Pat and Andrew Gillespie of Toronto have contributed to the Canada Pension Plan through most of their working lives, however the Post Retirement Benefit was simply off their radar. After considering it, they decided it wasn't for them.
The Globe and Mail

Could the Post Retirement Benefit work for you?

DIANE JERMYN
Published Monday, Apr. 17, 2017 05:00AM EDT
Last updated Thursday, Apr. 13, 2017 03:15PM EDT

The Post Retirement Benefit, an extension of the Canadian Pension Plan, was a mystery to Pat and Andrew Gillespie, ages 55 and 60.

Like many Canadians approaching retirement age, the Toronto couple first charted their retirement decades ago with the help of a financial advisor. They've built a solid registered retirement savings plan (RRSP) portfolio, own their home mortgage free and recently bought an apartment building in Hamilton as part of their retirement plan.

The Gillespies contributed to CPP through most of their working lives and expect it to be part of their retirement income, however the Post Retirement Benefit (PRB) was simply off their radar.

Both are self-employed – Mr. Gillespie is a sales representative for Independent Vehicle Services and Ms. Gillespie owns and designs for Carry Maternity, a retail shop in Toronto's Yorkville neighbourhood. They expect to continue working in some capacity well into their 60s. They weren't sure whether the PRB was for them but were interested to learn more.

It's complicated

The PRB is complicated, but for the Gillespies, or anyone worried about running out of retirement funds too early, it's worth taking a look at.

Introduced in 2012, the PRB is for Canadians, age 60 to 70 years, who carry on working while receiving a CPP retirement pension. Basically, it's an opportunity to increase your retirement income by continuing to contribute to CPP. Those contributions go toward your PRB, which is an indexed lifetime benefit, paid monthly just like CPP.

If you're employed, you and your employer have to make CPP contributions. Those are mandatory until you reach 65 and voluntary between 65 and 70. If you're self-employed, you pay both the employee and the employer portions of the CPP contributions. Once you reach 70, you stop making contributions to CPP and the PRB.

Lea Koiv, president of Lea Koiv & Associates Inc., a retirement, tax and estate planning firm in Toronto, says the good news about the PRB is that the working beneficiary is paying in and getting the PRB. She explains that the amount is in addition to the regular CPP retirement benefit, so someone could be collecting the maximum monthly CPP retirement benefit – $1,114.17 for someone starting the retirement benefit in 2017 – and the PRB would be on top of this.

The critical choice is when to start your CPP pension. Post Retirement Benefits start accruing only once you've started taking the regular CPP retirement pension. (The longer you delay collecting the CPP retirement benefit, the more you'll collect. Starting before 65 means your CPP retirement pension will be discounted.)

"It comes down to how risk-averse someone is," says Ms. Koiv. "Mathematically it may work out to start early or make sense to postpone."

A prospective retiree may feel that starting the CPP retirement pension before 65 when it's discounted, plus some amount of PRB, is worth more than holding out to as late as 70 for a larger CPP retirement benefit later, with a slightly higher PRB payout.

Consider your health

In making the decision to pay into the PRB, first you need to consider your health. Joe Nunes, president of Actuarial Solutions Inc., an actuarial and consulting firm based in Windsor, Ont., says that if your health isn't good, you're contributing to build something that may not last long. But if you're very healthy, then it could be a very good investment of money and time.

"Actuaries deal with averages, and very few people live to the average expected age," says Mr. Nunes. "We lose some much sooner and some much later. People have to have some idea around their life expectancy and the risk they want to take – the risk of paying for something they won't use versus the risk of living longer than their money can last. Even though there are always surprises in life, people need to have a sense of what their health is telling them."

The Gillespies are both in good health and expect to reach the same age as other family members. For example, Mr. Gillespie's mother lived to 97 and his dad to 86 – so he says he'd plan on living into his mid-80s. As a cancer survivor of more than 10 years, Ms. Gillespie thinks her chances are good of living to 85, the current age of her parents, although she says insurance professionals might differ.

But even if you live a good long life, is investing in the PRB worth it?

Get an estimate

Like the CPP retirement pension, the amount of your PRB depends on how much you earn, how much you put in and for how long, as well as your age when you started the PRB. To get an estimate of what your PRB might be, you can use the Canadian Retirement Income Calculator on the Government of Canada website.

Ms. Koiv explains that for each year the PRB accrues, you're potentially getting 1/40th of an additional CPP retirement pension. According to the rate card, the maximum CPP retirement pension that would start in 2017 is $1,114.17 per month and the PRB would be $27.85, which is 1/40th of the $1,114.17.

The PRB will be less if your "pensionable earnings" were not at the maximum. However, the CPP retirement benefit is also discounted or enhanced depending on age – discounted by 0.6 per cent per month for those younger than age 65, or enhanced by 0.7 per cent per month for those older than age 65. The PRB is also discounted or enhanced in the same way.

Mr. Nunes says that may not seem like a lot compared with regular CPP pension benefits, but then Canadians start contributing to CPP from about the age of 18. With the Post Retirement Benefit, one gets to collect it almost immediately or within a few years.

Add to a modest income

"You pay a little to get a little," Mr. Nunes says. "That's the point. This benefit isn't going to take you from poverty to a vacation in the south of France. It's going to take you from a modest income to a little bit better than modest income."

Mr. Nunes thinks it's important that Canadians understand that if retirement at 65 isn't the right answer for them and they want to work longer, they can continue to build retirement income through the PRB.

But it doesn't make as much sense for self-employed people like the Gillespies who have to pay both the employer and employee portions to get the benefit. There may be other mechanisms that are a better answer. It depends on the individual and their circumstances.

"You may be better off contributing your money to your own plan and managing it yourself," Mr. Nunes says. "If you already have an RRSP and lots of RRSP carry-forward room, you can add your contributions to your RRSP and earn a reasonable rate of return, at least as well as investing in the CPP. But if you don't already have an RRSP or a TFSA, setting one up and trying to manage it for those small amounts of dollars may not be nearly as wise as letting the CPP investment board do it."

Another consideration is that since the PRB increases your retirement income, it may have an impact on your Old Age Security or Guaranteed Income Supplement, so there could potentially be a clawback. Also there aren't any survivor benefits like for the CPP retirement pension, nor can it be shared or split if there is a breakdown of the relationship.

After considering the PRB, the Gillespies decided it wasn't for them. "Looking at it made us revisit our retirement plan. We'll probably contribute more to our RRSP instead. There's room," says Mr. Gillespie.