



Canadian Airways Lodge No. 764

INTERNATIONAL ASSOCIATION OF MACHINISTS AND AEROSPACE WORKERS

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Like your Air Canada pension plan, you have some flexibility in the timing of when you choose to commence to receive your *Canada Pension Plan (CPP)* benefit. You obviously want to make the choice that best suits your own personal and family financial circumstances. *CPP* can be started as early as age 60 or delayed as late as age 70. As I have previously explained, commencing your *CPP* prior to age 65 attracts a permanent reduction of 0.6% per month prior to age 65 and delaying receipt after age 65 attracts an increase of 0.7% per month.

Last month I explained how your *CPP* is calculated and the fact that all non-contributory years prior to age 65 or the commencement of your *CPP* benefit (in excess of 17% of your total contributory years) reduces the value of your final *CPP* benefit. For someone who retires early and does not take another job that pays *CPP* premiums, all years after their retirement date prior to age 65 are non-contributory years which will result in a reduction of their final *CPP* benefit payable at age 65.

The effect of that is such that even if you earned at or above the YMPE in every *CPP* contributory year that you worked, you would not necessarily receive the maximum *CPP* benefit at age 65 because of this “loss of service” from your retirement age to age 65. This is a factor that must be considered when deciding at what age to commence your *CPP* benefit. Do you plan on working at another job after you retire or are you simply retiring with no plans for future work that will pay *CPP* premiums?

The reduction factor for commencing *CPP* at age 60 is 36% (60 months X 0.6%). In the last report I used an example of a member commencing *CPP* at age 65 but only having contributed for 35 of the 39 *CPP* eligible years. That is the same as a person retiring at age 61 and not contributing to *CPP* for the 4 years prior to age 65. It resulted in a little over 10% reduction in their final *CPP* benefit payable at age 65.

Assuming they chose to commence their *CPP* benefit immediately upon their retirement at age 61, the reduction would be 28.8% (48 months X 0.6%). However, because their non-contributory service from age 61 to age 65 would reduce their *CPP* benefit at age 65 by about 10%, the real consideration of commencing their *CPP* benefit at age 61 vs. age 65 is just 18.8%. This is the difference between the 2 applicable reductions, the age reduction at age 61 vs. the non-contributory service reduction at age 65.

The final consideration of age 61 vs. age 65 that must be considered in your decision is how much money you will receive from *CPP* between age 61 and 65 and how long after age 65 before the net 18.8% reduction results in a “net loss” in terms of the total *CPP* benefit that you will receive during your lifetime.

For simplicity let's look at a scenario with the maximum 2015 *CPP* benefit of \$12,780. If I use the applicable 28.8% and 10% reductions from my previous example that equates to an annual *CPP* benefit of \$9,099 at age 61 or \$11,502 at age 65. That is an increase of \$2,403 per year or \$200 per month if you delay to age 65. However in the 4 years between ages 61 and 65 you will have received \$36,396 in *CPP*.

If you had waited until age 65 to commence your *CPP* your monthly benefit would be \$200 more as explained above. To find your “break even age”, divide the \$36,396 you received prior to age 65 by the \$200 extra per month you would receive if you delayed your *CPP* to age 65 to determine how many months it will take to receive that same

\$36,396 in *CPP* benefits after age 65. It works out to 182 months or 15.17 years. That means that after age 80.17 you would start to realize a “net loss” in your total *CPP* benefit received under this scenario.

This example also does not take into account any additional money that you could have earned by investing your *CPP* benefit during the time that you received it or the fact that your *CPP* benefit is fully indexed annually to the Canadian CPI after you commence receiving it.

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](https://twitter.com/president764) for regular pension and IAM&AW information updates.

Respectfully Submitted,

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Chairman, Air Canada IAM&AW Pension Committee