

Tax & Estate matters



Recent CPP changes: *Your clients will be seeking your guidance in the coming years*

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The Canada Pension Plan (CPP) comes up for formal review on a triennial basis, with the 2009 recommendations having made their way into law with Royal Assent granted to Bill C-51 on December 15, 2009. It appears that structurally the new rules encourage the coming generation of retirees to think twice before triggering their pensions at early ages, which will likely influence the course of advisor conversations with clients and, potentially, the recommendations made.

The changes

Work cessation test - Until now, a person under age 65 had to "retire" (cease work or at least reduce income) before commencing with CPP payouts, but could then return to work after two months. The work cessation test will be eliminated in 2012.

Working beneficiaries participating in the CPP - In the past, once a pension had begun, there would be no further CPP premiums paid. Beginning in 2011, premiums will be mandatory for those under age 65 and voluntary from age 65 to 70. Ongoing retirement benefits will increase based on those premiums paid.

General low earnings dropout - In the calculation of pension entitlement, the dropout of low- or nil-earnings years will increase from seven years to eight years by 2014, leading to improved pensions for many people.

Adjustments for early and late CPP take-up - The current adjustments reduce a pension by 0.5% per month that the pension begins before the age of 65, or increase it by 0.5% for each month after the month of a person's 65th birthday. The early pension reduction will gradually increase to 0.6% by 2016, and the late pension augmentation will gradually increase to 0.7% by 2013.

Impact on pensioners and the system

As indicated above, the changes will be phased in over the next six years and generally will not affect existing CPP beneficiaries or those who take their benefits before the changes come into effect.

As stated in an information paper issued by the federal Department of Finance, the package is "expected to improve the long-term financial sustainability of the CPP." With respect to the early and late take-up adjustments, it notes that these "have been left unchanged since 1987 despite significant shifts in the economic and demographic factors that affect their 'actuarially fair' levels."

Practical value to advisors

The changes - particularly these take-up adjustments - present financial advisors with an opportunity to provide insight and guidance to clients in determining how best to manage their CPPs.

And given the ease of opting in presented by the elimination of the work cessation test, advisors may be having many more of these discussions over the next few years.

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