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## Québec Pension Plan

Understanding the government income that may be available to you in retirement

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After years of contributing to the Québec Pension Plan (QPP), you may wonder how this plan will help you in retirement. This article examines how the plan works, your choices and the implications of those choices. Although the QPP provides retirement and disability benefits, this article only focuses on the retirement benefits. Any reference to a spouse in this article includes a spouse by civil union or a de facto spouse.

### What is the QPP?

The QPP provides retirement benefits for individuals who've contributed to the QPP or both the QPP and the Canada Pension Plan (CPP). The QPP also provides death and survivor benefits for families of contributors to the QPP or both the QPP and the CPP. Most individuals who work in Canada contribute to either the QPP or the CPP. QPP applies to individuals who work in Québec. CPP applies to individuals who work in provinces and territories outside Québec.

### Do you qualify?

If you've worked in Québec, contributed to the QPP for at least a year and are 60 years of age, you qualify for QPP retirement benefits.

The standard age to begin receiving a QPP retirement pension is the month after your 65<sup>th</sup> birthday; however, you

may receive a reduced QPP retirement pension as early as the month after your 60<sup>th</sup> birthday or an increased QPP retirement pension if it starts after your 65<sup>th</sup> birthday.

### I've contributed to the QPP and the CPP. Do I get retirement benefits from both plans?

The QPP and CPP have sharing agreements and offer similar benefits at retirement. The retirement benefit you receive takes into account all contributions made to both plans. You don't have to apply to both plans; if you contributed to both the QPP and CPP, you should apply to receive QPP if you live in Québec when you apply and to CPP if you live anywhere else in Canada when you apply. If you live outside of Canada, apply for QPP or CPP according to the last province or territory where you lived.

## Applying for QPP

QPP retirement benefits don't start automatically. You must apply in order to start receiving QPP retirement benefits. You can apply up to 12 months before the date you'd like your pension to start.

If you apply for QPP after your 65<sup>th</sup> birthday, you can request retroactive payments for up to 12 months, or back to the month after your 65<sup>th</sup> birthday, whichever period is shorter. To be eligible for retroactive payments, you must be at least age 65 plus one month when you make the request. There are no retroactive payments available for a QPP pension that starts before age 65. Retroactive payments can only be made for 12 months and, as a result, if you apply after the month you turn age 73, you'll lose some benefits because you'll only receive benefits for the previous 12 months. Therefore, the latest you should apply to obtain your full pension entitlement is the month you turn 73.

## How much could I receive at age 65?

Your monthly QPP retirement pension is based on how much you've contributed, how long you've been making contributions at the time you want your pension to start and your age when you start receiving your retirement benefit.

For your personalized QPP entitlement, you can obtain your Statement of Participation in the Québec Pension Plan from Retraite Québec. Your Statement of Participation shows your employment earnings and contributions to QPP and CPP, if you contributed to both. It also provides an estimate of the amounts you could receive at retirement.

To be entitled to the maximum monthly QPP payment amount at age 65, you must have contributed to QPP for at least 40 years and have made the maximum contributions towards the QPP in each of those years. Until December 31, 2023, you will only have made the maximum QPP contribution for a particular year if your employment or self-employment income was equal to or greater than the Maximum Pensionable Earnings (MPE) for that year. Beginning in 2024, you will only have made the maximum QPP contribution for a particular year if your employment or self-employment income is equal to or greater than the new pensionable earnings ceiling for that year. These changes to the QPP contributions and their impact on your QPP retirement pension are discussed in more detail in the section that follows.

Maximum monthly QPP payment amounts are indexed (annually) and posted on the Retraite Québec website.

## QPP enhancement

Starting in 2019, enhancements to the QPP were implemented to allow for higher benefits in retirement and

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to harmonize the QPP with the CPP. The QPP now consists of two plans:

1. The base plan: This is the plan that was in place before the enhancement. If you're an employee, you and your employer are each required to contribute 5.4% of earnings above \$3,500, up to the MPE. If you're self-employed, you must contribute both the employee and employer portions, which is equal to about 11% of earnings between \$3,500 and the MPE.
2. The additional plan: Between 2019 and 2023, the QPP contribution rate for employers and employees gradually increased up to 1% for the portion of earnings between \$3,500 and the MPE. If you're an employee, you and your employer must each make a first additional contribution of 1% on the earnings between \$3,500 and the MPE. If you're self-employed, your contribution rate gradually increased up to 2%. You must make a 2% first additional contribution on your earnings between \$3,500 and the MPE.

In addition, in 2024, a second earnings limit, known as the new eligible earnings cap, was introduced. A separate additional contribution rate of 4% for both an employee and employer, and 8% for self-employed persons, will apply to earnings above the MPE, up to the new earnings ceiling. This new ceiling will be 7% higher than the MPE in 2024 and 14% higher than the MPE by 2025. This additional contribution rate will only have an impact on you in years when your employment or self-employment income exceeds the MPE. Note that the QPP enhancement will only affect you if, as of 2019, you were working and making contributions to the QPP. If you stopped working before that time or are already receiving a QPP retirement pension and are no longer contributing to the QPP, you will not be impacted by these changes.

## How do periods of zero or low earnings affect QPP?

Your contributory periods are used to calculate the amount of QPP retirement benefits for which you may be eligible. Your contributory period for the base QPP begins when you reach age 18 (or January 1, 1966, whichever is later). Your two contributory periods for the enhanced QPP also begin when you reach age 18 or January 1 of the appropriate year (2019 for first part of the enhancement

and 2024 for second part of the enhancement), whichever is later. Your contributory periods end when you start receiving a QPP retirement pension, turn 72 or pass away (whichever happens earliest).

The base QPP includes provisions which help compensate for periods where you may have had low or no earnings during your contributory period. For example, to accommodate periods of low or zero earnings, a “general drop-out provision” automatically excludes a number of months, when your earnings were lowest, from the QPP retirement pension calculation. Low or zero earnings periods can occur if you are at school, unemployed or if you leave the workforce to care for a family member. This provision affects 15% of your base QPP contributory period, allowing up to seven years to be dropped from the calculation.

The base QPP also has drop-out provisions for months you were receiving a QPP or CPP disability pension or for months you were at home caring for your children under the age of seven during your contributory period.

In addition, beginning in 2024, low earnings after age 65 will no longer lower the average earnings used to calculate your QPP retirement pension.

### Taking QPP before age 65

If you start receiving QPP before age 65, your pension will be permanently reduced by 0.5% to 0.6% (depending on whether you were born before or on or after January 1, 1954) for each month you're under age 65. As such, if you apply for your pension at age 60, your pension will be 30% to 36% lower than the pension you would have received at age 65 or later.

### Taking QPP after age 65

If you start receiving a QPP retirement pension after age 65, your QPP will permanently increase by 0.7% for each month you delay receiving it, starting the month after your 65<sup>th</sup> birthday, up to a maximum of 58.8%. This means if you begin receiving QPP in the month after your 72<sup>nd</sup> birthday, your monthly QPP retirement benefit will be 58.8% higher than it would have been if you'd begun QPP at age 65. Note that 58.8% is the maximum possible increase, so there's no benefit to delaying receipt of QPP retirement benefit after age 72.

### When should I take my QPP retirement pension?

Determining when you should begin taking QPP involves many considerations and should include a complete analysis of your financial needs and resources. Consider the following factors in deciding when to start receiving QPP retirement benefits.

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#### Taking QPP early

- If you need the money to support yourself and/or your family, taking QPP early makes sense.
- If you choose to receive your QPP retirement pension early, this may enable you to reduce your working hours, while maintaining your current income level until you decide to completely retire.
- Consider your current health and family health history. If you have a shortened life expectancy or greater potential for health issues based on family history, it may make sense to take QPP early.
- If you do not need these monies to support your lifestyle and could invest your QPP payments taken early, consider the expected rate of return on these funds, and compare this with the guaranteed, inflation-indexed higher QPP payments you would receive if you waited to take QPP until age 65 or later.

#### Delaying QPP

- You may decide to delay receiving your pension if you have insufficient income or resources for a comfortable retirement. The longer you wait, the higher your benefit payments will be. QPP benefits are indexed and guaranteed for your lifetime. You may also decide to continue working and contributing to QPP.
- If you plan to continue working, have sufficient income for your desired lifestyle and are in a higher tax bracket, it may also make sense to delay taking your QPP retirement pension. If you take QPP now, you will keep less of your QPP income because you'll pay more of it in tax. By delaying QPP, your payment will be higher when you do start to receive it and you may be in a lower marginal tax bracket by then.

There are tools available on Retraite Québec's website that can help you determine the best time to start your QPP retirement pension and get an estimate of how much you might receive.

## Working while receiving QPP

You can receive your QPP pension while working. However, if you're under age 65, you and your employer must continue to contribute to QPP when your annual earnings exceed \$3,500. If you're self-employed, you have to pay both the employee and employer portion.

If you're age 65 to 72, still working and receiving QPP, you can elect not to contribute to QPP. If you choose to stop contributing to the QPP, contributions made by your employer will also cease. As of January 1 of the year following the year you turned 72, you'll automatically stop contributing to the QPP.

If you do continue to work between the ages of 65 and 72 and contribute to the QPP while you're receiving your QPP retirement pension, the additional contributions will result in a lifetime increase to your retirement pension called the "retirement pension supplement." In 2024 and future years, the supplement is 0.66% of earnings that were contributed during the previous year.

The supplement is payable as of January 1 of the year following the one in which you made contributions and is added to your monthly QPP pension. The supplement is paid automatically, so you don't need to apply. For each year you work and contribute to QPP while receiving a QPP retirement pension, you receive an additional supplement. You will receive the retirement pension supplement, even if you're already receiving the maximum QPP retirement pension. The supplement increases each year in January, as it's adjusted to the cost of living as of the year following the first payment. Part of the supplement may be paid to a surviving spouse after your death.

## Non-residents and QPP

You can receive your QPP retirement benefits even if you decide to leave Canada. If you receive QPP while living outside of Canada, non-resident withholding tax of 25% will be withheld from your QPP pension payments, unless this rate is reduced by a tax treaty between Canada and the country where you are resident.

If you're a U.S. resident receiving QPP, the Canada-U.S. Tax Treaty reduces the non-resident withholding tax to nil. Note that the maximum percentage of your QPP pension that may be subject to tax in the U.S. is 85%.

## Cancelling QPP

You can cancel your QPP pension up to six months after you begin receiving it. You must request the cancellation in writing and repay all of the QPP benefits you received.

If you do continue to work between the ages of 65 and 72 and contribute to the QPP while you're receiving your QPP retirement pension, the additional contributions will result in a lifetime increase to your retirement pension called the "retirement pension supplement."

## Sharing QPP retirement pensions

QPP retirement benefits are taxable to the recipient in the year received and are not eligible for the pension income tax credit. You cannot split your QPP pension with your lower-income spouse under the pension income splitting rules in the Income Tax Act, but QPP rules do allow "pension sharing." This is different to pension income splitting, but it can result in tax savings if one spouse is receiving a higher QPP retirement pension than the other spouse and is also in a higher tax bracket than the other spouse.

If you want to share your QPP retirement pension, you must apply to do so. Pension sharing involves an actual transfer of payments from one spouse to the other, but the overall benefits paid don't change. Note that retirement pension sharing is based on the period that you and your spouse lived together while accumulating retirement benefits.

For more information, please ask your RBC advisor for the article on QPP retirement pension sharing.

## Splitting QPP credits/earnings after separation or divorce

If you separate or divorce, you can divide the QPP contributions you and your spouse made during the time you lived together. You can divide QPP contributions even if only one spouse contributed to QPP. This is called "partition of employment earnings between spouses."

If you were married or in a civil union and obtained a judgment of divorce, legal separation or annulment in Québec, Retraite Québec automatically partitions the employment earnings on which you and your former spouse paid contributions to the QPP for the period of marriage or civil union, unless you and your former spouse have expressly renounced such partition. If you obtained a judgment of divorce, legal separation or annulment outside of Québec, you or your former spouse must file an Application for Partition of Employment Earnings between Former Spouses if you want to partition your earnings.

If you were de facto spouses at the breakdown of your union, partition is not automatic. You must file a joint application for partition to be carried out.

## After a death

The QPP provides three types of survivor benefits on your death, provided you've contributed to the QPP for at least one-third of the calendar years in your contributory period (and this must be a minimum of three calendar years), or 10 calendar years. The following is a very brief description of the three types of benefits.

### QPP death benefit

If you've contributed sufficiently to the QPP, your estate is entitled to a QPP death benefit.

The QPP death benefit is a maximum of \$2,500. It is paid to the person who or charitable organization that paid your funeral expenses, if they apply for the death benefit within 60 days of death and provide proof of payment. After 60 days, if no application has been filed with proof of payment, the death benefit can be paid to your heirs.

### QPP surviving spouse's pension

The QPP surviving spouse's pension is a retirement pension paid to your surviving spouse on death. The amount paid to your surviving spouse will depend on your contributions to QPP; your retirement pension supplement (if you were receiving one); your surviving spouse's age; whether your surviving spouse supports your dependent children; whether your surviving spouse is disabled; and whether your surviving spouse is already receiving a retirement or disability pension.

Your surviving spouse may also receive a QPP retirement pension or a disability pension. In this case, both pensions are paid as a single monthly payment. The combined

payment is subject to a maximum amount determined by law, which is not necessarily equal to the sum of both pensions. As a result, the surviving spouse's pension may be reduced. If your spouse receives the maximum QPP retirement pension at age 65, payment of the surviving spouse's pension will end.

The earliest a QPP surviving spouse's pension can start is the month after the contributor's death, once the application to receive this pension has been processed.

### QPP orphan's pension

The QPP orphan's pension is a monthly flat-rate amount, adjusted annually for inflation, paid to the person who supports a minor child of the deceased, if the deceased made sufficient contributions to the QPP. It's paid until the child turns 18.

## Conclusion

It's important to understand how your contributions to QPP during your working years impact the income you can expect to receive in retirement. Understanding QPP will help you to better plan for your retirement.

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