McIntyre & Associates
Professional Corporation

Chartered Accountants
comptables agréés

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Questions? Call (613) 726-7788 and we will be happy to address any of your questions.

# New CPP Rules Affect Employees Over Age 60

In 2009, important changes were made that affect contributions and pension benefits for the five-year period 2011 to 2016. The purpose of these changes is to adjust benefits actuarially according to whether a person chooses to take those benefits before or after age 65.

**Today**

Under current legislation, individuals already receiving CPP benefits, and those who have deferred receiving benefits but have reached the age of 70, do not make CPP contributions. If benefits are taken before age 65, the amount is reduced by 0.5% per month for each month the pension is taken before the age of 65. For example, a person taking benefits at age 60 would have the benefit amount reduced by 30% (5 years x 12 months x 0.5%). If, however, the person begins taking the benefits sometime between their 65th and 70th birthdays, the amount increases by 0.5% for each month deferred. For example, if a person does not start taking the benefits until age 70, the pension amount increases by 30% (5 years x 12 months x 0.5%).

**Starting in 2011**

The following changes will be phased in during the five-year period:

1. The CPP monthly pension amount will *increase* by 0.57% in 2011, 0.64% in 2012 and 0.70% in 2013 for each month the person defers taking the pension in the years between 65 and 70. For example, a person who becomes 70 in 2013 or later would enjoy a 42% increase in monthly benefits (5 years x 12 months x 0.70%).

2. Beginning in 2012, the CPP monthly pension amount will *decrease* by a larger percentage if taken *before* age 65. The standard reduction will be 0.52% in 2012 and rise annually until it reaches 0.60% in 2016. Thus, a person reaching age 60 in 2016 who chooses to take the pension then would see the monthly amount reduced by 36% (5 years x 12 months x 0.60%) compared with what would be received if they had waited until age 65.

3. The number of low or zero earnings years automatically dropped from the monthly pension calculation will be increased in the years 2012 and 2014.

4. Effective 2012 employees will no longer have to stop working in order to start receiving their benefits.

5. Employees over 60 but under 65 and receiving benefits while still working will be required to make CPP contributions.

6. Employees 65 to 70 and receiving benefits while still working will be able to choose whether they wish to continue contributing.

7. Self-employed or employed individuals who started to collect their pension, disability or survivor benefits prior to 2011 will not be impacted by the new rules.

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# New CPP Rules Affect Employees Over Age 60 (continued)

**The Impact**

The impact on employers is not obvious at first blush but there are some interesting considerations that each employer and self-employed individual will have to address when hiring new staff.

All employees who reach the age of 60 but have not yet reached 65 will have to have CPP contributions deducted from their pay. All employers will still have to contribute an equal amount of CPP premium on behalf of the employee.

If an employee is over 65 and opts to continue to pay CPP premiums, the employer will have to match the CPP premium contributions made by the employee.

**New Rules Affect Payroll**

As can be appreciated, the new rules could have a significant impact on payroll, especially if there are a large number of employees between the ages of 60 and 65 who are already receiving their pension benefits. Under the old rules, the employer was not required to withhold CPP once the employee was taking benefits and therefore was not required to provide any matching contribution.

The new rules will mean the employer will have to both withhold and match the contribution. Employers with long-term employees in this age group and making maximum contributions to CPP will have to consider factoring an additional cost into operating budgets. For 2011, the maximum earnings level for contributing is now $48,300; after deducting the $3,500 basic exemption, the calculation for the employee's amount at a rate of 4.95% works out to $2,217.60. This is the figure the employer will now have to match for each employee previously exempt from contributing.

If an owner-managed business has 10 employees in this age range, the cash flow requirement amounts to an additional $44,352 per annum ($3,696 per month), a figure large enough to have a significant impact on the employer's bottom line.

**Self-employed Individuals Will Contribute Twice**

Self-employed individuals in the 60-65 age bracket who opted for early CPP benefits will take the same hit as their employed peers. Given the $48,300 maximum eligible earnings level, individuals filing as self-employed will be required to pay $4,435.20 per year, which represents the individual's share plus the "equivalent of an employer's share."

In other words, the self-employed person will in effect contribute for himself as an employee and match himself as an employer. To offset the overall cost to the self-employed, the rules allow for a tax credit on the "equivalent to employer's share" of $2,217.60. This amounts to 15% of the $2,217.60 or $332.64. It reduces the cost of CPP to $4,102.56.

Naturally, self-employed individuals who hire employees will be subject to the same deduction requirements as incorporated owner-managed businesses.

**Employees Over 65 May Defer Benefits**

Employees between 65 and 70 may elect not to apply for CPP benefits. Employers are nevertheless required to deduct and match the contribution until the end of the month, before the month the pension becomes payable or the month in which the employee turns 70.

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## Ride Raises $1.8 Million for Cancer Research

On September 10, 2011, the McIntyre & Associates Team Velo-city, and over 700 other riders, took part in the 100 km bike tour along the Rideau River.

This year's ride raised $1.8 million for cancer research at the Ottawa Hospital Research Institute – doubling last years total!

A heartfelt thank you for supporting the ride!

www.ridetherideau.ca.

# New CPP Rules Affect Employees Over Age 60 (continued)

To be clear, employers must remit for employees aged 60 to 65. It is the employees's choice to opt out of paying between ages 66 and 70.

**Minimizing the Impact of CPP**

It is extremely important for owner-managers and self-employed individuals to be aware of these changes and be compliant. It is also very important to make sure employees understand how the changes affect them. For small business owners or owner-managers to meet the needs of both the government and your employees, you should review:

- human resources date-of-birth records to ensure employee data is up to date;
- payroll records to find all employees between 60 and 65 and modify CPP deductions accordingly;
- payroll records to find those employees between 65 and 70 who have already applied for CPP and ensure their files contain appropriate documentation;
- cash flow requirements to make sure sufficient cash flow is available to meet the additional cash output for the employee and employer share of CPP;
- job costing and charge-out rates to ensure profit on contracts is not adversely affected by increased payroll costs; and
- all software used to calculate CPP deductions to make sure it has been reprogrammed to take into account the changes in contribution requirements under the new legislation. It may be necessary to review each individual or record to ensure the database reflects the necessary deduction.

**The Time for Action is Now**

On the surface the change to CPP requirements seems innocuous enough. Upon deeper examination, however, the changes will impact the owner-manager significantly by increasing payroll costs, skewing cash flow requirements and adding to the administrative costs of human resources and payroll departments. Forward planning to identify affected employees will reduce the risks of fines and penalties and ensure employees get the full benefits of the CPP when they choose to take them. ■

## CRA's Prescribed Interest Rates

The prescribed interest rates for the fourth quarter of 2011 are as follows:

- **1%** to calculate a deemed interest benefit on subsidized employee and shareholder loans;
- **3%** on refunds of income tax overpayments; and
- **5%** on payments of overdue income taxes, insufficient income tax instalments, unremitted employee source deductions, CPP contributions or EI premiums, and unpaid penalties.

These rates are in effect from October 1, 2011 to December 31, 2011.

**Has your contact information changed?**

If your contact information has changed recently, please let us know.

contactupdate@mcintyreca.com

## McIntyre & Associates Professional Corporation

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