



UNDERSTANDING THE FINANCIAL LANDSCAPE

The traditional notion of retirement is changing and it is more important than ever to have a realistic vision of your retirement as this will have implications for your financial plan. Your ScotiaMcLeod advisor can help you understand the financial implications of your desired lifestyle in context of the investing landscape and regulatory changes.

Focus on retirement planning: changes to the Canada Pension Plan

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Today Canadians are healthier, better educated and living longer. For some this means their retired years can equal their working years and funding retirement is becoming more difficult. As a result more are working later in life. To adapt to the changing economic, labour market and demographic trends the Canada Pension Plan (CPP) will evolve to provide equity and flexibility to older workers.

SUMMARY OF CHANGES:

1. Make adjustment factors for taking the CPP early more neutral so early retirees do not benefit more than later retirees.
2. All working beneficiaries of the CPP must contribute to the Plan until age 65 and then voluntarily until age 70 to accrue additional benefits.
3. Eliminate the requirement to stop working in order to qualify for a CPP retirement pension.
4. Increase the general drop-out provision to exclude 17% (from 15%) of periods of low or no earnings from the benefit calculation.

These changes will be gradually phased in over five years starting in 2011; and will not impact those already receiving the CPP retirement pension, disability benefit, or a combined benefit.

For those who are between 60 and 65 in 2011 there is a window of opportunity to be grandfathered under the existing rules. Take the time to see if it is better to be under the current rules or the new proposed rules for 2012.

When does it make sense to apply for CPP early? Although the changes will reduce incentives for early retirement, individuals should consider starting their pension before age 65 if:

- Life expectancy is below average (age 80-85)
- They are sick and cannot qualify for CPP disability
- Have a low income or no other source of income
- Have been laid off and unable to find other employment
- Have a continuous employment history
- They are not divorced and there has been no credit split

MAKE ADJUSTMENT FACTORS FOR TAKING THE CPP EARLY MORE NEUTRAL SO EARLY RETIREES DO NOT BENEFIT MORE THAN LATER RETIREES.

Under the current legislation if CPP is collected before the age of 65, the pension benefit is reduced by 0.5% per month for each month

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that the pension is taken before the recipients 65th birthday to a maximum of 30% over 5 years. Conversely, if CPP collected after age 65, the pension benefit is increased by the same amount.

With the new legislation, if CPP is collected before the age of 65, the pension benefit is reduced by 0.6% per month for each month that the pension is taken before the recipients 65th birthday to a maximum of 36%. This change will be brought into effect gradually over a five year span beginning in 2012.

The new rules will reward additional years of work. By taking the CPP after age 65 the pension benefit is increased by 0.7% per month for each month to a maximum of 42% up to age 70. This change will be brought into effect gradually over a three year span beginning in 2011.

ALL WORKING BENEFICIARIES OF THE CPP MUST CONTRIBUTE TO THE PLAN UNTIL AGE 65 AND THEN VOLUNTARILY UNTIL AGE 70 TO ACCRUE ADDITIONAL BENEFITS.

Currently, if a retiree is receiving CPP pension benefits and then decides to go back to work, they are not required to restart their CPP contributions as a working beneficiary. Once CPP pension benefits begin, the recipient is can return to work but is not required to make any further contributions to the Plan.

Under the new rules if an individual is under the age of 65, collecting CPP and working, the individual and their employer will have to continue contributing to the CPP. If the individual is between the ages of 65 to 70, they can opt to continue making contributions to the CPP and continue to build their pension.

The additional contributions may increase retirement benefits by 2.5% of the maximum pension amount per year of additional contributions depending on the individual's earning level.

ELIMINATE THE REQUIREMENT TO STOP WORKING IN ORDER TO QUALIFY FOR A CPP RETIREMENT PENSION.

Currently if an individual wishes to take their CPP benefits before age 65, they must either stop working or reduce their earnings (must be less than the current monthly maximum CPP retirement pension benefit) for at least two months to qualify.

New legislation states that to receive an early CPP retirement benefit individuals will not have to stop working or reduce their earnings. As of 2012, benefits can be received as early as age 60 without any work interruption or reduction in hours worked or earnings. This allows a phased in retirement or a supplement to employment earnings.

INCREASE THE GENERAL DROP-OUT PROVISION TO EXCLUDE 17% (FROM 15%) OF PERIODS OF LOW OR NO EARNINGS FROM THE BENEFIT CALCULATION.

The amount of monthly CPP benefit an individual can receive depends on how many years they contributed to the plan, the amount of the contributions and the age that the individual decides to start receiving their pension. The current CPP retirement payment rules are based on a 47 year career. A "drop-out" provision allows 15% of periods of low or no earnings to be excluded from the calculation. The 15% would give an individual who takes their CPP at age 65 the ability to drop almost 7 years of low or no earnings from the calculation of their average career earnings.

Under the new legislative change, the general drop-out provision would increase to 16% in 2012 (allowing a maximum of almost 7.5 years to be dropped) and to 17% in 2014 (allowing a maximum of 8 years to be dropped). This enhancement will support those experiencing work interruptions that occur for various reasons such as pursuing educational opportunities or caring for a family member.

Reflections

"Happiness is not a state to arrive at, rather, a manner of travelling."

*Samuel Johnson
British Author*



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