



NOVEMBER 2014 – AIR CANADA PENSION COMMITTEE REPORT

Last month I talked about the history of *CPP*, *OAS* and the *GIS*. Over the next several reports I will expand on each of these Canadian government retirement plans and give a basic overview of how they work and how they can best fit into your own retirement plans to supplement your employer and IAMAW Defined Benefit pension.

The *Canada Pension Plan* is itself a defined benefit pension plan. The *CPP* benefit is defined by the number of years that you contribute, how much you earn each year up to the *YMPE* and a benefit formula based on the relevant *YMPE* in the year in which you start to collect your *CPP* pension.

Starting at age 18, every Canadian who works for an employer at a job that generates a T4 income tax slip is required to contribute to the *CPP* and must continue to contribute every year that they work until age 65. *CPP* is calculated based upon a 47 year contributory period unless you choose to receive your *CPP* prior to age 65. In that case it is calculated based upon the number of years between age 18 and your age as at the date you commence to receive your *CPP* benefit. The current *CPP* contribution rate is 4.95% of your earnings (up to the annual *YMPE*). Your employer must pay a matching amount.

The *CPP* is only designed to replace 25% of your income up to the *YMPE* in each calendar year. That is not a lot of money. The maximum *CPP* pension payable at age 65 is \$1,038.33 per month or \$12,459.96 annually. More startling is the fact that the **average** *CPP* benefit payable at age 65 is only \$607.33 – just 58.5% of the maximum benefit. This is because people either do not earn an income equal to the *YMPE* each year or do not work and contribute to the *CPP* for the maximum number of years. This is especially true for women who take disproportionately more time away from work during their lifetime to raise children and look after their families.

There is a survivor pension for *CPP* that is a maximum \$567.91 if the surviving spouse is less than age 65. This represents a flat amount + 37.5% of the contributor's *CPP* pension. There are further reductions applied if the spouse is less than age 45. If the surviving spouse is older than age 65, then the pension is 60% of the contributor's *CPP* amount to a maximum of \$623.00. *CPP* survivor pensions are only payable if the spouse is not in receipt of their own *CPP* disability or retirement pension benefit.

If the surviving spouse is in receipt of a disability pension, they will receive only up to the maximum disability pension amount payable, not the combined total of their disability pension and a full survivor's pension. It will not exceed \$1,236.35 combined per month. The **average** combined survivor disability *CPP* pension is \$1,009.71

Similarly if the surviving spouse is in receipt of their own *CPP* retirement pension the maximum combined *CPP* pension they will receive is the maximum *CPP* pension of \$1,038.33 per month. In no instance can the survivor receive a combined total *CPP* benefit that exceeds that amount. If you are already receiving the maximum *CPP* disability or retirement pension when your spouse dies, you will not receive any increase at all in your *CPP* benefit. The **average** combined survivor retirement *CPP* pension is \$798.82

There is a small pension amount of \$230.72 per month payable to children under age 18 (or under age 25 if they are full time students) of *CPP* disability pensioners or deceased *CPP* retirement pensioners.

In the event of your death, *CPP* provides a onetime death benefit payment of \$2,500 to your estate. This death benefit must be applied for by you executor. One piece of good news is that *CPP* is fully indexed to 100% of the cost of inflation (Canadian CPI) and is adjusted annually in January of each year. Because of the annual *CPP* inflationary increase, all dollar figures in this report reflect current 2014 dollar amounts.

I may be contacted at president@iam764.ca with any questions or concerns that you may have. You can now also follow me on Twitter [@president764](#) for regular pension and IAM&AW information updates.

Respectfully Submitted,

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