



JOHNSTONE'S JOURNAL is published monthly, and designed to provide topical information of interest not only to plan administrators, but to all employees who enjoy coverage under the benefit plan. Feel free to make copies, and use as a payroll stuffer.

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January 2010

Canada Pension Plan (CPP)

More than Just a Retirement Plan

Pension Income and More

The Canada Pension Plan (CPP) was introduced in 1966 and is part of every working Canadian's retirement income—but it is more than just a retirement pension.

All working Canadians over the age of 18 and up to the age of between 60 and 70 (depending on when you want to receive retirement benefits) contribute part of their pay to the CPP. Employers match these contributions. For many years now, the employee **contributions have been 4.95% of pay**. Additionally, **employers remit 4.95%** of the employee's pay. People who are self-employed must pay both the employee and employer portions. This combined **total of 9.90%** is capped—with contributions being made on the first \$47,200 a year of income (less the basic exemption of \$3,500). This maximum income level is called the Yearly Maximum Pensionable Earnings (YMPE), and CPP adjusts it each year.

CPP contributions provide employees and their dependents with a **modest base of financial protection** in three key areas:

- **Retirement Pension**
Pays a monthly pension.
- **Disability Benefits**
Pays a monthly pension to disabled employees and an additional monthly pension for each dependent child.
- **Survivor Benefits**
Pays a lump sum death benefit, plus a monthly pension to a surviving spouse, and a monthly pension for each dependent child.

All benefits paid are **taxable**, and indexed annually to the cost of living.

How Do I Qualify for CPP Benefits?

Each benefit has slightly different qualification criteria:

- **Retirement Pension**

You are eligible for CPP retirement benefits if you have made a least one valid contribution and are at least 65 years of age. Or,

Between the ages of 60 and 64 benefits can be paid if you have completely stopped working or reduced your work prior to receiving your pension. Work reduction means that your income must be below the CPP benefit level.

- **Disability Benefits**

You must have contributed to CPP in four of the last six years. During that period you must have earned at least 10% of the YMPE.

Benefits are payable to employees who are between the ages of 18 and 65, and who meet the definition of disability as defined by CPP legislation.

- **Survivor Benefits**

You must have contributed to the CPP for at least 3 years.

If your contribution period is longer than nine years you must have contributed in one-third of the calendar years or 10 calendar years, whichever is less.

Benefits are dependent on the age of the spouse at the employee's death—for example, spouses under age 35 will not receive a benefit until they are age 65, while spouses age 45 to 65 are entitled to an immediate pension of up to \$516.57 a month.

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How much can I Expect to Receive from CPP?

The amount of your CPP benefit depends on how much you have contributed to the CPP over the years.

The following table illustrates the maximum monthly benefit that CPP could pay.

Type of benefit	Maximum monthly benefit(2010)
Disability benefit	\$1,126.76
Retirement pension (at age 65)*	\$934.17
Survivors benefit (under age 65)	\$516.57
Survivors benefit (age 65 and over)	\$560.50
Children of Disabled Contributors benefit	\$214.85
Children of Deceased Contributors benefit	\$214.85
Combined Survivors & Retirement benefit	\$934.17
Combined Survivors & Disability benefit	\$1,126.76
Death benefit (one payment)	\$2,500.00

*CPP retirement income taken before age 65 (as early as age 60) is reduced by ½ % a month or 6% per year. For those who choose to apply for CPP after age 65, (as late as age 70), retirement income is increased by ½ % a month, or 6% per year.

Statement of Contributions

Canadians who have contributed to the CPP can receive a statement of contributions upon request. This statement will identify contributions that were made, along with the benefits you are entitled to in the three benefit areas.

Note that the dollar figures and limitations discussed here are for your information only, and are subject to change. Contact Service Canada to confirm figures for your personal situation.

Will CPP be there for You?

The government assures us that future generations can count on Canada's public pensions. Steps were taken in 1998 to ensure CPP's continued sustainability. Contributions were increased dramatically and continued to rise until the combined total (employee and employer) reached 9.9% in 2003. Part of these higher contributions are placed in a reserve fund, and invested in financial markets. This change moved away from the original pay-as-you-go CPP model. Their investment philosophy is now similar to any other large pension plan.

Pension Reform Debate

The sharp decline in the stock market during the second half of 2008 had negative ramifications on retirement savings for Canadians. Particularly affected were those who had already retired or were about to retire. Several defined benefit plans became insolvent, as they no longer had sufficient assets to cover their pension liabilities. Although stock market values are recovering since reaching bottom in March 2009, Canadians realize that their efforts to guarantee adequate income for retirement is more challenging than they had thought.

2009 has seen considerable debate about the Canadian pension system, most recently with the provincial and federal finance ministers meeting in Whitehorse, December 17th and 18th. Although far from resolved, the focus remains on eradicating poverty amongst seniors. Conversely, there are also issues around the reality that the current senior population is appreciably better off than younger Canadians will be upon retirement. There are numerous solutions under debate, but what is sure, is that the solution will include integration of both public and private retirement savings—CPP, Old Age Security, Private Pension Plans and RRSPs.

For more information, visit our website:

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Links & Forms

Federal and Provincial Government Sites

or call Service Canada at: 1-877-454-4051