Canadian Airways Lodge No. 764
INTERNATIONAL ASSOCIATION OF MACHINISTS AND AEROSPACE WORKERS
HEAD OFFICE: 7980 RIVER ROAD, RICHMOND, B.C. V6X 1X7
TEL: (604) 273-9668 FAX: (604) 273-9670

DECEMBER 2014 – LL764 AIR CANADA PENSION COMMITTEE REPORT

This is the 3rd in a series of pension reports explaining the Canadian government retirement plans. This month I will expand a little on how your *Canada Pension Plan (CPP)* benefit is calculated.

Similar to your Air Canada pension, the *CPP* is a Defined Benefit pension plan which bases your final owed pension benefit on a formula of months of service, annual earnings and a % formula. In the case of the *CPP*, the maximum pensionable service is 47 years – from age 18 to 65. The *CPP* rules allow for the exclusion of 17% of your lowest earning years. That is 8 years if you have contributed for the maximum 47 years.

Your earnings and contributions to *CPP* are capped at the YMPE that is in effect each year. You make no contributions and earn no *CPP* benefit beyond the value of the YMPE each year. The *CPP* benefit is designed to provide 25% of the 60 month (5 year) average YMPE ending the year in which you commence your *CPP* pension.

As with all things pension, the *CPP* is calculated to the month but for simplicity I will use an example where the *CPP* is commenced on January 1st, 2015. In this case the average YMPE on which *your CPP* will be based would be the average YMPE for the years 2011 – 2015. That would be $48,300, $50,100, $51,100, $52,500 and $53,600 respectively for a 60 month average YMPE of $51,120. The maximum *CPP* benefit is 25% of that amount or $12,780 per year which is $1,065 per month in 2015.

To determine your annual *CPP* earnings each year, they look at your earnings as a % of each year's YMPE. So for example if in 1995 you earned $30,000 and the YMPE was $34,900, then that year's ratio would be 30/34.9 = 0.86. If in 2006 you earned more than the YMPE of $42,100, then that year's ratio would be 42.1/42.1 = 1.00. This process is repeated for every year in which you contributed to the CPP.

You then multiply the maximum 2015 *CPP* benefit of $12,780 by each year's ratio of YMPE earnings. As with the example above, that would give you $10,991 for 1995 and $12,780 for 2006. Again this is repeated for every year in which you contributed to *CPP*. After they have individually calculated all of your contributory years, they will then exclude 17% of your lowest earning years. Then they add up all of the remaining annual amounts to get a final total dollar value.

To account for your pensionable service, they will divide the final total dollar amount calculated above by the number of years in your *CPP* eligibility period, minus the 17% excluded years. As an example, you decide to take your *CPP* at age 60 so your contributory period is 42 years (60-18). They will exclude 17% or 7 years for a remaining total of 35 years. The total dollar amount calculated by adding up all of your annual *CPP* entitlements is then divided by 35 to arrive at your final annual *CPP* benefit.

To show the impact of reduced earnings and reduced service I will look at 2 different examples; the first with reduced earnings and maximum service and the 2nd with maximum earnings and reduced service. If you take your CPP at age 65 and have contributed for all 47 years but have earned an average of only 90% of the YMPE when all of the years you worked are calculated and totalled up you would receive 90% of the maximum YMPE which is $11,502 annually or $958.50 per month.

If you commence your *CPP* at age 65 and earned at least the YMPE or more in every non-excluded year you contributed but you only worked for 35 years. Your CPP eligibility period is 39 years (47 – 17%), therefore your *CPP* benefit would be $447,300 ($12,780 x 35 years) divided by 39 years which equals $11,469 annually or $955.77 per month. This equals 89.74% (35/39) of the 2015 maximum *CPP* benefit.

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,

Christopher Hiscock
Chairman, Air Canada IAM&AW Pension Committee