New CPP Rules, good or bad?

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Executive Summary

The new rules regarding the Canada Pension Plan (CPP) have confused many future retirees. Although it may be tempting to wait to clear the confusion until retirement is on the brink, all Canadians over 50 years old, who are approaching retirement and beginning long-range planning, should familiarize themselves with the new rules to be better prepared when retirement does arrive.

Coordinating one's CPP with other retirement factors such as additional public and/or private pensions, current savings and anticipated lifestyle and longevity is key to successful retirement planning.

What you need to know

The CPP, like all prudent savings schemes, sets aside a portion of current earnings to fund periods of non-employment, like retirement. The changes to the CPP program will increase the amount of income subject to premiums, and will also increase the amounts paid to recipients during retirement. As part of the implementation of these changes, be aware that the higher premiums collected and the amounts paid to retirees will be phased-in gradually.

Some of the major changes to be introduced include:

- Increased incentive to delay receiving payments
  - Procuring benefits prior to age 65 will result in a reduction of 0.6% for each month taken early. For example, taking your CPP five years early, will reduce your receivable amount by 36 percent: 60 months [5yrs] x 0.6[/mth] = 36% [reduction]
  - On the contrary, receiving benefits after age 65 will add 0.7% per each month payment is delayed. Taking CPP five years after retirement age, for example, will add 42% to your payments (60 months [5yrs] x 0.7[%] = 42% increase)
- Maximum payout will rise from 25 to 33 percent
  - The current per annum maximum of $13,110 will rise to approximately $17,500
- By 2025, maximum earnings from which CPP benefits are calculated will rise from $54,900 to $82,700
- The increased earnings eligible for pension calculations will raise the maximum annual payment further, to approximately $19,900

- Additional payments will be funded by higher CPP premiums
  - From 2019 to 2025, premiums will raise from 1% to 5.95% of wages. This means the phase-in will cost $9 per month in 2019 and will gradually increase to $43 per month once the plan is fully implemented in 2025.
  - An offsetting tax credit will assist lower-income workers better afford the increase
  - The additional premiums will also be matched by employers, significantly adding to employers' costs

This information can be found at: http://www.esdc.gc.ca/en/cpp/benefit_amount.page

Younger workers, who land completely under the umbrella of the new CPP rules, should find these changes advantageous as they will reap the maximum benefits. Older workers should theoretically benefit from the modifications but really should take some time to educate themselves to best decide their CPP payment future.

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The grid below provides for a summary of CPP increases under the new rules.

Age in 2019	Standard Yearly Maximum Pensionable Earnings (YMPE)	Standard Annual Pension under old CPP	Projected YMPE	Increase in Annual Pension Under New CPP
65	$60,200	$14,185	$60,200	$0 (0.0%)
55	$81,700	$19,225	$93,400	$2,452 (12.8%)
45	$110,800	$26,100	$126,900	$6,668 (25.5%)
35	$150,300	$35,380	$172,200	$13,595 (38.4%)
25	$204,100	$48,045	$233,500	$24,522 (51.0%)

Source: moneysense.ca

Bottom Line

The upcoming changes to the Canada Pension Plan are designed to benefit all Canadians. Although it will take a few years to truly understand the effects on workers, if you plan to retire prior to 2020, payment timing is the only change to really be concerned with. If you feel concerned or would like to learn more, I encourage you to get in touch so we can discuss your specific situation further.