

# CPP and OAS Guide

## Canada Pension Plan (CPP)

The CPP is a federal program that provides pensions to qualified contributors in retirement. Any benefits paid by the CPP are taxable both federally and provincially. CPP operates throughout Canada. Quebec has its own similar but not identical program, the Quebec Pension Plan (QPP), which is closely associated with the CPP.

### Who pays into the CPP?

With the exception of very few, every person in Canada who is over the age of 18 and is working pays into the CPP. Contributions are split equally between employers and employees. If you are self-employed, you are required to pay both the employer and employee amount.

### How much do I pay into the CPP?

The amount you pay is based on your salary (self-employed contributions are based on your net business income). You pay contributions on your annual earnings between the minimum and a set maximum level (these are called your "pensionable" earnings). The minimum level is frozen at \$3,500 while the maximum level is adjusted each January. For 2009, the maximum level is \$46,300 and contributions are 4.95% for both the employer and employee. As a result, the maximum employee contribution is \$2,118.60.

When you file your personal tax return, the federal and provincial governments provide a tax credit for your CPP contributions. The Federal government credit is equal to 15% of your contribution.

### How much CPP can I expect monthly?

In general, your retirement pension replaces about 25% of the earnings on which you paid into the CPP. **The exact amount of your CPP pension depends on how much and for how long you contribute.** For 2009 - the maximum CPP retirement pension is \$ 908.75 per month if taken at age 65. CPP pensions are adjusted for inflation every January.

### Should I take CPP early? Age 65? Age 70?

The age at which you decide to take your pension also affects the amount you receive each month. The normal age to start CPP is 65. However you can start receiving your CPP pension as early as 60 or as late as 70. By opting to take your CPP pension early, the pension will be reduced by 0.5% for each month the start date precedes your 65th birthday to a maximum reduction of 30% at age 60. If you start receiving your pension before 65, you must have stopped working.

By opting to delay your CPP pension, the pension will be increased by 0.5% for each month the start date surpasses your 65th birthday to a maximum of 30% at age 70.



## Am I able to share my CPP pension?

Yes ... you are able to share your pension with your spouse or common law partner equally if you are at least 60 years old and have both applied for retirement pensions. This could result in income tax savings if one spouse was in a lower tax bracket than other spouse.

## What are other benefits that CPP offers?

**Disability Pension** - To receive a disability pension from CPP you must be disabled according to the terms of the CPP legislation (physical or mental disability which is both severe and prolonged), under the age of 65 and not in receipt of a CPP retirement pension. For 2009 - the maximum CPP disability pension is \$1,105.99 a month.

**Death Benefit** - A death benefit up to a maximum of \$2,500 may be paid to the estate of a deceased contributor.

**Other Benefits** - Other CPP benefits include benefits for children of disabled parents or deceased parents and surviving spouse's pension.

## Old Age Security (OAS)

OAS is a federal government program that provides a basic amount of retirement income to all individuals who meet certain residency requirements. The amount of OAS that you receive is not dependent on your past employment or salary. Any benefits paid by the OAS are taxable both federally and provincially.

## Who is eligible to receive OAS?

To receive OAS you must be:

- § a Canadian citizen or legal resident of Canada ,
- § at least 65 years of age and,
- § lived in Canada a minimum of 10 years after reaching age 18.

## How much can I expect from OAS?

From January to March 2009 - The maximum OAS pension is \$516.95 per month or \$6,203.52 yearly. OAS pensions are adjusted for inflation quarterly. In order to qualify for the maximum OAS pension, you must have lived in Canada (after reaching age 18) for at least 40 years. If you have lived in Canada for more than 10 years but less than 40 years, you may be eligible for a partial pension.

## What is the OAS clawback and when does it apply?

The OAS 'clawback' requires the repayment of OAS benefits by high-income earners. For 2009, the threshold at which the OAS 'clawback' starts is \$66,335. If your net income (including OAS benefits) exceeds the threshold (\$66,335), 15% of the amount of income above the threshold is deducted from the basic pension. Your OAS pension will be entirely clawed back if your net income exceeds \$107,692. For example, if you had a net income of \$90,914, your OAS pension would be reduced by 15% of the amount over the threshold. That means that your annual OAS pension will be reduced to \$2,516.67 or \$209.72 per month.

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