up (the time at which benefit payments begin) will change. Currently, CPP benefits are reduced by 0.5% per month prior to the age of 65 (early take-up) and increased by 0.5% per month after the age of 65 (late take-up). This results in a maximum decrease or increase of 30%. The premium for early take-up will increase to 0.6% per month by 2016 and the premium for late take-up will increase to 0.7% per month by 2014.

The following table outlines the maximum decrease in benefits if take-up begins on one's 60th birthday and the maximum increase if take-up begins on one's 70th birthday:

| Age of CPP Take-Up | Year of CPP Take-Up | | | | | |
|--------------------|---------------------|--------|--------|--------|--------|--------|
| | < 2011 | 2012 | 2013 | 2014 | 2015 | > 2016 |
| 60 | -30 % | -31.2% | -32.4% | -33.6% | -34.8% | -36% |
| 65 | 0% | 0% | 0% | 0% | 0% | 0% |
| 70 | +30% | +34.2% | +38.4% | +42% | +42% | +42% |

These changes will affect each individual differently based on your specific situation. If you are nearing retirement and have questions about how these changes may impact your retirement plans, we would be pleased to discuss them with you.

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