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# Little-known facts about the Canada/Quebec Pension Plan



## **Tax Managed Strategy 8**

For Canadians at or nearing retirement, the Canada/Quebec Pension Plan (CPP/QPP) remains a bit of a mystery. Many people realize they've been contributing to it for a good portion of their lives but may not be sure when or how much they'll receive at retirement.

Furthermore, there's often some confusion as to whether it's a better strategy to begin drawing pension income early at age 60 or wait until age 65. What follows are some facts that shed some light into the "black hole" known as the CPP/QPP.

## Fact #1 – take CPP/QPP early and continue working

You can start collecting a CPP/QPP retirement pension as early as age 60. However, if you begin either pension early, your pension will be reduced by 0.6% per month prior to your 65th birthday. The maximum reduction of a CPP/QPP retirement pension is 36%. Finally, you can choose to receive your CPP or QPP while you continue to work.

If you choose to receive your CPP/QPP pension early and continue to work, you're required to continue to contribute to CPP/QPP between the ages of 60 and 65.<sup>1</sup> These additional contributions will result in an increased annual pension benefit (also known as the *post-retirement benefit*) equal to 1/40 of the year's maximum retirement benefit, subject to your level of working income. Under QPP, this benefit is known as the *retirement pension supplement*. The supplement is added to the pension for the remainder of the pensioner's life. It's effective January 1 of the year following the year in which the contributions were made. The total supplement for 2024 and beyond is 0.66% of earnings that were contributed during the previous year. The retirement pension increases even if you're already receiving the maximum regular pension payable and continues to increase on a yearly basis as long as you continue to make contributions.

**The following table illustrates the impact of the CPP/QPP early retirement reductions, assuming an individual would qualify for a \$1,000/month retirement pension at age 65:**

60	61	62	63	64	65
\$640	\$712	\$784	\$880	\$940	\$1,000

## Fact #2 – delay taking CPP/QPP and receive more

If you were to start receiving your CPP retirement pension after age 65, it would be increased by 0.7% per month that you delay taking it. The maximum pension increase is 42% at age 70. Starting in 2024, QPP pension payments can be delayed up to age 72 (previously it was age 70). Payments will continue to be increased up to 0.7% per month up to age 72.

If you continue to work, between the ages of 65 and 70 (72 for QPP) you will be subject to CPP or QPP premiums by default. If you're currently receiving a CPP/QPP retirement pension, you may elect out of making the contributions. To elect out of paying CPP premiums, complete [form CPT30](#) (Election to Stop Contributing to the Canada Pension Plan, or Revocation of a Prior Election).

File the original Form CPT30 with the Canada Revenue Agency (CRA) and provide a copy to your employer. The election becomes effective on the first day of the month following the date you provided a copy of the form to your employer. This option is new for QPP as of 2024, and details for the application process are available on [Retraite Quebec](#).

It's also possible to revoke a prior election such that you'll be able to contribute CPP premiums again. The revocation will be filed using the same form (CPT30) and will be effective the first day of the month following the date you give a copy of the form to your employer.

Once you make an election, either to opt out of paying CPP premiums or to revoke a previous election, you can't make another election until the next calendar year.

Continuing with the example from [Fact #1](#), the table below shows the CPP/QPP retirement pension amounts if an individual eligible for a \$1,000/month pension at 65 defers to a later age:

65	66	67	68	69	70	71 (QPP only)	72 (QPP only)
\$1,000	\$1,084	\$1,168	\$1,252	\$1,336	\$1,420	\$1,504	\$1,588

## Fact #3 – compare CPP/QPP amounts at different ages

If you're turning 60 and plan on retiring early, you'll want to know which option is better:

- Taking a reduced CPP/QPP pension at age 60
- Waiting until age 65 to get the full amount (your CPP can also be delayed to age 70 while QPP can be delayed to age 72).

The monthly amount you'll receive is based on your earnings and predefined contribution period, which may be longer than the period in which you actually contributed. Also, if you decide to retire early, CPP/QPP benefits will be reduced, as mentioned earlier.

In terms of a general overview, a pension benefit is calculated by dividing the individual's earnings, by the contributory period multiplied by the benefit rate, which is

25% ☐. Starting in 2019, CPP was enhanced, meaning for those years with higher contributions, there'll be higher future benefits. As a result, CPP will grow to replace 33% of an individual's earnings after 2019. The QPP also enacted a similar enhancement (called the *additional plan*) in 2019, where additional contributions will replace 33% of earnings.

Earnings are adjusted to bring them in line with the growth in wages over the years. There's also a dropout period allowed for years where you reported low earnings. Under CPP, up to eight of your lowest earnings years (17% of the contributory period) are automatically removed from the calculation for a retirement pension. This dropout is in addition to the child-rearing dropout provision.

QPP offers a similar dropout provision to CPP. Up to 15% of the contribution period can be removed from the benefit calculation where earnings were lowest. Other exclusions include months where an individual received a CPP/QPP disability pension, an unreduced income replacement indemnity, or family benefits paid by the Canadian federal or Quebec governments for a child under seven years old. Starting in 2024, low earnings years from age 65 and up to age 72, will not be included in determining your QPP amount if you are deferring receipt of QPP.

## Fact #4 – CPP/QPP death and survivor benefits

The CPP/QPP death benefit consists of a lump-sum payment of up to \$2,500<sup>2</sup> and a survivor's benefit. However, if a spouse is already receiving a CPP retirement benefit, the maximum monthly amount (retirement plus survivor benefit) can't exceed the maximum retirement benefit and is adjusted based on the surviving spouse's age. This rule will apply for QPP when the surviving spouse is 65 or older. When the surviving spouse is under 65, it's possible for the combined benefit to exceed the maximum retirement benefit.

Unless there's a spouse or minor children, the only benefit paid is the small lump sum benefit. Also, if you take CPP early and continue to contribute (or continue to contribute after age 65, if you're still working), the additional contributions go towards

your post-retirement benefit and won't be included for survivor or disability benefits, or for pension-sharing or credit-splitting purposes on marriage breakdown.

With QPP, the additional contributions go towards the retirement pension supplement and are included in survivor benefits. However, the retirement pension supplement isn't included in disability benefits or for credit-splitting purposes on marriage breakdown. However, in the case of voluntary pension sharing, the additional contributions will be included.

## Considerations for taking early retirement

### Have you stopped working?

It generally makes sense to take the CPP early if you've stopped working. The contribution period continues until you start taking the pension or age 70, whichever is earlier. If you're no longer contributing, the zero earnings during the non-contributory period before starting your pension may lower the overall benefit collected, even if you waited until age 65.

For QPP, this also generally makes sense for those under 65. Starting in 2024, individuals ages 65 to 72, with low or no earnings, won't have those amounts included in the calculation of their QPP retirement pension. As a result, if your cash flow allows, it could be beneficial to defer QPP for as long as possible. This way you benefit from the monthly 0.7% increase, without having your overall QPP reduced by your low or no earnings years from age 65 until either age 72 or your QPP starts, whichever is earlier.

### Are you currently receiving a survivor's benefit?

Your early retirement benefit will be combined with your survivor's benefit and this combined payment is capped at the full maximum retirement benefit<sup>3</sup> for the year. The age at which you begin your retirement pension may impact the amount of survivor's pension you receive going forward. Obtain an estimate for your combined payment before commencing your own retirement pension to understand what adjustments, if any, are made to your current survivor's pension.

## Are you single?

Because there's no death benefit other than the small lump-sum amount, you may want to take CPP/QPP early, unless you have an above average life expectancy, to make sure you get as much out of the plan as possible. See [Fact #4](#) above.

## Do you have health concerns?

If you qualify for disability benefits, it's better to apply for that benefit since it's higher than the retirement benefit. However, if you don't qualify for the disability benefit and your health issues will affect your life expectancy, you should consider applying for the early retirement benefit.

## Are you healthy and continuing to work?

If you are, delaying the receipt of your pension will generally reward you. Postponing the commencement of the pension and continuing to contribute will result in a greater retirement pension and total amount collected from the plan. The amount received from the plan depends on an individual's life expectancy. Life expectancy will continue to increase in the future, as shown in the chart below.

Expected years of life remaining at age 60 and  
65

	2019	2025	2050	2075
<b>Female 60</b>	26.9	27.6	29.2	30.6
<b>Female 65</b>	22.6	23.2	24.7	26.0
<b>Male 60</b>	24.1	25.0	26.8	28.2
<b>Male 65</b>	20.0	20.8	22.4	23.8

Source:

[Mortality Projections for Social Security Programs in Canada, Office of the Superintendent of Financial Institutions, December 2021](#)



## Getting advice

If you qualify for a CPP/QPP pension, you should ask for a quote. Begin by asking how much you'll receive if you begin collecting at age 60, and how much you'll receive if you stop contributing, but wait until age 65 to start your pension. Once you receive your quotes, it should be an easy calculation to figure out which option makes the most sense. If you have questions, review the quote with your advisor to get an expert opinion.

## Ideal candidate



- Individuals at or nearing retirement
- Individuals who are interested in knowing whether it's better to begin drawing pension income early at age 60 or waiting until age 65

## Take action

- Complete and submit the [Estimate Request for Canada Pension Plan Retirement Pension and Post-Retirement Benefit](#) <sup>☞</sup> form or contact your local [Service Canada](#) <sup>☞</sup> office. To obtain a Statement of Contributions to the CPP, visit the [Statement of Contributions to the Canada Pension Plan](#) <sup>☞</sup> web page. Alternatively, the [Canadian Retirement Income Calculator](#) <sup>☞</sup> can be used to estimate CPP.
- Request two scenarios using the [Estimate Request for Canada Pension Plan Retirement Pension and Post-Retirement Benefit](#) <sup>☞</sup> form:
  - Retire at 60, start CPP at 60
  - Retire at 60, start CPP at 65
- For the QPP, visit the [Retraite Québec](#) <sup>☞</sup> website. You can calculate the QPP amount using the [CompuPension](#) <sup>☞</sup> calculator.

**1** This provision applies to all pensioners under age 65 who are receiving a CPP/QPP pension regardless of when they started receiving their CPP/QPP pension. **2** For the CPP death benefit, if you received this amount and you're a beneficiary of the deceased's estate, you can choose to include it either [on your own tax return or on a T3 tax return for the estate](#) <sup>☞</sup>. With respect to QPP, [the death benefit must be reported in the income of the estate](#) <sup>☞</sup>, regardless of the name in which the cheque was made. **3** The rules for combining benefits don't apply to the CPP Post-Retirement Benefit. These amounts will be added to your CPP/QPP retirement pension even if you receive the maximum retirement pension.

## 🔒 Important disclosure ▼

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