

Canada Pension Plan: Retirement Pension Overview for First Nations People

By Domenic Natale, Vice President, Aboriginal Services, TD Wealth Private Trust

As a proud supporter of AFOA Canada, its members and Aboriginal communities across the country, TD Bank Group is pleased to deliver this first of three articles that focus on planning for Aboriginal people both on and off reserve. This first article will focus on the Canada Pension Plan, the second will discuss post-secondary education funding and savings programs, and the third will provide an overview of estate planning – each with a focus on you and your communities.

The Canada Pension Plan (CPP) was created in 1966 to provide basic benefits to contributors and their dependents with some financial protection in the event of retirement, severe disability or death.¹ This article focuses on CPP benefits available upon retirement. Such benefits consist of monthly income paid to contributors who are at least 60 years old. The CPP is funded by contributions made by employees, employers and the self-employed, along with additional revenue earned on CPP investments. An individual must pay into the CPP while he or she is working and meet the eligibility requirements in order to later receive CPP benefits. Although the CPP retirement benefit rules are the same for most Canadians (with the exception of Quebec), special rules apply to Registered Indians, often referred to as 'Status Indians'.²

How do I participate in the CPP?

A common misconception is that participation in the CPP starts automatically. That is simply not true. If you are a Status Indian and your income is exempt under the federal *Income Tax Act* (ITA), the application for coverage of employment in Canada under the CPP is different depending on whether an employer, an employee, or a self-employed person on a reserve should elect into the plan. If you are employed off reserve or are receiving taxable employment income, you are generally required to contribute to the CPP.



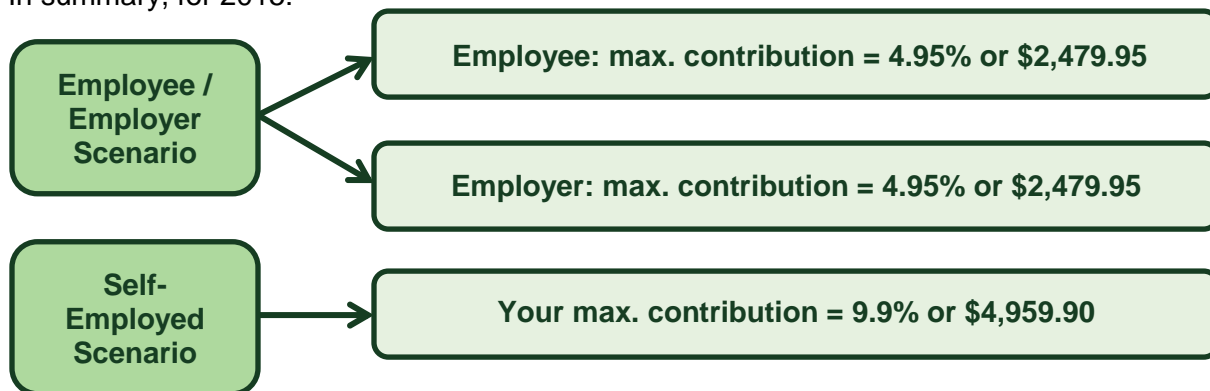
Table: Participation in the CPP

	Who are you?	Your employment will qualify as pensionable employment if...
Employment on a reserve – Election by employer	<ul style="list-style-type: none"> ■ Status Indian; ■ Employee in a contract of service; and ■ Your earnings are not included in computing income for purposes of the ITA. 	<ul style="list-style-type: none"> ■ You are a Canadian resident for the purposes of the ITA; ■ Your employer elects to pay CPP contributions for all Status Indian workers; and ■ You contribute to the CPP through deductions from your pay.
Employment on a reserve – Election by employee	<ul style="list-style-type: none"> ■ Status Indian; ■ Employee in a contract of service; and ■ Your employer does not cover Status Indian employees under the CPP. 	<ul style="list-style-type: none"> ■ Employer does not apply for coverage for Status Indian employees; ■ You are a Canadian resident for purposes of the ITA; ■ Your employment is not pensionable by virtue of any other provision of the ITA or Regulations; ■ You make an election to have your employment included as pensionable employment; and ■ You pay within one year after April 30 of the following year the required contribution (both the employer and employee shares).
Self-employment on a reserve	<ul style="list-style-type: none"> ■ Status Indian; ■ Self-employed; and ■ Your income from self-employment on a reserve is not included in contributory earnings for CPP purposes. 	<ul style="list-style-type: none"> ■ Income for CPP purposes is all income earned on the reserve plus any other income earned elsewhere, if applicable; ■ Federal income tax return (T1) is filed; and ■ Required contribution (employer and employee shares) is included with the federal tax return for the year of the pensionable employment.
Employment off reserve	<ul style="list-style-type: none"> ■ Status Indian; ■ Your employment income is taxable. 	<ul style="list-style-type: none"> ■ If you are employed off-reserve or you are receiving taxable employment income, you are generally required to contribute to the CPP; ■ Contributions to the CPP are made through payroll deductions based on a percentage of your annual income. Your employer contributes an equal amount.

How much should you contribute?

The amount you contribute depends on your employment income. You make contributions only on your annual earnings between a minimum and a maximum amount (*i.e.*, your 'pensionable earnings'). The minimum amount is \$3,500; the maximum amount is set by the government each January. In 2015, the maximum amount was set at \$53,600, and the contribution rate on these pensionable earnings is 9.9%, split equally between you and your employer, with a maximum contribution of \$2,479.95 from each. If you are self-employed, you pay the full 9.9% contribution rate, with a maximum contribution of \$4,959.90. Your contributions are based on your net business income (after expenses).

In summary, for 2015:



Many people worry about whether paying into the CPP will affect their tax-exempt earnings or their tax-status. It will not. Paying into the CPP will not affect your tax-exempt earnings, and your tax status will not be affected by whether or not you pay into the CPP.

How much have you already contributed?

The Canada Revenue Agency and Revenu Québec (for those working in Quebec) provide Service Canada with details on your earnings and the contributions you have made. Service Canada then keeps a record using a Statement of Contributions. You can check this statement for accuracy and may contact Service Canada if you disagree with any of the figures.

When should you start taking your CPP retirement pension?

People usually start receiving their CPP retirement pension the month after they turn age 65. However, you could take a reduced CPP retirement pension as early as the month after you turn age 60. You could also take an increased pension after you turn age 65.

Before deciding when to take your CPP retirement pension, you may want to consider the following:

- how your age will affect your monthly payment;
- whether you plan on working while receiving your pension;
- how much you have contributed and how long you have been making contributions;
- your personal savings, investments or company pension plan, if any;
- your retirement planning and the lifestyle you want when you retire;
- your current health, family health history and any disabilities; and
- whether you have any other income, such as business investments, rental income, etc.

When will your CPP retirement pension begin?

You would need to formally apply for your CPP retirement pension to begin, unless you are already receiving CPP disability income.

Option 1:



Option 2:



Visit the Service Canada website to apply online or complete an application form. Upon completion of your application, you can choose to apply for various other CPP benefits and provisions, including pension sharing, credit splitting, child-rearing provisions, foreign benefits, survivor benefits and post-retirement benefits. For more information on your CPP benefits, please contact Service Canada at www.servicecanada.gc.ca.

How much could you receive?

If you pay into the CPP, the amount you could receive as CPP retirement pension depends on:

- How much you have contributed; and
- How long you have been making valid contributions to the CPP (*i.e.*, your "contributory period.")



The contributory period is used to calculate the amount of CPP benefits that you may become eligible to receive. Some of your lowest earnings months may not be taken into account when calculating your CPP retirement pension.³ This could increase the amount you will receive.

Where can you get an estimate of your CPP retirement benefit payments?

For an estimate of how much you could receive in CPP retirement benefit payments, go to the Service Canada webpage, <http://www.servicecanada.gc.ca/eng/services/pensions/cric.shtml>, and your CPP Statement of Contributions within your My Service Canada Account, <http://www.servicecanada.gc.ca/eng/online/mysca.shtml>.

Will your CPP benefits be tax-exempt?

If all of your contributions to the CPP were made on tax-exempt earnings, your CPP benefits will also be tax-exempt. If your contributions were made on tax-exempt earnings and taxable earnings, only the percentage of CPP payments resulting from taxable employment will be taxed.

What happens when a CPP recipient dies?

When a CPP recipient dies, his or her estate may be entitled to a one-time, lump-sum payment of up to \$2500, and his or her spouse or common-law partner and dependent children may be eligible to receive a monthly survivor's pension or children's benefit.

As an AFOA Canada Corporate Member and Community Builder, TD is committed to providing more information on Financial Literacy to all AFOA Canada members. We hope that you have enjoyed this first article and are looking forward to the second one on post-secondary education funding and savings programs.



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¹ The CPP operates across Canada with the exception of Quebec, where the Quebec Pension Plan (QPP) is administered by the Régie des rentes du Québec. Indians who have lived on or off reserve in the province of Quebec should contact Revenue Québec for information concerning participation in the Québec Pension Plan.

² We recognize that many First Nations people in Canada prefer not to describe themselves as Indians. However, we use the term Indian in this article because it has legal meaning under the *Indian Act*. Under the *Indian Act*, an Indian means a person who, pursuant to this Act, is registered as an Indian or is entitled to be registered as an Indian. Throughout this article, references to 'Registered Indians' or 'Status Indians' may also extend to individuals entitled to be registered as such. Please contact the Canada Revenue Agency and Service Canada to verify which rules apply to you.

³ In accordance with the general drop-out provision.

Please note that information contained in this article was derived from the Canada Revenue Agency (<http://www.cra-arc.gc.ca/menu-e.html>) and Service Canada (<http://www.servicecanada.gc.ca/>) websites between June 2 and June 8, 2015.

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