

Pension Plans



Assumption Life

Investing in Your Future

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Employee Pension Plans

The aim of these news releases is to keep you up to date on the most recent legislative changes governing pension plans and various aspects of the way in which your plan works. This initiative is part of Assumption Life's information and communications program for employers, pension committee members, and employees participating in your pension plan. In the current issue, we will provide you with important general information of the first two levels of Canada's Retirement Income System being the OAS and CPP. In the next issue, we will look at the third level being private pension plans and RRSP's. We encourage you to send copies of this news release to your employees.

Canada's Retirement System – Simply stated

Did you know that you've already started building your retirement income? By living and working in Canada, you participate in one of the best pension systems in the world.

Canada's retirement system has three levels:

1. Old Age Security (OAS) provides the first level, or foundation. If you meet certain residence requirements, you'll be entitled to a modest monthly pension once you reach the age of 65.

2. The Canada Pension Plan (CPP) is the second level of the system. It provides you with a monthly retirement pension as early as 60, if you have paid into it. The Canada Pension Plan also offers disability, survivor and death benefits. Quebec has a similar plan, called the Quebec Pension Plan.

The first and second levels of Canada's retirement income system make up Canada's public pension system. Today, these pensions form a significant part of the income of Canada's seniors. But public pensions are not intended to meet all your financial needs in retirement. Rather, they provide a modest base for you to build upon with additional, private savings.

3. The third level of the retirement income system consists of private pensions and savings.

Many employers help you build your retirement income by providing pension plans.

Finally you can build or supplement your own nest egg through Registered Retirement Savings Plans (RRSPs).

One of the strengths of Canada's retirement income system is that the risks and responsibilities are shared by individuals, employers and governments. The result is a balanced, flexible system that responds to the different financial needs of individuals and families over the course of their lifetime.

You can count on OAS and CPP for the long term!

OAS costs will grow as the population ages in the coming decades, but are projected to be affordable. Steps were taken in 1998 to ensure the CPP's continued sustainability. Actuarial reports confirm that the scheduled contribution rate is expected to be sufficient to sustain the Plan as larger numbers of Canadians reach retirement age.

Rule of thumb! Experts say that you will need about 70% of your current (pre-tax) earnings to maintain your standard of living in retirement. For example, if you earn \$40,000 now, you might aim for \$28,000 of income in retirement. However, this is only a general rule. You'll need to look at your own circumstances to decide what level of income is right for you.

The first level: Old Age Security

Old Age Security (OAS) is Canada's largest public pension program. It provides a modest monthly pension to most people, starting at the age of 65.

The Guaranteed Income Supplement (GIS) is an additional monthly benefit for low-income OAS pensioners.

The Government of Canada pays OAS and GIS benefits from general tax revenues.

You qualify by living in Canada

Generally, you must be 65 and a resident of Canada for at least 10 years after your 18th birthday to receive OAS.

How much income to expect

The amount of OAS you receive depends on the number of years you live in Canada after you turn 18. Generally, you receive a full pension if you live in Canada for at least 40 years after 18. If you live here for less time, you may qualify for a partial pension.

If you have little or no income other than the OAS pension

when you retire, you may be eligible for the GIS. The amount you receive depends on your income or your joint income if you have a spouse or common-law partner. The GIS is added to your monthly OAS pension.

OAS is taxable, GIS is not

Your OAS pension is taxable and must be declared on your income tax return each year. The GIS is not taxable, but you must still report it on your tax return.

If your net **individual income is above a set threshold**, your OAS pension will be reduced. This threshold (\$62,144 in 2006) is adjusted each year for inflation. Only about five percent of seniors receive reduced OAS pensions, and only two percent lose the entire amount because of income above \$100,914 in 2006.

In 2006, a full monthly OAS pension is about \$484.

OAS pensions are protected from inflation

OAS pensions and the GIS are adjusted for inflation every January, April, July and October. This helps you keep up with increases in the cost of living.

It's not automatic - you must apply for OAS.

You should apply for your **Old Age Security pension** six months before you turn 65.

To receive the Guaranteed Income Supplement you must also apply for it and then renew it every year. This is usually done by filing an income tax return before April 30.

The second level: Canada Pension Plan

The Canada Pension Plan pays a monthly retirement pension to people who have worked and contributed to it.

The CPP also acts as an insurance plan, providing disability and survivor benefits for those who qualify. It provides a monthly income to you and your dependent children if you become severely disabled during your working years. It also provides a monthly income to your surviving spouse or common-law partner and dependent children if you die. A lump-sum death benefit is available to your estate when you die.

Your CPP contributions are based on earnings between a minimum and maximum amount. For example, in 2006, you pay contributions only on earnings between \$3,500 and \$42,100.00. CPP contributions are tax-deductible.

Your employer deducts your contributions from your pay and makes an equal contribution. If you are self-employed, you act as both employee and employer and pay both portions.

You qualify by working in Canada

Generally, all workers in Canada over the age of 18 pay into the CPP (or the QPP) and qualify for benefits.

How much income to expect

In general, your retirement pension replaces about 25 percent of the earnings on which you paid into the CPP. The exact amount depends on how much and for how long you contribute. The age at which you decide to take your pension also affects the amount you receive each month.

In 2006, the maximum CPP retirement pension is \$844.58 per month if taken at the age of 65.

CPP coverage offers some flexibility

Over the course of your career and if you raise a family, there may be years when you have low or even no earnings. This would normally reduce your CPP benefits because of the lower contributions you make during those years. However, CPP excludes 15 percent of your lowest earning years when calculating your retirement pension. Time spent away from work while you raise children under the age of seven can also be 'dropped out' of the calculation. These provisions ensure that your future pension is not reduced because of a few low-earning years.

The age you start your pension makes a difference

The normal age that you start receiving a CPP retirement pension is 65. However, you can start receiving your pension as early as 60 or as late as 70. If you start your pension before 65, you must stop working or earn less than a maximum amount for a required period of time. If you start your pension early, it is permanently reduced by 0.5 percent for each month that you are under 65. If you start your pension later, it is increased by 0.5 percent for each month that you are over 65, up to the age of 70.

CPP retirement pensions are protected from inflation. They are adjusted every January.

CPP retirement pensions are taxable and must be declared on your income tax return each year.

It's not automatic – you must apply for CPP benefits as least six months before you want it to start.