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GOVERNMENT PLANS FOR SENIORS

What pension plans are available for seniors in Canada, what to expect, and should you take them early or late

There are two main government pension plans for older Canadians. The Canada Pension Plan was legislated in 1965 and came into effect in 1966. Old Age Security was established in 1927. At that time, British subjects, age 70 and older, who had lived in Canada for at least 20 years and in their current province for at least five, could qualify. Since their implementation, both plans have had major revisions.
Shortly before your 60th birthday you will receive a letter from Service Canada informing you of your eligibility to take Canada Pension Plan benefits early (with a reduction). If you do not take it then, you will receive another letter just after your 64th birthday informing you of your eligibility for Canada Pension Plan and Old Age Security payments when you turn 65. It will show the amount you are expected to receive. Unless you inform the government otherwise, payments begin the month after your 65th birthday. Both the Canada Pension Plan and Old Age security benefits are indexed to inflation, meaning they increase if the cost-of-living increases.

Canada Pension Plan

Canada Pension Plan Contributions

The Canada Pension Plan (CPP) is an earnings-related public pension plan. Anyone who works and earns income contributes to the plan. The CPP is financed by payroll taxes ("contributions"), which are levied on employers, employees and the self- employed. There is a basic exemption of $3,500 a year, meaning contributions don't begin until you reach that threshold. There is also a maximum amount above which you make no contributions. This higher threshold is called the Year's Maximum Pensionable Earnings or YMPE. This is why some people notice a bump in their pay later in the year once CPP deductions are no longer taken off. The amount that is contributed from pensionable earnings is 5.95 per cent, for the employer and 5.95 per cent for the employee. Self-employed people contribute both for a total of 11.9 per cent.

For many years the CPP benefit was calculated as approximately 25 per cent of a worker's average lifetime earnings. Recent Statistics Canada numbers show that in 2016, less than 38 per cent of workers were covered by a formal, private pension plan offered by their employers. With more precarious work conditions, and fewer company pension plans, having a secure, stable, indexed-for-inflation government pension plan becomes more important than ever. Changes will seek to increase the pension from 25 to 33 per cent of a worker's earnings. If a Canadian averaged $48,000 a year in pensionable earnings throughout their working life, they would receive approximately $16,000 a year instead of the current $12,000.

In 2024 a second threshold was added above the YMPE. It is called the Year's Additional Maximum Pensionable Earnings or YAMPE (more acronyms!). In 2024 the year's maximum pensionable earnings (YMPE) is $68,500. Normally, you would not make further contributions. However, the government has implemented an additional contribution on earnings above that. Anything over $68,500 and up to $73,200 will be subject to an additional 8 per cent contribution, again split between the employer and employee, with self-employed people paying the full 8 per cent. In 2025 the YAMPE is expected to increase and who knows what will happen after that. The increased benefit Canadians will receive from the CPP will be phased in, with full implementation in 2065, so these changes are really designed to benefit today's younger workers.

Canada Pension Plan Benefit

The amount of CPP benefit received varies with how much has been contributed. A worker with well-paying jobs most of their life, will probably receive the maximum benefit. Those who have had lower paying jobs or long periods out of the workforce, will receive a smaller pension. The calculation for CPP uses all the years of employment, including years when very little money was earned. However, the calculation does take into account the diversity of our lives and removes up to eight years of the lowest earning years. There is also a provision to remove the low years of income a parent might have had while caring for young children. Years when children were under seven can be removed when determining your pension. Of course, if you returned to the workforce and earned a good income, you'll want to keep those years in the calculation. This information is completed when you apply for your CPP. To find out what your expected pension will be, contact Service Canada for an updated statement. Register an account online at https://www.canada.ca/en/employment-social- development/services/my-account.html or call them at 1-800-622-6232.

CPP also offers a disability benefit, a benefit for a surviving spouse as well as benefits for children of survivors.

Old Age Security

The Old Age Security (OAS) program is a social program paid out of tax dollars. It is calculated on your years of Canadian residency, not on your employment record. If, at age 65, you have lived in Canada for 40 years since the age of 18, you will qualify to receive full OAS. At age 75 there is an increase in the OAS benefit. Anyone living in Canada for at least 10 years since the age of 18 will receive a partial benefit. Living in Canada for 10 years qualifies for 25 per cent of the full OAS benefit, 20 years qualifies for 50 per cent, and 30 years qualifies for 75 per cent. The actual calculation is the number of years you have been in Canada since age 18, divided by 40, times 100. So, if you have lived in Canada for 32 years, the percentage received would be (32/40) x 100 = 80 per cent.

OAS is set up without a need to apply. The month after turning 64, you will receive one of two letters from the Government of Canada. One will say that enrollment is automatic and nothing needs to be done as long as the information in the letter is correct. However, you might receive a letter stating that an enclosed application needs to be completed and mailed in before receiving OAS benefits. OAS can now be deferred until age 70 (more on this choice later). If the choice is made to defer OAS, the government will need to be informed so that benefits do not start at age 65. OAS income, like benefits from CPP, is fully taxable.

OAS benefits are reviewed each quarter and compared to the Consumer Price Index, which reflects the cost of living. If the index has gone up, then OAS benefits are increased. This helps the payment keep pace with inflation. If the Consumer Price Index goes down, payments are not decreased.