

Life Letter *mature*

Canada Pension Plan update

The Canada Pension Plan (CPP) was established in 1966. It is intended to provide basic benefits to a contributor if they become disabled or retire. There may also be a benefit paid to the contributor's family on death.

The CPP retirement pension is designed to replace only 25% of the earnings on which a person's contributions were based. The pension is based on how long, and how much, you contributed to the Plan. Monthly income is adjusted each year to the Consumer Price Index. The average monthly pension at age 65 in October 2007 was only \$481.46.

The normal retirement age for the CPP pension is age 65. It does not start automatically and must be applied for, unless already receiving a disability benefit. A CPP pension can also be started as early as age 60 or deferred until age 70. Certain conditions must be met in order to receive the pension early. Either the applicant is not working by the end of the month before, and during the month benefits begin, or earnings are less than a certain amount.

Currently, the CPP retirement pension would be reduced by 0.5% per month before age 65 the income starts. That means someone starting the CPP pension in the month they reach age 60 would receive 30% less than if they were 65. This reduction is permanent. If, on the other hand, they delayed receiving the pension after age 65, they would receive 0.5% more for each month the pension was deferred up to age 70. By delaying the pension until age 70, they would receive 30% more than if they were 65.

Changes announced in May 2009, if enacted, would mean a larger reduction in early CPP pension benefits and a greater increase if the pension is delayed. It is proposed to reduce the pension by 0.6% per month before age 65 it is started early and to increase the pension by 0.7% per month it is delayed after age 65. This means, as in the previous example, someone starting at age 60 would receive 36% less, and the 70 year old would receive 42% more, than a 65 year old. Contributions can be made voluntarily beyond age 65 to further add to the benefit.

Proposed by the federal, provincial and territorial finance ministers, the changes to receiving CPP early are intended to be phased in gradually from 2012 to 2016. The new rules that would increase the delayed pension bonus are to be phased in from 2011 to 2013. This can save the CPP lots of money, especially since more people elected receiving the retirement pension early than the CPP had anticipated. The information paper states it "could improve the long-term sustainability" of the program.

Want help with your retirement income planning? Call today!

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