Myth Busters

Who died before they collected Canadian Pension Plan? (CPP)

By: Nick Bergamini

One of the most common pieces of chain mail that finds its way into the inboxes of CTF staff is entitled *Who died before they collected Canadian Pension Plan? (CPP*). The email raises several concerns about CPP and makes some claims about how badly the program rips Canadians off. Some of these figures are pretty alarming, leading CTF supporters to send us emails asking to verify the letter's claims.

So we decided to crunch the numbers and do some research and the results were conclusive; the email is a complete hoax that was originally written for an American audience regarding the US government's Social Security program. Someone in Canada simply took all the references to the US and substituted them with Canadian terms i.e. Ottawa for Washington and CPP for Social Security.

Not only is this chain mail completely inaccurate for a Canadian audience, it's also totally wrong when applied to the United States as the initial author intended!

But if you're still interested in finding out if any of the figures or claims in this email are close to accurate, we have some research to share with you. We have italicized some of the key arguments in the letter with our response directly below.

THE ONLY THING WRONG WITH THE GOVERNMENT'S CALCULATION OF AVAILABLE CPP IS THAT THEY FORGOT TO FIGURE IN THE PEOPLE WHO DIED BEFORE THEY EVER COLLECTED A CPP CHEQUE!!! WHERE DID THAT MONEY GO?

False: If you die and are eligible for CPP benefits, some of that money does get transferred over to your spouse and/or children. The average benefit for new retirees in March 2013 was $595. If your spouse is younger than 65 when you die, the average benefit is $400 and the maximum benefit is $556.64. They must be at least 35 years old to qualify. If they're older than 65, the average benefit is $307 and the maximum benefit is $607.50. The child of a deceased contributor receives $228 on average until they are 18, or 25 years old if they remain a fulltime student. In addition, the government pays out an average one time lump sum payment of $2,282 to the deceased contributor's estate.

Remember, not only did you and I contribute to CPP but your employer did, too. It totalled 15% of your income before taxes.

False: Since 2003, the combined employee and employer CPP contribution has been 9.9 per cent. But if you go back a few years, the CPP tax rates just keeps shrinking to a low of 3.6 per cent in 1966.

If you averaged only $30K over your working life, that's close to $220,500. Read that again.

False: What the letters means to say here is that if you earned $30,000 a year, you would have paid a total of $220,500 in CPP taxes. Let's assume that you have contributed over the course of a 49-year working career as this letter does. And we will also assume that during that time, your income has been high enough that you and your employer have been making the maximum contributions to CPP every single year. The max contribution in 1966 was just $158. This year it’s $4,700. Add up those 49 years of contributions and the total comes to just $81,000, or $140,000 less than the letter claims.

If you calculate the future invested value of $4,500 per year (Yours & your employer's contribution) at a simple 5% interest (less than what the govt. pays on the money that it borrows), after 49 years of working you'd have $892,919.98.

False: The letter writer takes this year’s maximum contribution amount and then uses that figure as the CPP tax paid for all 49 years of contributions. But as we already know, the CPP contribution rates are smaller each year we go back to a low of $158.40 in 1966. Nevertheless, we ran the real figures to see what your CPP contributions would have grown into with interest accruing at 5 per cent and it’s $172,000. And that is the absolute maximum someone would have earned at five per cent, after paying the maximum into CPP since 1966.

If you took out only 3% per year, you'd receive $26,787.60 per year and it would last better than 30 years (until you're 95 if you retire at age 65).

False: First of all, if you took out three per cent a year as the author does, you would actually only get $5,160 a year from the initial pot of $172,000. Or we can plug the number into the RBC Payout Annuity Calculator. If you live until age 90 (the maximum the calculator allows), you would receive a monthly payment of $850 or $10,200 annually. If we calculated the annuity lasting until 95 years old like the writer does, this figure would be even lower.

The final nail in the coffin of this letter’s arguments: the maximum CPP benefit for 2013 is $1012 – more than the monthly payment available if the author kept all the money they and their employer paid in CPP taxes, plus interest. While CPP has its problems, it’s actually a pretty good deal for current beneficiaries and those nearing retirement.

Another thing with me.... I have two deceased husbands who died in their 50's, (one was 51 and the other one was 59 before one percent of their CPP could be drawn). I worked all my life and am drawing 100% from my own CPP so I am receiving the maximum allowable payment per month. My two deceased husband's CPP money will never have onecent drawn from what they paid into the CPP plan all their lives.

Sometimes true: As we stated earlier, the government does transfer over roughly 50 to 66 per cent of your deceased partner’s CPP benefits. If you have two or more deceased partners, you can’t collect multiple pensions, but you will receive the largest one. Nobody can collect more than the maximum monthly CPP benefit, currently $1012.50, so if your surviving spouse is already collecting the maximum, they won’t collect any more. If their monthly CPP benefit is less than the maximum, the survivor benefit will top up their own CPP benefit.

To wrap things up, the point of this exercise was not to defend CPP. The program does have its problem. For instance, as we stated earlier, current CPP benefits are actually higher than if current retirees kept all their CPP taxes and invested them privately. Who is paying for this? Today’s generation of workers.

Criticizing this massive program is important. But surely there are better ways to do it than passing along misinformation in the form of this chain email.