Retirement Planning

By the end of this section CFP exam candidates should be able to:

1. Summarize a client's current retirement objectives and perform a needs analysis.
2. Calculate a client's required amount of retirement savings.
3. Recommend the appropriate retirement strategies given a client's personal and financial circumstances.
4. Compare and contrast the various types of retirement plans available, including government pension plans, private pension plans and personally owned registered retirement accounts.
5. Calculate CPP contribution amounts and CPP benefit amounts based on a client's personal and financial circumstances.
6. Differentiate between CPP credit splitting and CPP pension sharing.
7. Summarize the general tax issues related to the various types of retirement plans available, including government pension plans, private pension plans and personally owned registered retirement accounts.
8. Calculate a client's benefit entitlement and earliest age of retirement with an unreduced pension benefit given specific details regarding the plan.
9. Differentiate between a defined benefit pension plan and a defined contribution pension plan.
10. Describe an IPP and identify situation for which IPPs are appropriate.
11. Describe the main features of DPSPs, RRSPs, LIRAs, LIFs, LRSPs, and LRIFs.
12. Calculate earned income for RRSP purposes.
13. Calculate a client's RRSP contribution limit given specific personal and financial data.
14. List RRSP eligible investments.
15. Calculate a client's pension adjustment given specific personal and financial data.
16. Calculate the amount of a retiring allowance that can be rolled over into an RRSP without triggering tax.
17. Calculate the annual minimum RRIF payment required given specific personal and financial data.

RETIREMENT PLANNING

Canada Pension Plan

The Canada Pension Plan is a contributory, earnings-related social insurance program. It ensures a measure of protection to a contributor and his or her family against the loss of income due to retirement, disability and death.

Canada Pension Plan Contributions

With very few exceptions, every person in Canada over the age of 18 who earns a salary must pay into the Canada Pension Plan. Employees and employers each pay half of the contributions (currently 4.95% of ***pensionable earnings***).

Self-employed individuals pay both portions.

Contributions are not required if an individual is receiving a Canada Pension Plan disability or retirement pension.

At age 70, all contributions stop even if the individual has not stopped working.

Required Contributions

Contributions are based on salary. For self-employed individuals, contributions are based on net business income (after expenses).

Contributions are not based on any other source of income, such as investment earnings.

If, during a year, an individual contributes too much or earns less than a set minimum amount, they will receive a refund of contributions when they complete their income tax return.

Contributions are calculated based on annual earnings between a minimum and a set maximum level, these are called ***"pensionable" earnings***.

The minimum level, ***yearly basic exemption*** **(YBE)** is frozen at $3,500.

The maximum level, ***yearly maximum pensionable earnings*** **(YMPE)** is adjusted each January, based on increases in the average wage.

CPP Contribution Rates

Year	YMPE	YBE	Pensionable Earnings	Employee Contribution	Employer Contribution
2015	$53,600	$3,500	$53,600 - $3,500 = $50,100	4.95% x $50,100 = $2,479.95	4.95% x $50,100 = $2,479.95
2014	$52,500	$3,500	$52,500 - $3,500 = $49,000	4.95% x $49,00 = $2,425.50	4.95% x $49,00 = $2,425.50
2013	$51,100	$3,500	$51,100 - $3,500 = $47,600	4.95% x $47,600 = $2,356.20	4.95% x $47,600 = $2,356.20

Contributory Period
The contributory period is the total span of time during an individual's life when they may contribute to the Canada Pension Plan. It is used in calculating the amount of any Canada Pension Plan benefit to which they become entitled.

The contributory period begins when an individual reaches age 18 or January, 1966 (the start of the CPP) and continues until an individual begins receiving his/her retirement pension, reach age 70 or die (whichever is the earliest).

Canada Pension Plan Benefits

1. ***Disability benefits***, which include benefits for disabled contributors and benefits for their dependent children.

2. ***Retirement pension,*** which is paid when an individual substantially ceases working.

3. ***Survivor benefits,*** which include the death benefit, the survivor's pension and the children's benefit.

4. New ***Post-Retirement Benefit***; beginning in 2013…..a fully indexed lifetime benefit that increases retirement income

The following contributions and benefits data are effective January 1, 2015:
(for information only-not required for the exam)

Maximum Monthly Retirement Pension	
At age 65	$1,065
Post-retirement benefit	$26.63
Death Benefits	
Lump sum	$2,500.00
Maximum monthly surviving spouse's pension: under age 65 age 65 or older Monthly Orphan's Pension (each child)	 $581.13 $639.00 $234.87
Disability Benefits	
Maximum Monthly Contributor's Pension	$1,264.63
Monthly Child's Pension (each child)	$228.66

The normal age at which an individual will be eligible to receive full CPP retirement benefits is age 65. However, retirement benefits may be received as early as age 60 or delayed until age 70.

If a pensioner elects to receive CPP prior to age 65, the lifetime benefit is reduced by a factor of 0.5% per month, for each month prior to age 65.

If a pensioner elects to delay receipt of CPP until after age 65, the lifetime benefit is increased by a factor of 0.5% per month, for each month after age 65.

From 2012 to 2016, this early pension reduction will gradually increase from 0.52% to 0.6% per month. This means that if you start receiving your CPP pension in 2016 at age 60, your pension amount will be **36% less** than it would have been had you taken it at age 65.

This adjustment is permanent—if you choose to start your pension before age 65, your reduced pension amount does **not** increase when you reach age 65.

- **If you start your CPP retirement pension at age 65**: You will get the unadjusted pension amount you are eligible to receive.
- **If you start your pension after age 65**: The CPP increases your pension amount by a set percentage for each month that you delay receiving it after age 65, up to age 70.

From 2011 to 2013, this late pension increase will gradually rise from 0.57% to 0.7% per month. This means that, if you start receiving your CPP retirement pension in 2013 at the age of 70 (60 months after age 65), your pension amount will be 42% more than it would have been if you had taken it at age 65.

- **If you start your pension after age 70**: These increases stop at age 70 and there is no financial benefit in further delaying your pension. Note that, in general, Service Canada can only pay retroactive payments of CPP benefits for up to 12 months.

Other CPP Items

Definition of a Spouse
For the purpose of the Canada Pension Plan, a "spouse" is a person of the opposite sex with whom an individual is in a legal marriage.

"Common-law partners" is defined as two people, regardless of sex, who have lived together, in a conjugal relationship for at least one year.

CPP Pension Credits
The Canada Pension Plan keeps a record of earnings and contributions paid over the years. These are referred to as "pension credits".

Generally, the more credits you have, the higher your Canada Pension Plan benefits will be.

CPP Credit Splitting
When a marriage or common-law partnership ends, the Canada Pension Plan credits built up by the couple, during the time they lived together, can be divided equally between them.

Credits can be split upon divorce or separation even if one spouse or common-law partner did not pay into the Canada Pension Plan.

CPP Pension Sharing
Pension sharing adjusts the amount of the monthly retirement pension each spouse/common-law partner receives from the CPP.

Married or common-law partners who are together (not separated or divorced), who are both at least 60 years of age, and who receive Canada Pension Plan (CPP) retirement pensions can share their pension benefits on the portion of the benefit earned during their time together.

- This may result in tax savings.
- If only one is a CPP contributor, they share that one pension.
- The overall benefits paid do not increase or decrease with pension sharing.
- Couples must apply to share pensions.

For married couples, any pension-sharing arrangement will end upon separation or divorce, or if one spouse dies.

For common-law couples, the pension-sharing arrangement will end if the common-law union ends or if either partner dies. The pension-sharing arrangement will also end if cancellation is requested by both parties.

Example:

Pat and Jean have been living together in a common-law relationship since 1979. They are both over 60 and both receive a CPP retirement pension.

Jean's monthly retirement pension is $400. Of that, $100 is based on income earned before moving in with Pat; this amount will not be affected by a pension-sharing arrangement. The other $300 is based on income earned during their relationship.

Pat was not working before this relationship. Pat's monthly retirement pension of $550 is based entirely on income earned while living with Jean.

Their pension payments, added together, total $950. After subtracting the portion of Jean's pension that is based on income earned before moving in with Pat ($100), their "shareable" pension amount is $850.

With pension sharing, they would each receive half of $850, or $425. In addition to the $425, Jean would also receive the $100 that is based on earnings prior to this relationship with Pat. Jean's total monthly CPP payment would be $525, while Pat's would be $425.

Their T4 slips will show the amount each received during the previous year and will be used when calculating their income tax.