

Pro-Text

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The surprising flexibility of Canada's Pension Plans... and how to put it to work

Everybody does it. Year after year you make the contributions to the Canada Pension Plan (CPP) or Quebec Pension Plan (QPP) knowing that once you retire you can start collecting from the fund. Though you may feel your CPP/QPP income won't amount to very much, did you know you have options to help you make the most of it?

For pension purposes, retirement age is widely regarded as age 65. In fact, these government pension plans are surprisingly flexible. In 1987, the rules regarding eligibility for CPP/QPP benefits were changed to begin as early as age 60 and as late as age 70. How does this affect the payments? For every month you are shy of your 65th birthday, your benefits are reduced by one-half a percentage point. After age 65, your benefits increase by one-half a percentage point for every month you wait. Make use of this flexibility to customize your pension plan. Let's say you decide to take early retirement at age 60. You are eligible to receive a reduced CPP benefit and at the same time you are eligible to contribute to your RRSP. By investing the money on a compound basis, you can take advantage of a few more years of tax-deferred compounding for your RRSP.

If, at age 65, you're not ready to stop working but you want to start collecting your CPP benefits, you can. Go ahead, apply for your benefits – you're eligible to collect whether you're working or not. You will collect your full CPP benefits while earning an income and – as a collector of CPP benefits – you are no longer required to make contributions to CPP. The situation is a little different for the Quebec Pension Plan system. The choice of whether you want to collect your CPP/QPP benefits sooner or later will depend on your situation and retirement lifestyle. Your financial advisor can help you determine the best course of action to fit your needs and can recommend the right investment vehicle. Just remember to plan ahead. As a rule, we recommend that you submit your application to your CPP/QPP office six months before you want to begin receiving your benefits.