

What Happens to My CPP When I Die?

By Clinton Orr

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I get a lot of questions about the Canada Pension Plan (CPP) - When to take it? How much will it be? We have addressed many of those questions in past articles, but today, we will address an often-overlooked area of CPP - what happens to your pension when you die?

When you pass away, the money you have contributed to CPP is not gone, there are benefits for the surviving spouse, as well as for dependent children and there is a death benefit.

The death benefit is a flat amount of \$2,500. In order to qualify for the death benefit, you must have contributed to CPP for 10 years, or 1/3 of your contributory period. A reminder that any adult over the age of 18 that earns more than \$3,500 must contribute to CPP, which means, for most folks their contributory period starts at 18. The death benefit from an insurance policy is not taxable, however, the CPP death benefit is taxable. It is a taxable \$2,500 paid to the estate of the deceased.

CPP will also make monthly payments to the deceased's dependent children. A dependent child is someone under the age of 18, or between the ages of 18 and 25 who is a full-time student. Once a child turns 25, they are no longer eligible for this benefit. The child benefit is a flat amount that is adjusted annually. For 2021 the benefit is \$257.58 a month. The qualification criteria for the child benefit are the same as for the death benefit.

There is also a pension for the surviving spouse which they will receive for life. The amount received by the surviving spouse depends on how much you have contributed to CPP. If you pass away and are under the age of 65, and not receiving CPP, the government will do a calculation to determine what your pension would have been at the age of 65. If you are already receiving CPP when you die, they will use that number. How much the survivor receives also depends on their age; if the survivor is over 65 they will receive 60% of your CPP. In March 2021 the average survivor's pension for those in this category was \$315.15 a month, and the maximum pension is \$722.25 a month. A reminder that the current maximum CPP, at age 65, is \$1,203.75 a month, so if you qualify for the maximum CPP, 60%, or \$722.25 a month will go to your spouse when you pass.

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If the survivor is under the age of 65, a special calculation is done. The survivor will receive a flat rate plus 37.5% of their spouse's pension. In March 2021 the average monthly pension for folks in this category was \$457.07, and the maximum monthly pension is \$650.72. If a survivor starts to receive a survivor's pension prior to the age 65, when they take their own CPP, a calculation will be done and their CPP will be combined with the survivor's CPP.

It is important to mention that an individual cannot receive more than the maximum CPP. At the moment, the maximum monthly CPP, at age 65, is \$1,203.75. So, if you are currently receiving \$800 a month and your spouse passes away, you are entitled to 60% of their CPP. Let's assume they were getting \$1,000 a month, so you are entitled to \$600 a month. However, you will not receive \$1,400 (\$800 + \$600) a month, you will get the current maximum of \$1,203.75 a month.

In addition, you must apply for all these benefits. CPP can only make back payments for up to 12 months, so it is suggested the surviving spouse complete the application for survivor or children benefits as soon as possible when someone passes. For survivor or children benefits form ISP-1300 must be completed. For the death benefit, it is suggested that the executor complete the application within 60 days of the date of death. The death benefit form is ISP-1200. You can complete both applications online, or if you prefer, you can visit a Services Canada office and obtain the physical document and mail it in. In both cases it takes approximately 6-12 weeks for the government to process the application.

It is important to chat with your financial professional to ensure your CPP, and all its benefits, are properly incorporated into your financial plan.

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