CANADA PENSION PLAN RETIREMENT INCOME

Years ago, UBC faculty would retire at age 65 and start collecting their UBC pension, Canada Pension Plan (CPP) retirement income and, if applicable, Old Age Security (OAS). Fast forward to today with no mandatory retirement age, marked improvements in mortality rates, and changes to the CPP and OAS regimes, and things are no longer so straightforward. There are many decisions to be made, including:

- When — or even whether — to stop working completely;
- When to start receiving your retirement income from the UBC Faculty Pension Plan (FPP);
- When to start your CPP pension (Early while you are still working? When you retire? Or, some years after you begin your UBC FPP pension?);
- Whether to contribute to the CPP after age 65 if you are still working and receiving CPP income; and
- Whether and how to split your various sources of pension income with your spouse.

Changes to the CPP are being phased in over a period of seven years which started in 2019 and will ultimately require higher contributions and provide higher benefits. Plan members retiring over the next ten years or so, will see very little impact from the new rules. The changes will have the ultimate impact on individuals who retire after contributing at the new limits over their full career.

This article focuses on the decisions related to your CPP retirement income — when to start taking it, whether to contribute additional amounts, and the implications of those choices.

You can retire and start an income from the UBC FPP any time between the 1st of the month following your 55th birthday and December 1st of the year you turn 71. You can elect to start receiving your CPP pension as early as age 60, even if you do not stop working. The CPP rules provide flexibility as you transition from active employment to retirement, recognizing this is often an ongoing process rather than a one-time event.

Your CPP Statement of Contributions (available from Service Canada) will confirm how much you have contributed to CPP over the years and assist you in estimating your CPP pension.

Today's CPP retirement income is intended to replace approximately 25% of CPP pensionable earnings[1]. Once the enhancements are fully implemented in 2025, an individual contributing under the new regime for 40 years can expect to replace 33% of the new amount of CPP pensionable earnings[2].

[1] Between the Year's Basic Exemption (YBE) ($3,500) and the Year's Maximum Pensionable Earnings (YMPE) ($68,500 in 2024)

[2] Between the YBE and the Year's Additional Maximum Pensionable Earnings (YAMPE) ($73,200 in 2024)

Early or Delayed CPP Commencement

As you work and contribute to CPP, your CPP retirement benefit continues to grow based on your service and earnings. In addition, there are age-related adjustments which apply on early or late CPP commencement to reflect that the income will be paid for more or fewer years, respectively. If you commence your CPP retirement pension at age 70, it will be 42% higher than if you had taken it at age 65. If instead you commence your CPP retirement pension at age 60, it will be 36% lower than it would have been if you had started it at age 65.

Deciding when to start your CPP Pension

There is a computable "break-even age" where two otherwise identical retirees, one starting a reduced CPP pension at the earliest date and one starting at age 65 with the normal CPP pension, will have accumulated the same total payments. For individuals earning the maximum CPP retirement benefit, the break-even age is approximately age 73. Since you cannot predict your mortality, you might want to think about which side of this break-even age you are most likely to enjoy the money. Many people feel they live the best years of their retirement in the early years. After age 73 or so, spending on consumables and travel may slow down; however, other costs, e.g. healthcare, may rise. It is important to consider your own likely spending patterns into retirement.

CPP Post-Retirement Benefits

You do not need to reduce your work hours or stop working in order to start collecting CPP. If you start CPP income before age 65 but keep working, both you and UBC must continue making CPP contributions. After age 65, if you continue to work, you choose whether to continue making CPP contributions or not. If you continue, UBC must also continue their share.

CPP contributions made after you start receiving CPP income are used to provide additional retirement benefits starting the following year under the CPP Post-Retirement Benefit (PRB) provision. These additional PRB contributions[3] will not affect your other CPP benefits, nor are PRBs subject to credit splitting or pension sharing.

Your decisions regarding when to start CPP income and whether to continue making CPP contributions should be made within the context of your overall personal financial circumstances. You'll need to consider several issues including the cost of additional CPP contributions relative to the PRBs earned and the tax implications of the available options.

More Information

You can get more information about Canadian public pensions, including options and tips for making CPP and OAS choices, on the main Service Canada website (servicecanada.gc.ca) or the Retirement Hub (retraite-retirement.service.canada.ca). You can also learn about your UBC FPP retirement options and explore tools & resources on the FPP website (faculty.pensions.ubc.ca). ■

[3] PRB contributions are the same as current CPP contributions; both you and UBC contribute 5.95% of earnings between the Year's Basic Exemption ($3,500) and the Year's Maximum Pensionable Earnings (YMPE) ($68,500 in 2024), and 4.0% of earnings between the YMPE and the Year's Additional Maximum Pensionable Earnings ($73,200 in 2024).