

# New year brings changes for older workers collecting CPP

## People 60-65 and employed will have to contribute to plan

By Ray Turchansky, edmontonjournal.com December 29, 2011

EDMONTON - Canadians face a number of Canada Pension Plan changes in 2012 in addition to the annual indexing of tax brackets, credits and benefits.

CPP adjustments are being phased in through 2016, and the ones in 2012 won't affect people who are already receiving CPP or Quebec Pension Plan benefits and who remain out of the workforce.

However, as of 2012, people aged 60 to 65 who are working will have to contribute to CPP, even if they are already receiving CPP benefits.

As well, people from age 65 to 70 already receiving CPP benefits and who are working will have an option whether or not to continue contributing to CPP, thus increasing benefits. But if they elect to stop contributing, they must complete Form CPT30, sending the original to Canada Revenue Agency and giving a copy to their employer. (If the employee contributes, the employer must contribute as well.)

People age 65 to 70 who are self-employed can stop paying CPP premiums by filling out Schedule 8 on their 2012 income tax return.

Another change as of 2012 is that people wanting to start taking CPP between age 60 and 65 will no longer have to essentially quit working or make less than \$960 (as of 2011) for each of two consecutive months beforehand.

Also, the percentage of low-income years you eliminate in calculating CPP benefits increases from 15 per cent for a maximum of seven years, to 16 per cent for a maximum of 7.5 years in 2012. (It will go to 17 per cent and an eight-year maximum in 2014.)

January also sees an increase in the penalty for starting to receive CPP benefits any time between ages 60 and 65, as well as an increase in the bonus for not starting to take benefits until between ages 65 and 70.

For instance, until now if you started taking benefits at age 60 you received 30 per cent less annually than what you would receive if you started at age 65. That penalty for starting at age 60 will increase gradually to 36 per cent annually by 2016. Conversely, the annual bonus for starting to receive benefits at age 70 has been 30 per cent more than your age 65 entitlement, but that will increase to 42 per cent by 2013.

"While it encourages people to take CPP later, at the end of the day people who wait later are going to get a whole lot more money, which is going to put a whole lot more pressure on the (CPP) Investment Board," said Doug Nelson, with Nelson Financial Consultants in Winnipeg.

However, the government will get more revenue through a gradual reduction in the dividend tax credit. The federal amount that eligible dividends are grossed up falls from 41 to 38 per cent in 2012, with the dividend tax credit on the grossed-up amount decreasing from roughly 16.44 to 15.02 per cent. That means an Albertan making \$50,000 who paid 7.85 per cent tax on actual eligible dividends in 2011 will pay 9.63 per cent tax in the new year. For an Albertan making \$90,000, the tax on eligible dividends goes from 13.49 to 15.15 per cent.

Meanwhile, income tax levels and credits for 2012 will be increased for inflation by indexing of 2.8 per cent federally and 1.8 per cent in Alberta.

The federal basic personal amount, on which people pay no tax, goes from \$10,527 to \$10,822, after which people start paying 15 per cent federal tax. The 22 per cent bracket that started at \$41,544 now begins at \$42,707. The bottom of the 26 per cent bracket goes from \$83,088 to \$85,414. And the 29 per cent bracket starts not at \$128,800 but at \$132,406.

Albertans add a single rate of 10 per cent on taxable income above a basic personal amount that was \$16,977 and now is \$17,282.

As usual this January, many employees will see much if not all of their salary raises for 2012 erased as they start paying CPP and employment insurance premiums again.

Employers and employees will each pay as much as \$2,306.70, up by \$89.10, for CPP on pensionable earnings between \$3,500 and \$44,900. The self-employed pay a maximum of \$4,613.40, which is \$178.20 more. Maximum annual CPP benefits will be \$11,842.56, an increase of \$322.56.

With EI, employees outside of Quebec will pay a maximum of \$839.97, up \$53.19, on \$44,900 of insurable earnings. Maximum premiums for employers rise by \$74.47, to \$1,175.96.

Contribution room for your registered retirement savings plan for 2012 will be 18 per cent of up to \$127,611 of your earned income from employment, for a maximum of \$22,970 (up from \$22,450 for 2011), minus your pension adjustment.

The non-refundable federal tax credit of 15 per cent applies to many indexed amounts. The spousal, common-law partner and eligible dependant amount is \$10,822, up \$295, minus net income for the spouse or dependant. The disability amount goes to \$7,546, a hike of \$205.

People can claim the federal credit on medical expenses above the lesser of either three per cent of net income, or \$2,109, a bump of \$57.

For seniors, the federal tax credit applies for people 65 and older on an age amount of \$6,720, but begins being clawed back once net income is greater than \$33,884 and is lost completely if income is more than \$78,684.

A number of social benefits are also affected by clawbacks.

Maximum old age security benefits, for people age 65 who have been residents of Canada for at least 10 years, are \$540.12 a month in January. That begins to be clawed back if annual net income exceeds \$69,562, and is totally repayable if it is greater than \$113,206.

Provincially, Alberta's basic personal amount of \$17,282 is also its spousal and eligible dependant amount. The 10 per cent provincial tax credit applies to an age amount increasing \$85 to \$4,816, and on medical expenses above the lesser of three per cent of net income or \$2,233, up \$45.

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