Johnstone's Journal

JOHNSTONE'S JOURNAL is published monthly, and designed to provide topical information of interest not only to plan administrators, but to all employees who enjoy coverage under the benefit plan. Feel free to make copies, and use as a payroll stuffer.

PHONE: 980-6227/1-800-432-9707 **Web Site:** www.jbenefits.com **December 2011**

CPP Changes and LTD Benefits

What employees who start CPP before age 65 need to know

Changes to the Canada Pension Plan

Over the next five years, the Government of Canada is adapting the Canada Pension Plan (CPP) to accommodate the changing lifestyles of Canadians, while ensuring that the plan remains fair and sustainable.

One of the changes, effective in 2012, will allow employees to begin receiving CPP pensions as early as age 60 without having to retire. In these cases, employers and employees will continue to make mandatory contributions, but the "work cessation test" will no longer be required.

As a result, we anticipate more Canadians will opt to begin CPP pensions while still working. However, if an employee becomes disabled and is receiving a CPP pension, it can affect his or her long term disability benefits.

Are employees eligible for benefits?

Employees who choose to begin receiving a CPP pension early, may also request a change in the hours they work as part of a transition into retirement. Provided they continue working the minimum hours each week, as defined by the benefit contract, they will continue to receive all benefits without interruption. If hours are adjusted, remember to report any salary changes. Also note, **income from CPP should not be included, as only employment income is insurable.**

What if an employee becomes disabled?

If an employee under age 65 who is receiving CPP pension income becomes disabled, his or her long term disability benefit may be reduced.

Group disability policies protect employees who are unable to work due to illness or injury. The amount of benefit payable is based on a percentage of the employee's reported income, **less any offsets; that is, the amount payable by other sources of income like CPP.**

Coordinating disability benefits with other income

All group benefit contracts include an all source maximum provision that stipulates the maximum allowable income that a disabled employee can receive from all sources of income. In most contracts, the all source maximum is 85% of pre-disability income.

In addition, all group benefit contracts include a **primary offset provision** which reduces an employee's disability benefits by the exact amount payable from specific sources of income (as defined in your contract). The most common primary offsets include CPP (or QPP) retirement or disability benefits, Workers' Compensation Act (or similar law), or loss of income benefits under an automobile insurance plan.

Because of the **primary offset provision**, an employee under age 65 who receives CPP pension benefits and then becomes disabled, may have their long term disability payments reduced by the amount received from CPP.

Insurers include these as a standard provision in all disability contracts as a cost-control measure; without them, premiums would increase dramatically. They also use offsets as a financial incentive for employees to return to work.

If one of your employees requests CPP pension benefits between ages 60 and 65, contact Johnstone's Benefits to clarify how this will coordinate with your disability program.

For more information on changes to the Canada Pension Plan, go to servicecanada.gc.ca, or call Service Canada toll-free 1-800-277-9914.