MoneySense

What to expect when applying for CPP

Jon recounts his experience of being encouraged to apply for CPP

by Jonathan Chevreau
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I don't know what it is about our federal government but it seems that they really want to start giving money to seniors once they get within striking distance of age 65. A few columns back I described how Service Canada reached out to me in plenty of time to collect Old Age Security (OAS) benefits once I turn 65 next year.

Even before that column ran early in June, and seemingly quite independently of the OAS mailing, I received another Service Canada mailing, this one focused on the Canada Pension Plan or CPP. I found this curious since, unlike OAS, I could have applied for early CPP benefits five years ago but never received a pro-active mailing until now.

True, both letters originated with the Scarborough Regional office of Service Canada: OAS was dated April 18th and the CPP one April 26th, although neither referred to the other. As I related in the OAS piece, applying for OAS was a snap once I reached a live person on the phone: within minutes it was set up so deposits would automatically appear in my bank account, net of taxes, late in the month after I turn 65.

By contrast, based on the second mailing, the CPP application process appears to be relatively more onerous. For starters, the letter states that "CPP benefits are not paid until you have submitted an application." That's in contrast with the OAS letter, which said OAS benefits would commence automatically with no further action on my part, unless I wished to tweak the arrangement.

The CPP mailing includes some forms to fill out and a brown envelope, which contains neither Service Canada's address nor a stamp. It also helpfully suggests that you can apply online at www.servicecanada.gc.ca. You need your Social Insurance number, birth date, marital status and banking information for direct deposits in Canada. If outside Canada you need to go to www.directdeposit.gc.ca

The CPP letter informs me that “based on your past contributions,” I would receive $969.50 per month “If your pension were to begin now.” But that’s just a guesstimate; the exact amount will be specified once they receive your application.

An accompanying information sheet lays out the usual explanation that the later you wait for your pension to start, the more you’ll receive. Intriguingly, it adds that “If you delay applying for your CPP retirement pension after you turn 70, you risk losing benefits.” Then in bold, it adds: “There is no financial benefit in delaying your pension after age 70.”

Service Canada considers the full CPP pension to be the one that begins the month after your 65th birthday. Maybe that’s why they never reached out to me the five years prior. And it lays out a table that explains how the pension will rise the longer you wait after age 65. As of 2016, the pension will rise by 0.7% for every month you delay receipt after 65, meaning that if you wait until 70 it will be 42% higher.

Once you apply, Service Canada reviews it to make sure you’re eligible for benefits and it will send another letter informing you of their decision: it will be sent “no later than one month prior to the date when your benefits are to start” and it will also tell you when your payments start.

The letter also contains some material on something Service Canada calls the CPP’s “Post-Retirement Benefit.” This appears to be for people who continue to work and contribute to the CPP even after they have started to receive CPP benefits between ages 60 and 70. Payable for life and indexed to the cost of living, you do not even have to apply for the Post-Retirement benefit, the letter explains. If eligible, “It will be paid to you automatically.” Contributions to the Post-Retirement Benefit are mandatory for working CPP recipients under 65 and their employers, while the self-employed must contribute both the employee and employer portions. If you’re 65 or older, you can choose not to contribute and at age 70, you are no longer able to contribute.

When I reached out to Service Canada to clarify some points for my personal situation, they referred me to the Canadian Retirement Income Calculator. It’s a bit clunky but visually does a good job of showing your future retirement income sources, including CPP and OAS, plus employer-sponsored plans. If the latter are not inflation-indexed Defined Benefit pensions, you see the eroding impact of inflation as time marches on. By contrast, it shows how CPP and OAS maintain purchasing power as you move into the second decades of retirement and beyond: another reason to delay receipt of benefits till 70 if at all possible, particularly if you don’t have an inflation-indexed DB pension.

Next time, we’ll look at the third leg of the stool of government-provided retirement income: the GIS or Guaranteed Income Supplement.

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