

Quebec Pension Plan

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



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 the families of those who've contributed 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.

Eligibility for QPP retirement pension

If you've worked in Québec, contributed to the QPP for at least a year and are at least 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 65th birthday; however, you may receive a reduced QPP retirement pension as early as the month after your 60th birthday or an increased QPP retirement pension if it starts after your 65th birthday. There is more information about the impact of receiving your QPP retirement pension before or after your 65th birthday later in the article.

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. Keep in mind that 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. 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 would like your pension to start. Retraite Québec recommends you apply one to three months before you wish to receive your first payment.

If you apply for QPP after your 65th birthday, you can request retroactive payments for up to 12 months (11 months, plus the month you apply), or back to the month after your 65th birthday, whichever period is shorter. To be eligible

for retroactive payments, you must be at least 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 71, you will lose some benefits because you will 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 71.

QPP enhancement

As of 2019, enhancements to the QPP have been implemented to allow for higher benefits in retirement and to harmonize QPP with CPP. The QPP now consists of two plans:

1. The base plan – This is the plan that was in place before the enhancement. Employees and employers each contribute 5.55% of earnings between \$3,500 and the Yearly Maximum Pensionable Earnings (YMPE). Self-employed workers contribute 11% of earnings between \$3,500 and the YMPE.
2. The additional plan – This is a plan to which employees, employers and self-employed individuals will contribute. The contribution rate will gradually increase from 2019 to 2023. Beginning in 2024, a second earnings limit, known as the Year’s Additional Maximum Pensionable Earnings (YAMPE), will be 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 YMPE up to the YAMPE. From 2024, new contributions will be added to the portion of earnings between the YMPE and the YAMPE. This new ceiling will be 7% higher than the YMPE in 2024 and 14% higher than the YMPE by 2025. It is important to note that this additional contribution rate will only have an impact on you in years when your employment or self-employment income exceeds the YMPE.

To benefit from this enhancement, you need to still be working and contributing to the QPP in 2019. If you are already receiving a QPP retirement pension and are no longer contributing to the QPP, you will not be affected by these changes.

How much could I receive at age 65?

Your monthly QPP retirement pension is based on how much you have contributed, how long you have 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 online by registering for a clicSÉQR account or by contacting Retraite Québec by mail. Your Statement of Participation shows your employment earnings and contributions to QPP and CPP if you contributed to both. It also provides 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 YMPE 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 YAMPE for that year.

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

How do periods of zero or low earnings affect QPP?

Your contributory period is 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 period ends when you start receiving a QPP retirement pension, turn 70 or pass away (whichever happens earliest).

The 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 7 years to be dropped from the calculation.

The QPP also has drop-out provisions (or drop-in provisions (i.e. credited earnings)) for months you may have been disabled or for months you were at home caring for your children under the age of 7 during your contributory period.

Taking QPP before age 65

If you were born before January 1, 1954, and start receiving QPP before age 65, your pension will be permanently reduced by 0.5% for each month you’re under age 65, including the month you turn 65 (a reduction of 6% per year). If you were born in 1954 or later and start receiving your pension before age 65, the reduction percentage varies from 0.5% to 0.6% depending on the amount of your retirement pension. The reduction is 0.5% per month if you’re receiving a very small QPP pension, but it increases to 0.6% per month if you receive the maximum QPP pension. To determine the reduction that would apply to you,

contact Retraite Québec or view your Statement of Participation in the QPP online site.

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 65th birthday. This means if you begin receiving QPP in the month after your 70th birthday, your monthly QPP retirement benefit will be 42% higher than it would have been if you'd begun QPP at age 65. Note that 42% is the maximum possible increase, so there's no benefit to delaying receipt of the QPP retirement benefit after age 70.

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.

Taking QPP early

- If you need the money to support yourself and/or your family.
- 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. It can be a great way to ease into retirement.
- 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, but you must continue to contribute to QPP when your annual earnings exceed \$3,500. You're not required to make QPP contributions after age 70, even if you are still working. The additional contributions will result in a lifetime increase in your retirement benefits called the "retirement pension supplement." The supplement is calculated as 0.5% of the earnings on which your contributions were based 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. Note that it may take a few months to calculate the supplement and a retroactive payment to January 1 may be made. 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.

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.

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 than 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 detailed information on this strategy, 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 should 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.

QPP survivor benefits

The QPP provides three types of survivor benefits on your death. The following is a very brief description of the three types of benefits.

QPP death benefit

If you contributed to QPP for at least one-third of the calendar years in your contributory period (and this must be a minimum of 3 calendar years), or 10 calendar years, 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 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.

This article may contain several strategies, not all of which will apply to your particular financial circumstances. The information in this article is not intended to provide legal, tax or insurance advice. To ensure that your own circumstances have been properly considered and that action is taken based on the latest information available, you should obtain professional advice from a qualified tax, legal and/or insurance advisor before acting on any of the information in this article.

**If you have questions on any of the issues in this article,
please speak with your advisor.**



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