Your CPP Survivor Pension May Surprise You

(The following is an abridged version of an article that appeared in The Globe and Mail on Feb. 8 2017.)

- By Diane Jermyn

The rules around the Canada Pension Plan survivor benefit are worth investigating before you find yourself widowed — and in shock about how little you're likely to collect as a surviving spouse.

You may not get the benefit you expect, even if both of you have contributed to CPP over decades of your working lives.

How much a person can get depends on both the age of the survivor and past contributions, as well as when CPP benefits were started. However the formula Service Canada uses is complicated, even for financial planning experts.

According to the formula, a surviving spouse who is age 65 and not otherwise receiving CPP benefits is entitled to a survivor benefit of 60 per cent of the CPP retirement pension of the deceased spouse, if he or she started receiving CPP at 65.

However, what survivors generally don't expect is that their CPP benefits will now be combined and subjected to a maximum.

For survivor benefits starting in 2017, the maximum combined survivor and retirement pension that would be paid is $1,114. That means if both partners were getting the maximum CPP retirement pension, there will be no survivor benefits when one dies. None. Under current regulations, the survivor is allowed to get the equivalent of only one maximum CPP retirement benefit.

Another shock is that if the survivor's CPP is less than the maximum, he or she would be topped up only to the maximum of $1,114.

In reality, most survivor pensions are dramatically less than that amount. According to Lea Koiv, president of Lea Koiv & Associates Inc., a retirement, tax and estate planning consulting firm in Toronto, the average amounts for survivor pensions to be paid in 2016 were anticipated as $411 a month for those less than 65 and $302 for those 65 and older.

A careful read of the Service Canada website reveals that the formulae shown there apply "if the surviving spouse or common-law partner is not receiving other CPP benefits." Otherwise, the survivor will have to rely on the more complex calculations by Service Canada.

"What many do not realize is that there is a recalculation of the survivor's pension upon reaching age 65," Ms. Koiv says. "Many widows or widowers will be really surprised by the fall in their family incomes, including the loss of their spouse's OAS. If that's a large part of the family's income, it can be calamitous to lose that thousand dollars a month plus the partner's OAS, especially if you are not entitled to GIS [guaranteed income supplement]."

Doug Dahmer, chief executive officer of Burlington, Ont.-based Emeritus Financial, says the basis of the CPP survivor benefits goes back a generation to when mom stayed at home and dad went to work. Now, with both spouses typically working full time, both are probably close to the maximum, so the survivor benefit isn't nearly as critical as before. He suggests that other things, such as the loss of income splitting, will impact the surviving spouse's financial position more.

"Upon the spouse's death, the first thing that happens is that you lose income splitting," Mr. Dahmer says. "The second thing is that all their RRSPs are consolidated and turned into one person's balance sheet. What happens next is the survivor loses the spouse's Old Age Security, and if she's already receiving a significant CPP, she also loses his CPP. Now she's taking money out of their RRIF and can't split it, so she's clawed back on her OAS. So you suddenly have an individual who is bringing in less cash flow and paying more in taxes."

After following recent talks held on amending CPP, Ms. Koiv says she was disappointed that survivor benefits weren't an issue in any of the discussions.

"I'm a little astonished," she says. "I think not until somebody who was sitting at that table has a spouse die, and wonders what happened to their spouse's CPP, will it actually dawn on them that the money's essentially gone back into the pool to subsidize those left in it. There's no notion of a commuted value. Some people will have paid a lot in and little will come out. The death benefit is negligible vis-à-vis what has been contributed."

The full article is available on the Globe and Mail web site using the link http://tinyurl.com/msdjugf. If you do not have internet access, please leave a phone message at 905-525-9140 ext. 23171 and MURA will send a copy to you by post.