CUMIS

# RetirementWatch

RETIREMENT SERVICES
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## Why new Canada Pension Plan (CPP) and Old Age Security (OAS) rules benefit Canadians

Do you enjoy planning for and dreaming about retirement? Or do you find it daunting? Whether it's within reach or years away, rest assured that once there you may be able to draw from three income pillars to maintain a reasonable standard of living:

- **Pillar 1**: The government-funded public pension system, comprising Old Age Security (OAS) and the Guaranteed Income Supplement (GIS).
- **Pillar 2**: The Canada Pension Plan (CPP*), funded by both employees and employers.
- **Pillar 3**: Private retirement savings, including Registered Pension Plans (RPPs), Registered Retirement Savings Plans (RRSPs), deferred profit sharing plans and other personal savings.

Yet, with many Canadians wondering if they'll have enough savings once retired, the federal government reached an agreement with all provinces* to enhance the CPP. The changes will be phased in starting Jan. 1, 2019, and will be fully implemented by 2025.

### CPP today

The current CPP is designed to replace one-quarter of your average income in retirement, if you contribute the maximum amount each year for 40 years.

Employees and employers each contribute 4.95% of the employee's income (total of 9.9%); however, there's an income cap called the *Year's Maximum Pensionable Earnings* (YMPE) that changes annually. The 2017 YMPE is $55,300. Earnings above this do not qualify for CPP contributions and don't earn any additional pension benefit.

### CPP enhancements

The CPP changes will increase the target income replacement from approximately one quarter to one third of pensionable earnings.

Today's teenagers will be the first ones to enjoy the maximum benefits of this change, when they retire in 2065. However, once the changes are implemented, all Canadians will receive incremental increases in their annual CPP benefits.

The changes will be introduced over seven years, with two phases:

- **Phase 1: Jan. 1, 2019 to Dec. 31, 2023**
  A higher contribution rate on earnings below the YMPE will be phased in. Starting Jan. 1, 2019, CPP contributions will gradually increase by an estimated 1%, raising the contribution rate for employers and employees from 4.95% to 5.95% each by 2023.
- **Phase 2: Jan. 1, 2024 to Dec. 31, 2025**
  A new and separate contribution rate (estimated to be 4% each for employers and employees) will be applied to earnings between the YMPE and up to the Year's Additional Maximum Pensionable Earnings (YAMPE) at that time. The YAMPE is the new higher earnings ceiling for the CPP. In 2024, 4% will be applied to earnings between $70,100 (the estimated YMPE for 2024) and the YAMPE. In 2025, 4% will be applied to earnings between $72,500 (the estimated YMPE for 2025) and the YAMPE.

The following chart summarizes the phased-in changes:

| Year | Estimated YMPE | Estimated YAMPE | Estimated Contribution Rate (for both the employer and employee) | |
|---|---|---|---|---|
| | | | Applied to Earnings up to YMPE | Applied to Earnings Above YMPE up to YAMPE |
| 2018 | $58,000 | N/A | 4.95% | 0% |
| 2019 | $59,700 | N/A | 5.10% | 0% |
| 2020 | $61,500 | N/A | 5.25% | 0% |
| 2021 | $63,500 | N/A | 5.45% | 0% |
| 2022 | $65,600 | N/A | 5.70% | 0% |
| 2023 | $67,800 | N/A | 5.95% | 0% |
| 2024 | $70,100 | 107% of YMPE | 5.95% | 4.0% |
| 2025 | $72,500 | 114% of YMPE | 5.95% | 4.0% |

*Source: Government of Canada's 'Background on Agreement in Principle on Canada Pension Plan Enhancement.' Note, contribution rate estimated by the Canadian Department of Finance. Requires confirmation from the Office of the Chief Actuary and is subject to secondary design.*

Note to clients in Ontario: The provincial government will not proceed with implementation of the Ontario Retirement Pension Plan (ORPP) due to the CPP enhancements.

### Earlier qualifying age for OAS

In addition to the CPP changes, the federal government has restored the "age of eligibility" for OAS back to 65 from 67 (a change made by the previous government). This is good news for individuals born after Feb. 1, 1962, who would have otherwise had to wait until age 67 to access OAS.

* Quebec operates and will continue to operate under the Quebec Pension Plan.

# Three ways to maximize your employer-sponsored retirement program

The more you save now, the more likely you can secure your dream retirement. Here are three easy ways to maximize your savings through your CUMIS employer-sponsored retirement plan.

## 1. Consolidate your registered accounts

Have you accumulated a handful of retirement savings accounts – such as RRSPs and employer group savings plans – over your career? If so, consolidating them into your CUMIS account may be a wise choice. Doing so will make it easier to manage, monitor, rebalance and grow your savings, which may help you reach your retirement goals faster.

Consolidate accounts in two easy steps:

**Step 1**
Speak with the financial institution holding your registered assets to see if there's a surrender or penalty charge for transferring to your CUMIS plan. While CUMIS will not cover this charge, rest assured there are no tax consequences for the direct transfer of registered funds to your account.

**Step 2**
If you decide to consolidate to your CUMIS account, complete and send a "Transfer Authorization for Registered Investments" form (CL074) to the financial institution holding your registered account. To get the form, login to your CUMIS member account and click *Documents* under the *Information* section. Call our Client Service Centre at 1-800-263-9120 if you need assistance filling out the form.

Some benefits of consolidating include:

- Access to the same investment options as your group plan
- Preferred investment management fees
- Simplified record-keeping
- No front- or back-end loads or commissions
- No deferred sales charges
- Four free inter-fund transfers per calendar year
- Streamlined estate planning, and more

## RRSP contribution deadline

A reminder that RRSP contributions for the 2016 tax year must be received by **March 1, 2017**. If you can, take advantage of the opportunity to top-up your RRSP contributions and help reduce your 2016 income tax.

Confirm your available RRSP contribution room one of three ways:

- Check your Notice of Assessment from last year
- Call the Canada Revenue Agency's Tax Information Phone Service (TIPS) automated line at 1-800-267-6999
- Register for "My Account" on Canada Revenue Agency website http://www.cra-arc.gc.ca/loginservices/

## 2. Maximize contributions from your employer

It's smart to take full advantage of your group retirement plan. Are you contributing the required amount to receive the maximum benefit from your employer? For example, if your employer matches your contributions up to 5% of your paycheque, but you only contribute 3%, you're missing out on another 2% in employer-matching contributions.

Confirm with your human resources or payroll administrator that you're maximizing contributions from your company.

## 3. Make voluntary contributions to your plan

Another way to maximize your savings is to make voluntary additional contributions to your group plan, even though they're not matched by your employer. Why? Every dollar makes a big difference in the long run.

As an example, a 30-year-old making voluntary $30 biweekly contributions with a 4% rate of return, will enjoy an additional $62,137 at 65. If that same 30-year-old increased their voluntary contributions to $33 biweekly, they'd receive $68,350 at 65 – an extra $6,213. Plus, there's the added benefit of a tax deduction for voluntary contributions.

There are two ways to make voluntary contributions:

**Option 1 – Payroll deductions**
Confirm with your human resources or payroll administrator that your group plan has the flexibility to make voluntary contributions via payroll deduction. You can often choose either a set dollar amount or percentage of your paycheque.

Once confirmed, to make voluntary contributions, complete and send a "Group Plan Payroll Deduction Authorization" form (CL064) to your HR/payroll. To get the form, login to your CUMIS member account and click *Documents* under the *Information* section.

**Option 2 – Lump-sum contributions**
Another way to make voluntary contributions is by lump-sum deposit into your group RRSP plan; for workplace pension plans, voluntary contributions can only be made through payroll deduction. Remember, RRSPs are a great way to defer your taxes on up to 18% of your previous year's income, up to a maximum of $26,010 for the 2017 tax year.

To make RRSP lump sum contributions, complete and send a "Lump Sum Deposit" form (CL075) along with a cheque to *CUMIS Life*. To get the form, login to your CUMIS member account and click *Documents* under the *Information* section.

To assess your current financial situation, visit CUMIS.com. Under *Products & Services* select *Retirement Services*, then select *Tools & Calculators > Life Events Calculators*. You'll find 31 interactive calculators and reports to help you plan for future savings goals and more.

At CUMIS Retirement Services, we welcome your feedback and are happy to answer any questions you may have.

**Please call, email or write us at:**

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