

Important:

GBA/RPA 3 Course Revisions



The course updates will be reflected in exams administered on or after October 15, 2019.

The GBA/RPA 3 Study Guide has been extensively revised. This material is required reading for the purposes of the Certified Employee Benefit Specialist® (CEBS®) program and the national exam for the GBA/RPA 3 course, *Navigating the Plan Environment*.

These updates cover complete replacements of Modules 1-4.

These updates will be posted in the Online Study Guide beginning July 1, 2019, accessible at "My Account—My CEBS" at www.ifebp.org.

For exams written on or after October 15, 2019, you will need to update your first edition Study Guide with these replacement modules.



If you have questions, please contact Customer Service at (844) 809-2698 or cancebs@ifebp.org.



A JOINT PROGRAM OF



Optimizing Social Programs in Planning for Retirement and Health Security

Canada has a sophisticated network of government-sponsored programs that are an essential part of our national identity. These programs operate within a total social security system, which has two levels of sponsorship—the government and the private sector (i.e., employer and personal sponsorship).

There are a number of basic principles reflected in the design of government-sponsored programs that can be traced back to the origin of the social security system. The application of these principles varies with the need that each particular program is designed to address.

Because of the interrelationship and linkages between government-sponsored and employer-sponsored retirement, life and health care programs, understanding the fundamentals of the key government-sponsored programs is essential for benefits professionals. Changes in public programs ripple into employer plans—with coverage offloads, increased contributions and costs. Their existence can impact decisions on plan design and plan sponsor benefit dollar allocations and can also present compliance issues.

The next four modules look at income security and health care programs, the two big categories of government-sponsored social security programs in Canada. Income security programs provide income assistance to those not earning an adequate income due to retirement, unemployment or work injury. Health care programs provide certain levels of publicly sponsored health services to substantially all Canadians.

This module provides an overview of the principles behind government-sponsored social security programs and begins a deeper dive into the structure, funding, benefits and administration of Old Age Security (OAS). Benefits provided under the OAS program include the basic OAS pension as well as Guaranteed Income Supplement (GIS), Allowance and Allowance for the Survivor benefits. OAS pension is a “universal” pension aimed at poverty reduction. The other benefits are income-tested components. It is estimated that OAS pension alone currently replaces 12.6% of the year’s maximum pensionable earnings (YMPE) for a single individual. It is estimated that the OAS pension and other benefits combined provide a minimum income guarantee for single, widowed and divorced pensioners of about one-third of the Canadian average industrial wage, while the maximum combined amounts payable to pensioner couples are approximately one-half of the average industrial wage for one person.

The legislative overview is not intended to be an exhaustive analysis. Recourse to additional references and guidance would be imperative should an application arise in the workplace.

Assigned Reading



Reading A

Overview of Canada’s Publicly and Privately Sponsored Social Security System, Study Guide Module 1, Pages 23-37

Reading B

Role of Old Age Security (OAS) in Retirement Income Security, Study Guide Module 1, Pages 39-51



Benefits in Action #1

“Why should our employees care about government-sponsored benefits?” Study Guide Module 1, Pages 53-67



Professional Enrichment Resources

Old Age Security pension and Guaranteed Income Supplement amounts

<https://www.canada.ca/en/services/benefits/publicpensions/cpp/old-age-security.html>

Click on “Old Age Security payment amounts” on the left-side menu.

Repayment of Old Age Security pension

<https://www.canada.ca/en/services/benefits/publicpensions/cpp/old-age-security>

Click on “Repayment of Old Age Security pension” on the left-side menu.

Professional enrichment resources are not tested on the national examination.

Why Scan These?

These pages identify current pension and benefit levels for a variety of personal situations as well as the current clawback thresholds.



Learning Outcomes

1. Outline the basic principles underlying Canada's social security system and how those principles are reflected in the design of certain programs within the social security system.
2. Explain the regulatory environment, structure, funding mechanisms, basic program categories and delivery methods that support Canada's social security system.
3. Describe basic plan provisions for the Old Age Security (OAS) pension.
4. Explain the role and constraints of international social security agreements between Canada and other countries.
5. Describe basic plan provisions for Guaranteed Income Supplement (GIS), Allowance and Allowance for the Survivor benefits.
6. Describe the tax regime that applies to OAS pension and GIS, Allowance and Allowance for the Survivor benefits.

Benefits in Action #1

“Why should our employees care about government-sponsored benefits?”

1. Apply knowledge of the Old Age Security (OAS) program to assess its potential contribution to income needs from the age of 65 and beyond.
2. Evaluate whether the employer's communication messages highlight the program's income potential and its limits.



Outline of Knowledge

- A. Principles of Canadian social security programs
 - 1. Government role
 - 2. Income distribution
 - 3. Social insurance
 - 4. Universality
 - 5. Use of tax system
- B. Canadian social security framework
 - 1. Income security and health care programs
 - 2. Government and private sponsorship
 - 3. Constitutional influences
 - 4. Forms of sponsorship
 - 5. Methods of program delivery
 - 6. International social security agreements
- C. Old Age Security (OAS)
 - 1. Legislative authority
 - 2. Administrative body
 - 3. Income replacement targets
- D. OAS pension
 - 1. Eligibility, commencement and cessation provisions
 - 2. Pension amounts
 - 3. Full and partial OAS pensions
 - 4. Indexation
 - 5. Taxation

- E. Guaranteed Income Supplement (GIS), Allowance and Allowance for the Survivor
 - 1. Eligibility, commencement and cessation provisions
 - 2. Benefit amounts
 - 3. Coordination with other income
 - 4. Indexation
 - 5. Taxation
- F. Provincial/territorial income supplements



Key Terms

- Social security system
- Sponsorship—funding and administration
- Tax credits
- Tax deductions
- Tax exemptions
- Pay-as-you-go funding
- Intergenerational transfers
- Social insurance vs. normal insurance
- Universality
- Income test
- Means test
- Own source revenue
- Canadian Constitution
- International social security agreements
- Old Age Security (OAS) pension
- Guaranteed Income Supplement (GIS) benefit
- Allowance benefit
- Allowance for the Survivor benefit
- Indexation
- OAS pension recovery tax
- Clawback
- Provincial/territorial income supplements

Learning Outcome



1

Outline the basic principles underlying Canada’s social security system and how those principles are reflected in the design of certain programs within the social security system.

1.1 Explain the concept of social security in the context of government-sponsored benefits, and identify the basic principles on which government-sponsored programs are structured. (Reading A, Overview of Canada’s Publicly and Privately Sponsored Social Security System, Study Guide Module 1, p. 23)

“Social security” is a term commonly identified with programs and measures that provide or enhance economic security for individuals. There are a number of basic principles inherent in the design of government-sponsored social security programs. These include:

- (a) Government has a key role/responsibility in the provision of social security.
- (b) It is socially desirable to redistribute income through intergenerational transfers.
- (c) Programs can operate under a “social” insurance premise.
- (d) The concept of universality is basic to most social security programs.
- (e) It is socially acceptable to use the tax system as a vehicle for funding social security.

1.2 Explain the key differences between social insurance and normal insurance.

Provide examples of social insurance. (Reading A, Overview of Canada's Publicly and Privately Sponsored Social Security System, Study Guide Module 1, pp. 24-25)

Key differences between social and normal insurance are:

- (a) Social insurance is set up to administer a certain type of government-sponsored benefit that is ultimately governed by socioeconomic rather than cost/benefit principles.
- (b) Social insurance does not usually have an actuarial base that ensures contributions equal benefits paid out.
- (c) Under social insurance programs, the amount of benefits paid and the period of benefits entitlement are matters of public policy.

Employment Insurance (EI) and Workers' Compensation (WC) are examples of social insurance.

1.3 Explain the principle of universality. (Reading A, Overview of Canada's Publicly and Privately Sponsored Social Security System, Study Guide Module 1, p. 25)

"Universality" is a commitment to provide a benefit and/or type of service to a universal (or all of a targeted) population. In practice, universality means that the government, as the provider of the benefits, makes public policy decisions that determine the nature and type of service that is a required standard for the widest possible segment of society and provides access to benefits regardless of an individual's financial circumstances.

1.4 Explain the purpose of an income and/or means test in the context of government-sponsored benefits. (Reading A, Overview of Canada's Publicly and Privately Sponsored Social Security System, Study Guide Module 1, pp. 25-26)

Income and/or means tests are used to determine basic eligibility and the amount of benefits entitlement under some government-sponsored benefits programs. An "income test" establishes the ability of a claimant to provide for his or her financial security by measuring specified income against a predetermined income standard. A "means or wealth test" establishes the ability of a claimant to provide for his or her own financial security by measuring specified wealth levels or possession of enumerated assets against a predetermined wealth standard.

1.5 Explain what base- or foundation-level support means in respect of government-sponsored benefits. (Reading A, Overview of Canada’s Publicly and Privately Sponsored Social Security System, Study Guide Module 1, p. 26)

“Base- or foundation-level support” means that the government benefit is intended to provide a minimum acceptable level of coverage that individuals are encouraged to augment.

1.6 Identify the primary sources of funding for government-sponsored benefits. (Reading A, Overview of Canada’s Publicly and Privately Sponsored Social Security System, Study Guide Module 1, pp. 28-29)

Two sources of funding for government-sponsored benefits are own source revenue (raised by a government from its own imposition of a tax, license, fee or any other charge) and transfers from other government subsectors (money received directly from another party without being directly imposed by the receiving party).

The largest proportion of social security program funding is from taxation, but some funding comes from contributions to specific social insurance programs.

2



Learning Outcome

Explain the regulatory environment, structure, funding mechanisms, basic program categories and delivery methods that support Canada's social security system.

2.1 Identify the implications of the Canadian Constitution for the provision of social security. (Reading A, Overview of Canada's Publicly and Privately Sponsored Social Security System, Study Guide Module 1, p. 30)

The Constitution is the supreme law in Canada. It sets out the division of powers between the federal parliament and the provincial legislatures. It also enshrines certain rights and freedoms for Canadians. For example, it sets out the principle of equality of rights—every individual is equal before and under the law and has the right to the equal protection and equal benefit of the law without discrimination and, in particular, without discrimination based on race, national or ethnic origin, colour, religion, sex, age, or mental or physical disability.

Under the Constitution of Canada, the federal and provincial governments share the responsibility for social security. Both play important roles in designing, funding and administration of income security and health care programs. The interpretation of constitutional law has an indirect but substantial influence on all aspects of government-sponsored programs.

2.2 Identify the mechanisms under which government-sponsored income security and health care programs are regulated. (Reading A, Overview of Canada’s Publicly and Privately Sponsored Social Security System, Study Guide Module 1, p. 34)

Government-sponsored income security and health care programs are regulated under a variety of mechanisms:

- (a) Laws. Consist of the body of rules of conduct laid down by a sovereign or governing body to control the actions of individuals and entities in its jurisdiction. While the purpose of law in a society is, broadly speaking, social control, the law may be subdivided into three functions—settling disputes, establishing rules of conduct and providing protection for individuals.
- (b) Legislation. The process of making laws or series of laws. The term “legislation” is also used to refer to the actual law that has been enacted by a governing body. For example, health care legislation refers to the law or laws enacted by a governing body with respect to the provision of health care.
- (c) An act or statute. Written law adopted by parliament or a provincial legislature that establishes, codifies or changes the legal rules related to a specific matter
- (d) Regulations. Written laws made by a government under authority delegated to the government by a statute. Typically, regulations have the same force of law as a statute.
- (e) Guidelines and policies. These are more specific rules that are not legally enforceable unless referred to in the regulation or act.

2.3 Describe the three basic methods of delivering benefits within Canada’s social security system. (Reading A, Overview of Canada’s Publicly and Privately Sponsored Social Security System, Study Guide Module 1, pp. 34-35)

The three basic methods of delivering social security benefits are to:

- (1) Provide direct cash payments
- (2) Provide goods and services directly
- (3) Provide support through the income tax system.

Many government-sponsored programs use two or all three of the methods to accomplish different objectives within the parameters of total program delivery.

2.4 Describe the three basic ways the income tax system is used to deliver social security benefits. Provide examples. (Reading A, Overview of Canada's Publicly and Privately Sponsored Social Security System, Study Guide Module 1, p. 35)

The three basic ways used to deliver benefits are:

- (1) Tax credits (both refundable and nonrefundable). Seniors are eligible for tax credits on pension income from certain sources up to a specific amount. Employee contributions to the Canada Pension Plan/Quebec Pension Plan (CPP/QPP) and EI give rise to a tax credit to the employee.
- (2) Tax deductions. All employer premiums for CPP/QPP, EI and WC are a tax-deductible expense for the employer.
- (3) Tax exemptions. Guaranteed Income Supplement (GIS) benefits are an example of tax-exempt monies. WC disability benefits are also tax-exempt in most provinces and territories.

Learning Outcome



3

Describe basic plan provisions for the Old Age Security (OAS) pension.

- 3.1 Explain how benefits under the OAS Act are funded and administered.** (Reading B, Role of Old Age Security (OAS) in Retirement Income Security, Study Guide Module 1, p. 40)
- OAS benefits are funded on a pay-as-you-go basis from the federal government's consolidated revenue fund. This means the current generation of taxpayers pays for the benefits provided to the current generation of recipients. The benefit payments are considered general operating expenses financed by general federal tax revenue. The OAS Act is administered by the Minister of Employment and Social Development.
- 3.2 Indicate the age and residence criteria for qualifying for an OAS pension.** (Reading B, Role of Old Age Security (OAS) in Retirement Income Security, Study Guide Module 1, p. 41)
- An OAS pension is available to an individual aged 65 or over who meets these residency requirements:
- (a) The individual is a Canadian citizen or a legal resident of Canada with a minimum of ten years' residence in Canada after reaching the age of 18, or
 - (b) If no longer a resident in Canada, the individual must have resided in Canada for at least 20 years after reaching the age of 18.

3.3 Outline instances when absence from Canada is not deemed to have interrupted an individual's residence for OAS pension purposes. (Reading B, Role of Old Age Security (OAS) in Retirement Income Security, Study Guide Module 1, pp. 41-42)

The following are instances when absence from Canada is not deemed to have interrupted an individual's residence for OAS pension purposes:

- (a) The absence was of a temporary nature and did not exceed one year.
- (b) The absence is for the purpose of attending school or university.
- (c) The absence is required due to employment by:
 - The United Nations
 - The Commonwealth Secretariat
 - The Organisation for Economic Co-operation and Development (OECD)
 - The government of Canada
 - A provincial government
 - A municipal corporation
 - North Atlantic Treaty Organization (NATO)
 - The Canadian Armed Forces
 - A Canadian firm or corporation if the individual maintains a permanent residence in Canada and returns within six months after the end of his or her employment outside of Canada
 - A development or assistance program sponsored or operated by the government of Canada, a provincial agency or a Canadian nonprofit agency
 - Seasonal work in lumbering, harvesting, fishing, etc.
 - Seasonal work in transportation that travels between Canada and points outside Canada (i.e., aircraft, ships)
 - An international charitable organization
 - A missionary with any religious group or organization.

3.4 Explain the requirements an individual must meet to qualify for a full OAS pension.

(Reading B, Role of Old Age Security (OAS) in Retirement Income Security, Study Guide Module 1, p. 44)

An individual qualifies for a full OAS pension by attaining an age of at least 65 and having resided in Canada for at least 40 years after reaching the age of 18. Failing this, a full pension is also paid to an individual who meets the following requirements.

- (a) Has attained the age of 65, AND
- (b) Lived in Canada for at least ten years immediately before applying for OAS, OR:
 - Lived in Canada for at least one year before applying for OAS, AND
 - Has a period of residency in Canada, after reaching the age of 18 but excluding the ten years immediately preceding his or her date of application, which equals at least three times the number of years the person did not live in Canada in the ten years immediately before applying for OAS.

3.5 Explain how individuals who do not qualify for a full OAS pension can qualify for a partial pension and how that partial pension is determined. (Reading B, Role of Old Age Security (OAS) in Retirement Income Security, Study Guide Module 1, p. 44)

Individuals aged 65 and over who do not qualify for a full OAS pension qualify for a partial pension by having lived in Canada for a period of at least ten years after their 18th birthday. The partial pension is $X/40$ ths of a full pension, where X is the number of complete years of residence in Canada.

3.6 Indicate the start date of OAS pension. (Reading B, Role of Old Age Security (OAS) in Retirement Income Security, Study Guide Module 1, p. 43)

OAS pension commences the later of the month after an individual's 65th birthday, the month after he or she has met the residence and legal status requirements or the month the individual asks to have the payments start. If an individual applies after the age of 65 and wants OAS to start at the age of 65, the pension may be paid retroactively to the month after his or her 65th birthday or the month following the month he or she meets the residence requirements, whichever comes later. Retroactive payments are only made for a maximum of 12 months, including the month in which the application is received. Individuals may defer the commencement of an OAS pension until after the age of 65 and receive a larger pension.

3.7 Describe how OAS pensions and GIS benefits are indexed. (Reading B, Role of Old Age Security (OAS) in Retirement Income Security, Study Guide Module 1, p. 44)

OAS pensions are adjusted quarterly as required (in January, April, July and October), if there are increases in the cost of living as measured by the Consumer Price Index (CPI).

Learning Outcome



4

Explain the role and constraints of international social security agreements between Canada and other countries.

4.1 Outline the primary objectives of international social security agreements.

(Reading A, Overview of Canada's Publicly and Privately Sponsored Social Security System, Study Guide Module 1, p. 36)

International social security agreements coordinate the operation of OAS and CPP with the comparable social security programs of another country in order to accomplish three basic objectives:

- (1) To ease or eliminate restrictions based on nationality, which may otherwise prevent Canadians from receiving benefits under the legislation of the other country
- (2) To eliminate situations in which an employee may have to contribute to the social security programs of both countries for the same work
- (3) To assist immigrants in qualifying for benefits based on the periods they have lived or worked in each country.

4.2 Identify the two conditions that must be met in order for a country to conclude an international social security agreement with Canada.

(Reading A, Overview of Canada's Publicly and Privately Sponsored Social Security System, Study Guide Module 1, p. 36)

In order for a country to conclude an international social security agreement with Canada, the following two conditions must be met:

- (1) The other country must have a public pension system that can be coordinated with Canada's OAS and CPP system.
- (2) The other country must be prepared to grant reciprocity on such matters as the payment of benefits to persons living in Canada.

5



Learning Outcome

Describe basic plan provisions for Guaranteed Income Supplement (GIS), Allowance and Allowance for the Survivor benefits.

- 5.1 Outline the criteria that must be met to qualify for GIS benefits.** (Reading B, Role of Old Age Security (OAS) in Retirement Income Security, Study Guide Module 1, p. 46)

To qualify for GIS benefits, individuals must be receiving the OAS pension, they must be resident in Canada, and their income must be at or below a qualifying level. If individuals are married, the combined income of the couple must be below a qualifying level.

- 5.2 Explain how the GIS benefit amount is determined.** (Reading B, Role of Old Age Security (OAS) in Retirement Income Security, Study Guide Module 1, p. 47)

In most cases, the amount of GIS benefit is determined by income in the previous year, marital status and the amount of OAS pension an individual is entitled to receive. If an individual has just retired or anticipates a substantial drop in pension income, his or her GIS entitlement may be determined on the basis of an estimate of income for the current year. If the individual is married, this provision also applies to his or her spouse. The GIS amount is calculated in the same way, whether it is based on the individual's actual income from the preceding year or on an estimate of income for the current year.

5.3 Describe the basic formula for coordinating GIS benefits with other sources of income. (Reading B, Role of Old Age Security (OAS) in Retirement Income Security, Study Guide Module 1, p. 48)

In the case of a single, widowed, divorced or separated OAS pensioner, the maximum monthly benefit is reduced by \$1 for every \$2 of other monthly income. In the case of a married couple who are both receiving an OAS pension, the maximum monthly benefit of each pensioner is reduced by \$1 for every \$4 of their other combined monthly income.

A special provision applies in the case of a married couple when only one spouse is an OAS pensioner and the other is not eligible for either OAS pension or the Allowance. In this instance, the pensioner is entitled to receive GIS benefits at the higher rate paid to single persons. The maximum monthly benefit is reduced by \$1 for every \$4 of the couple's combined monthly income (excluding the pensioner's OAS pension), and the first reduction of \$1 is made only when the combined yearly income of the couple reaches 12 times the monthly OAS pension plus \$48.

5.4 Define "income" for GIS purposes. (Reading B, Role of Old Age Security (OAS) in Retirement Income Security, Study Guide Module 1, p. 48)

For GIS purposes, "income" is defined to be the same as income for purposes of federal income tax but excludes OAS pension, provincial social assistance payments, Veteran Disability Pensions, War Veteran Allowances and CPP/QPP death benefits. Income includes any money that an OAS pensioner receives in the form of an employment-related retirement pension, income from CPP/QPP, interest, dividends, rents, wages, WC payments, etc. If a pensioner is married, the combined income of the pensioner and his or her spouse is taken into account.

5.5 Indicate when GIS benefits commence. (Reading B, Role of Old Age Security (OAS) in Retirement Income Security, Study Guide Module 1, p. 47)

GIS benefits commence the month an individual is eligible for OAS, provided the eligibility requirements with respect to income are satisfied. The GIS benefit is added to the OAS pension each month.

5.6 Describe the eligibility requirements for the Allowance and Allowance for the Survivor. (Reading B, Role of Old Age Security (OAS) in Retirement Income Security, Study Guide Module 1, p. 49)

The “Allowance” is an income-tested monthly benefit payable to a 60- to 64-year-old spouse or common-law partner of an OAS pensioner who is entitled to GIS.

“Allowance for the Survivor” is an income-tested monthly benefit payable to a 60- to 64-year-old surviving spouse or common-law partner of a deceased OAS pensioner entitled to GIS. Certain requirements related to residence and legal status in Canada must be met in order to qualify.

Residence requirements can be met if an individual resided in Canada for ten years after the age of 18. If not, a recipient may still qualify for a benefit if he or she has resided in, and/or made social security contributions to, a country with which Canada has a social security agreement.

5.7 Outline the basic formula for coordinating Allowance and Allowance for the Survivor benefits with other sources of income. (Reading B, Role of Old Age Security (OAS) in Retirement Income Security, Study Guide Module 1, p. 50)

The maximum Allowance is the sum of the OAS pension plus GIS at the married rate. The monthly Allowance is reduced by \$3 for every \$4 of the couple’s monthly income until the OAS portion is reduced to zero. After that, the GIS portion begins to be reduced at the rate of \$1 for every \$4 of the couple’s additional income. For Allowance, the GIS benefit paid to the OAS pensioner’s spouse is also reduced by \$1 for every \$4 of the couple’s additional income (a combined reduction of 50% of the couple’s additional income). For Allowance for the Survivor, the rate of reduction is \$1 for every \$2 of monthly income above the earnings threshold.

5.8 Indicate when Allowance benefits cease. (Reading B, Role of Old Age Security (OAS) in Retirement Income Security, Study Guide Module 1, pp. 49-50)

Allowance benefits cease with the payment for June if income in the previous year (or combined income if married) exceeds the qualifying limit for the July payment. They also cease when a recipient dies or is absent from Canada for more than six months. The Allowance continues to be paid for three months after the month of separation. Allowance benefits cease after the month in which the individual again becomes a spouse either through marriage or a common-law relationship. Benefits cease if an individual is incarcerated in a federal penitentiary for two years or longer or in a provincial/territorial facility for 90 days or longer (if an information-sharing agreement is in place). When recipients reach the age of 65, Allowance benefits cease. At that time, recipients may be entitled to receive an OAS pension and possibly a GIS benefit.

Learning Outcome



6

Describe the tax regime that applies to OAS pensions and GIS, Allowance and Allowance for the Survivor benefits.

6.1 Describe the tax treatment of OAS pensions and GIS benefits. (Reading B, Role of Old Age Security in Retirement Income Security, Study Guide Module 1, pp. 45 and 48)

For federal income tax purposes, OAS pensions are taxable income. GIS benefits are not taxable income.

6.2 Explain the clawback provisions of the OAS pension recovery tax. (Reading B, Role of Old Age Security in Retirement Income Security, Study Guide Module 1, pp. 45-46)

The OAS pension recovery tax acts to recover some, or all, of the OAS pension paid to higher income OAS recipients, and it is commonly referred to as a “clawback” of the OAS pension. The OAS pension recovery tax applies at a rate of 15% of the individual’s net earnings above an earnings threshold. If the clawback amount equals the OAS payment, no payment is made to the pensioner. The minimum and maximum earnings thresholds used to calculate OAS clawback change annually.

6.3 Describe the tax treatment of Allowance and Allowance for the Survivor benefits. (Reading B, Role of Old Age Security in Retirement Income Security, Study Guide Module 1, p. 51)

For federal income tax purposes, Allowance and Allowance for the Survivor benefits are not taxable income but must be reported on the recipient’s income tax filing.

Reading

A

Overview of Canada's Publicly and Privately Sponsored Social Security System¹

The concept of social security is commonly identified with a broad set of government programs and services that provide or enhance economic security for individuals. From modest beginnings in the early 1900s, Canada's social security system has gradually evolved, responding to changes in a variety of social, economic and political factors. Now a sophisticated government-sponsored system exists that includes:

- (a) Income security programs. These programs focus on maintaining the income of individuals and families faced with loss of earnings (e.g., due to retirement, unemployment or work injury) and on providing income assistance to those unable to earn an adequate income.
- (b) Health care programs. These programs focus on providing publicly insured health care services, extended health care services, and other health services and activities, including those provided in the context of social welfare.

Our government system can appear complicated—It includes differing jurisdictional approaches, funding structures, types of benefits and services, eligibility requirements, and benefit and service delivery mechanisms. Before considering some of those components, it is useful to review the principles inherent in the system itself.

Basic Principles Inherent in the Design of Social Security Programs

The first and most basic principle is that government has a key role/responsibility in the provision of social security. Others are:

1. It is socially desirable to redistribute income through intergenerational transfers.
2. Programs can operate under a “social” insurance premise.
3. The concept of universality is basic to most social security programs.
4. It is socially acceptable to use the tax system as a vehicle for funding social security.

1. Developed by the Certified Employee Benefit Specialist® program, Dalhousie University, 2019.

These latter principles are described more fully below. (Note that some of these principles differ from those in the design process used in a typical (private-sector) employer-provided benefit program.)

1. It is socially desirable to redistribute income through intergenerational transfers.

Redistribution of a portion of the present government revenues from the younger generation to senior citizens is a form of intergenerational transfer. It recognizes that senior citizens have made significant socioeconomic contributions to Canadian society. During their economically more productive years, they have contributed to present-day wealth. Because of age and health, seniors are often no longer in a position to generate sufficient income for their personal social security.

Primary examples of intergenerational transfers in government-sponsored programs are Old Age Security (OAS)—including the Guaranteed Income Supplement (GIS) and the Allowance—and the Canada Pension Plan/Quebec Pension Plan (CPP/QPP). OAS redistributes general revenues to a majority of senior citizens while providing, through GIS and the Allowance, the most benefits to those most in need. OAS covers all the population satisfying age and residence requirements. CPP/QPP is discussed in Module 2.

2. Programs can operate under a “social” insurance premise.

Many government-sponsored programs operate under an insurance premise and as a result have many of the characteristics found in normal insurance (i.e., pure business insurance offered in the private sector). These common characteristics include:

- (a) Eligibility provisions. Conditions that an individual must meet before being eligible for coverage are defined.
- (b) Funding provisions. Contributions (termed “premiums” in the case of normal insurance) are made to fund the program.
- (c) Benefit provisions. Payment of benefits is normally contingent upon an unexpected or unforeseen loss or an event (e.g., reaching a predefined age or circumstance) rather than at the discretion or option of a claimant.

For example, eligibility for Employment Insurance (EI) is dependent upon not just being out of work involuntarily but also suffering a real economic loss by not being able to find suitable new work. Eligibility for CPP/QPP is dependent on retirement, disability or death. Workers’ Compensation (WC) is funded by employer premiums, while EI and CPP/QPP premiums are paid by both the employee and employer. WC benefits are dependent upon the occurrence of a work-related injury or illness.

However, even when the government-sponsored program operates under an insurance premise, there will be differences from the operation of normal insurance, including:

- (a) Many decisions for government-sponsored programs are made on the basis of broad socioeconomic considerations rather than by following the cost/benefit context typically used in the private sector. Program participation is often mandatory, and premium contribution amounts, types of benefits and benefit amounts are often set as a matter of government public policy.
- (b) Social insurance programs do not usually have an actuarial base (i.e., a process for ensuring that contributions equal benefits paid out).
- (c) Benefit amounts and payment duration are matters of public policy. The benefit recipient must adhere to government-set criteria in order to remain eligible to receive benefit payments. For example, to remain eligible for WC disability benefits, a recipient must follow his or her prescribed worker rehabilitation program. To remain eligible for EI benefits, a claimant must demonstrate a genuine ongoing interest in looking for and starting work. To remain eligible for CPP/QPP disability benefits, a claimant must be totally disabled.

The end result is substantial government bureaucracy to supervise ongoing benefit entitlement programs.

3. The concept of universality is basic to most social security programs.

In government-sponsored programs, “universality” means that government, as the provider of benefits, makes certain public policy decisions about the nature and type of benefits and services that are the required standards for the widest possible segment of society and about the eligibility requirements. Most government-sponsored benefit programs are subject to various eligibility tests. The stringency of the eligibility tests varies by program.

In practice, universality means that most government-sponsored benefits are provided at the required standards to all eligible segments of society (or all of the targeted population) and generally are not based on an individual’s financial resources. Benefits are allocated on the basis of a commonly assumed need. Public health care, in all practical respects, comes as close as any to embracing the definition of universality provided above. All eligible Canadian residents are guaranteed access to a prescribed standard of health care for certain basic services. When in need of certain services, they receive basically the same services and standard of services with no direct charges at point of service, regardless of their financial circumstances.

In some programs, such as OAS, eligibility qualifications are strict. An individual must prove age qualification and satisfy a Canadian residence qualification. In order to receive GIS, the individual must also demonstrate financial need—inability to provide for oneself adequately through personal financial resources. Two types of tests are used to demonstrate financial need—income tests and means tests.

1. An “income test” establishes the ability of a claimant to provide for his or her own financial needs by measuring specified income (e.g., wages, salary and pension) against a predetermined income standard, such as a poverty line, the national average wage, or some minimum or maximum income amount set by government policy.
2. A “means test,” also called a “wealth test,” reflects a more comprehensive measure of “ability to provide.” It establishes the ability of a claimant to provide for his or her own social security by measuring specified wealth levels or possession of enumerated assets (e.g., savings or other financial investment assets such as stocks, bonds and real estate) against a predetermined wealth standard. The principle is that as wealth rises, wealth-tested benefits decrease.

If the claimant’s income or means test does not demonstrate need, there is no right or entitlement to a benefit. For example, in the case of GIS, eligibility is based on income from all sources. If there is evidence of a very low level of income that is in effect synonymous with poverty, then the claimant has demonstrated eligibility for a GIS benefit, because the claimant has shown an inability to provide sufficient personal income.

The use of income and/or means tests has led to debate in Canada. This debate identifies that the practice of qualifying for some government-sponsored benefits on the basis of an individual’s financial resources conflicts with the principle of universality. Proponents of universality maintain that Canada is a wealthy country with sufficient resources and economic wealth to provide for certain segments of society through social security programs. A truly just and equitable society is one that concentrates on providing for those social security needs in a manner that guarantees access for all those potentially eligible. Universality in program structure and delivery is the best way to meet those goals and objectives.

Opponents generally acknowledge the basic need for, place for and role of governments in providing benefit programs but maintain that universality is neither a socially equitable nor cost-effective method of providing benefits. Universality, in providing benefits or access to benefits to everyone, must by necessity establish a low common denominator in delivery. Thus, those in real need get less than they require, while those not in need get benefits that are inconsequential or unnecessary. More generous benefits could be provided at a lower overall cost to those most in need through financially based eligibility requirements.

There has been some government recognition, if not acceptance, of certain aspects of universality-opponent arguments brought about by increasingly limited public financial resources to satisfy growing demands on government-sponsored programs. In many cases, the public is encouraged to augment government programs and build on them through individually funded programs tailored to specific needs. Government-sponsored benefits become, in essence, base- or foundation-level support programs applicable to all or large segments of society.

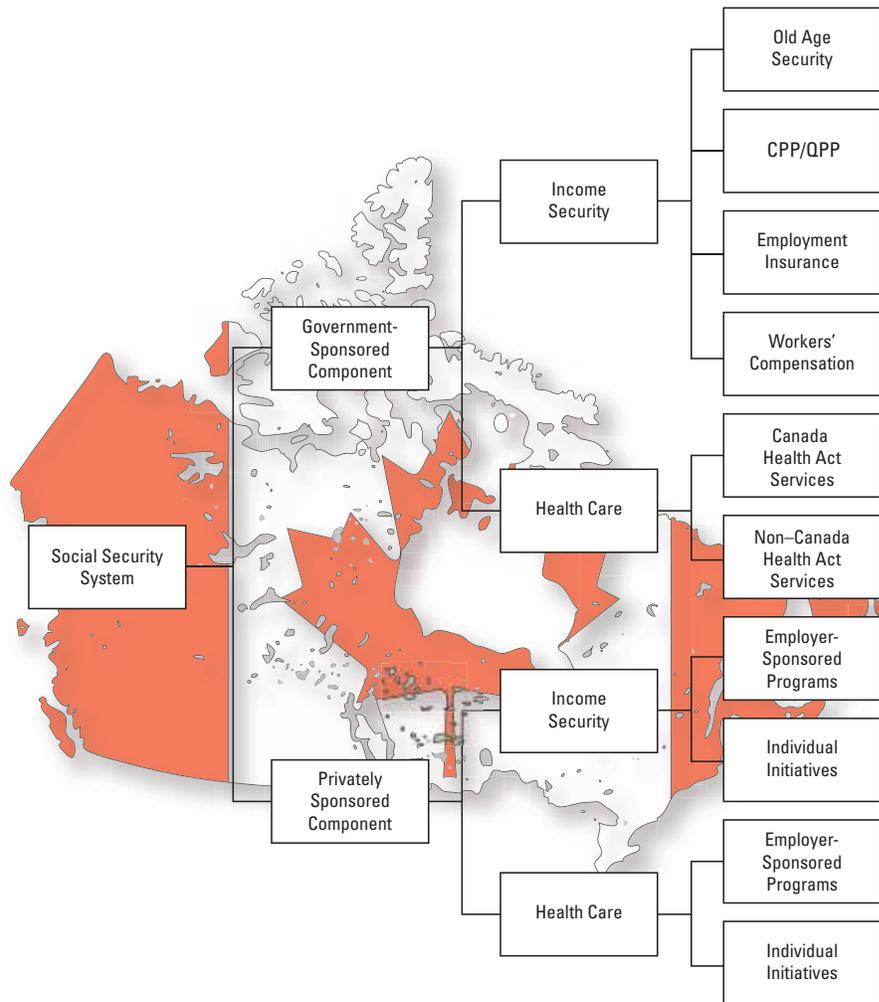
Public health care is an excellent practical illustration of this philosophical approach of providing a base- or foundation-level support program. The governments provide funding for and administer a universal program of health care by providing approved services from physicians, health care professionals and hospitals. Payment to health care professionals providing services is made in accordance with an approved provincial/territorial fee schedule that must be negotiated with the service providers.

Both the federal and provincial/territorial governments deem the basic components of public health care with its universal application to be of fundamental importance. Prohibition of extra billing by physicians for services that are part of the basic public health care program provides strong evidence of federal and provincial/territorial commitments in this area.

However, governments are cognizant of the desire of many Canadians to receive levels and types of health care services that are above and beyond the type of universal application provided by public health care. The nature and type of service provided through government-sponsored programs are often not what all eligible claimants necessarily want or perhaps even need. Many desire a level of coverage that is more in keeping with their preferred standard, which may be above that provided by the universal program or benefit. There is a need, and indeed government encouragement, for both employer-sponsored benefit programs and for individuals to build in their own preferred level of coverage over and above the government program. Private sector programs and initiatives play an important role in meeting these needs. Governments encourage, through tax incentives, the participation of individuals in private supplementary health care programs. These programs are often referred to as extended health care (EHC), which denotes their purpose and intentions—that of supporting and building upon, rather than offering an alternative to, public health care. They are provided through employer-sponsored group benefit programs in the workplace or are purchased individually from insurers.

The role of the private sector in the provision of social security is reinforced in Exhibit I—Interface of Public and Private Programs in Social Security.

Exhibit I
Interface of Public and Private Programs in Social Security



4. It is socially acceptable to use the tax system as a vehicle for financing social security.

Two ways to classify government revenues are own source revenue and transfers from other government subsectors. Both types of government revenues, as described below, are used to finance Canadian social security programs.

- (a) Own source revenue is defined as revenue raised by a government from its own imposition of a tax, license, fee or any other charge. Personal income tax, consumption taxes and contributions to social insurance plans are all forms of own source revenue.

- (b) Transfers from other government subsectors are defined as money received directly from another party without being directly imposed by the receiving party. Transfer payments fall into two categories: general purpose, where no restriction is placed on their use, and specific purpose, where certain conditions must be fulfilled in order to qualify for the transfer that governs the use of the transfer. Equalization payments are an example of a general transfer category. The federal government makes equalization payments to less wealthy provinces to equalize the provinces’ “fiscal capacity”—their ability to generate tax revenues. The objective is to ensure all provinces have access to per capita revenues equal to the potential average of all ten provinces. Provincial government transfers to assist municipalities in the operation and upgrade of local road and bridge systems are an example of a specific transfer category. Territories are not included in the fiscal equalization program; their needs are addressed through the Territorial Formula Financing (TFF) program.

Table I
Sources of Revenue

Own source revenue	
Tax revenue	Nontax revenue
Income taxes (e.g., corporate and personal)	Health insurance premiums (e.g., premiums levied by some provinces and used specifically to finance their hospital, medical care and drug insurance programs)
Consumption taxes (e.g., general sales taxes like provincial sales tax and the harmonized sales tax, taxes on alcohol, tobacco, amusements, gasoline, customs and air transport)	Contributions to social insurance plans (e.g., premiums for EI, WC and CPP/QPP)
Property and related taxes (e.g., land and improvements)	Sales of goods and services revenue generated from transactions of a commercial nature with organizations or individuals in the private sector and with other institutions within the government sector (e.g., rents, transportation tolls and admission fees)
Other taxes (e.g., licences and permits for motor vehicles, hunting and fishing)	Investment income (e.g., interest income and other investment income) Other revenue from own sources (miscellaneous revenue not classified elsewhere)
Transfers from other government subsectors	
General purpose transfers (e.g., payments received by provinces and territories from the federal government under the Canada Health Transfer (CHT))	
Specific purpose transfers (e.g., federal transfers to provinces and territories for the improvement of certain highways)	

The three main components of government revenue are income taxes (corporate and personal), consumption taxes and contributions to social insurance programs.

It is deemed socially acceptable for governments to take taxation assessments into their consolidated revenue funds and redistribute them through programs that are socially desirable to people in need. While by far the largest proportion of social security program funding is from taxation, some program funding also comes from contributions to specific social insurance programs. Contributions take the form of assessments or premiums, paid either by employers only (e.g., WC) or by both employers and employees (e.g., EI and CPP/QPP).

Funding for provincial/territorial health insurance plans comes from the Canada Health Transfer (CHT) and their own consolidated revenue fund and from other sources, which can include monthly health premiums and contributions or employer payroll taxes.

How the Constitution of Canada Impacts Roles

The Constitution of Canada includes a series of documents beginning with the Constitution Act, 1867 (previously the British North America Act) and includes the Constitution Act, 1982. The Constitution is the supreme law in Canada. It sets out the division of powers between the federal and provincial governments. Parliament has exclusive jurisdiction to pass laws dealing with the Yukon, Northwest Territories and Nunavut. However, parliament has enacted legislation to grant to territorial governments the power to legislate on property and civil rights and on matters of a local and private nature. As a result, the territorial governments have virtually the same legislative powers as have the provinces. Where the territories have not adopted their own laws, the applicable legislation is noted.

The Constitution also enshrines certain rights and freedoms for Canadians through the Canadian Charter of Rights and Freedoms. Section 15(1) of the Charter sets out the principle of equality of rights—Every individual is equal before and under the law and has the right to the equal protection and equal benefit of the law without discrimination and, in particular, without discrimination based on race, national or ethnic origin, colour, religion, sex, age, or mental or physical disability.

Under the Canadian Constitution, the federal and provincial governments share the responsibility for social security. Both play important roles in designing, funding and administration of income security and health care programs. The interpretation of constitutional law has an indirect but substantial influence on all aspects of government-sponsored programs.

Forms of Sponsorship—Funding and Administration

Government sponsorship (i.e., who provides what to whom, where, how and at what cost) takes a variety of forms. Some programs are federally funded. Funding typically means paying for the cost of the service provided. The terms “funding” and “financing” are often used interchangeably.

Some programs are federally administered. “Administration” encompasses all functions related to delivery of programs and services. In the context of income security programs, it typically means determining eligibility for benefits, determining benefits, paying benefits, auditing benefit claims, etc. In the context of health care programs, it typically means registering those eligible for benefits (e.g., through a health insurance card), determining benefits, enrolling health care practitioners, processing and paying practitioners’ bills for services rendered, registering diagnostic facilities, auditing benefit claims for payment and patterns of billings practice, etc.

Some programs are federally administered and jointly funded by employers and employees. Other programs are administered by individual provinces and territories and jointly funded by the federal government and the provinces and territories. Still others are completely under provincial/territorial government administration and fully funded by employers. Finally, there are programs and services sponsored by employers and individuals on a voluntary basis that receive government sponsorship through the income tax system. Programs are provided in a complex and constantly changing regulatory environment. The form of sponsorship is influenced by the legislative jurisdiction in which the program falls. Legislative jurisdiction influences the funding and delivery roles and interrelationships among the levels of governments and the private sector.

Income Security Programs

Income security programs are concerned with maintaining income of individuals and families faced with economic loss of earnings due to retirement, unemployment or work injury and providing income assistance to those unable to earn an adequate income.

Programs include:

- (a) OAS, which includes GIS, Allowance and Allowance for the Survivor
- (b) Provincial/territorial supplements
- (c) CPP/QPP
- (d) EI
- (e) WC.

Health Care Programs

A range of health care programs and services is provided under this component of the social security system. The three main categories of government-sponsored health care covered in this course are services defined under the federal Canada Health Act (CHA) as insured health care services (i.e., certain medically necessary hospital, physician and surgical-dental services), those defined as extended health care services (i.e., certain aspects of long-term residential care, including nursing home intermediate care and adult residential care services, and the health aspects of home care and ambulatory care services) and services outside the scope of CHA (i.e., services provided at provincial or territorial discretion).

CHA is foundational legislation for the provision of health care in Canada. It is significant in that CHA aims to ensure that all eligible residents of Canada have access to medically necessary insured hospital services, insured physician services and insured surgical-dental services without incurring direct charges at the point of service. The federal government's role in relation to services covered under CHA primarily involves transferring funds to provinces and territories and ensuring that CHA requirements are met. CHA services are insured (i.e., paid for) and administered (i.e., care is organized, managed and delivered) by the individual provinces and territories.

Most provinces and territories also cover within their health care legislation some "other" supplementary health care services (i.e., vision care, dental care, prescription drugs, etc.). The nature, scope, terms and conditions of coverage for these supplementary health care services vary considerably by jurisdiction. Unlike insured services that fall under the scope of CHA, provincial/territorial coverage for these services does not necessarily insure the full cost. Instead, provincial/territorial health insurance plans supplement private insurance and private payment by households. Government coverage for these supplementary services is generally accompanied by copayments, deductibles, and income and means testing. As outlined earlier, income tests and means tests refer to investigative processes undertaken to determine whether or not an individual or family is eligible to receive certain types of benefits from the government. The "test" can consist of quantifying the party's income or assets or a combination of both.

Legislation and Regulatory Overview of Government-Sponsored Social Security Programs

An overview of income security and health care program-specific legislation, regulatory bodies and funding, and administration authority flowing from the legislation is summarized in Exhibit II—Overview of Legislative and Regulatory Environment of Government-Sponsored Income Security and Health Care Programs.

Exhibit II

Overview of Legislative and Regulatory Environment of Government-Sponsored Income Security and Health Care Programs

INCOME SECURITY						HEALTH CARE
Program	Canada Pension Plan/ Quebec Pension Plan	Old Age Security/ Guaranteed Income Supplement, Allowance, Allowance for the Survivor	Provincial/ Territorial Supplements	Employment Insurance	Workers' Compensation	Health Care
Federal	<ul style="list-style-type: none"> Canada Pension Plan Act Federally administered (except in Quebec) Jointly funded by employers and employees 	<ul style="list-style-type: none"> Old Age Security Act Federally administered Federally funded from general tax revenues 		<ul style="list-style-type: none"> Employment Insurance Act Federally administered Jointly funded by employers and employees 		<ul style="list-style-type: none"> Canada Health Act Jointly funded by federal/provincial/territorial governments
Provincial/ Territorial	<ul style="list-style-type: none"> Act respecting the Quebec Pension Plan Administered by Régie des rentes du Québec Jointly funded by employers and employees 		<ul style="list-style-type: none"> Some provinces and territories have their own legislation for supplements. Provincially/territorially administered 		<ul style="list-style-type: none"> Each province and territory has its own WC legislation. Provincially/territorially administered Funded by employers 	<ul style="list-style-type: none"> Each province and territory has its own health care legislation. Provincially/territorially administered

Useful Legislative Terms

Programs are regulated under a variety of mechanisms. Throughout the course, these terms are referenced. Generally:

- (a) **Laws.** Consist of the body of rules of conduct laid down by a sovereign or governing body to control the actions of individuals and entities in its jurisdiction. While the purpose of law in a society is, broadly speaking, social control, the law may be subdivided into three functions—settling disputes, establishing rules of conduct and providing protection for individuals.
- (b) **Legislation.** Refers to the actual law that has been enacted by a governing body. For example, health care legislation refers to the law or laws enacted by a governing body with respect to the provision of health care.
- (c) **An act or statute.** A written law adopted by parliament or a provincial legislature that establishes, codifies or changes the legal rules related to a specific matter
- (d) **Regulations.** Written laws made by a government under authority delegated to the government by a statute. Typically, regulations have the same force of law as a statute.
- (e) **Guidelines and policies.** More specific rules that are not legally enforceable unless referred to in the regulation or act.

Delivery of Programs and Services

There are three basic methods of delivering programs within the Canadian social security system—through cash payments, by direct provision of goods and services at no cost or at a subsidized cost, and through the income tax system. Many government-sponsored programs utilize two or all three of the methods to accomplish different objectives within the parameters of total program delivery. Governments may:

1. **Provide direct cash payments.** Most federal income security programs provide benefits in the form of cash. Examples include OAS (including GIS and the Allowance), EI, CPP/QPP and WC.
2. **Provide goods and services directly.** Public health care provided through provincial/territorial health care plans is the major program that uses this method. Some training programs provided under EI and various rehabilitation services provided by WC use this method as well.

3. Provide support through the income tax system. This support is obtained when an individual submits his or her income tax return for the year. This method is usually associated with income replacement benefits (e.g., pensions), whereby tax advantages are afforded through tax credits, tax deductions and tax exemptions.

Table II

Examples of Support Provided Through the Income Tax System

Tax Credits	<p>Tax credits are dollar-for-dollar reductions in the tax payment required by an individual; they reduce the amount of tax owed.</p> <p>Tax credits can be either refundable or nonrefundable. A refundable tax credit is one that can be paid even if the individual has no income tax payable. A nonrefundable tax credit can be used to reduce taxes payable to zero. Beyond that, the credit is lost.</p> <p>Seniors are eligible for tax credits on pension income from certain sources up to a specific amount. In this way, seniors are left with proportionately more money to provide for their personal social security.</p> <p>Employee contributions to CPP/QPP and EI give rise to a tax credit for the employee.</p>
Tax Deductions	<p>Tax deductions reduce the amount of income that is taxable. They can be applied against the taxable income of both individuals and employers. For example, all employer premiums for CPP/QPP, EI and WC are a tax-deductible expense for the employer.</p>
Tax Exemptions	<p>Tax exemptions are amounts not subject to income tax. They reduce the amount of income that is taxable. Income benefits from some programs are afforded tax-exempt status. GIS benefits are an example of tax-exempt monies. WC disability benefits are also tax-exempt in most provinces and territories.</p>

Role of International Social Security Agreements in Benefit Portability

Immigrants to Canada may have contributed to social security programs in their countries of origin but restrictions in those countries' legislation may mean that they may not be able to receive benefits from those programs if they retire in Canada. As well, people who are newly arrived in Canada may not be able to fulfill the eligibility provisions of Canada's social security programs.

To solve these types of problems and to provide better protection to people who migrate between Canada and other countries, Canada has established certain international social security agreements. These agreements coordinate the operation of OAS and CPP with the comparable programs of another country in order to accomplish three basic objectives:

1. To ease or eliminate restrictions based on nationality, which may otherwise prevent Canadians from receiving benefits under the legislation of the other country
2. To eliminate situations in which an employee may have to contribute to the social security programs of both countries for the same work
3. To assist immigrants in qualifying for benefits based on the periods they have lived or worked in each country.

An international social security agreement might enable a person to receive:

- (a) A social security benefit from the other country
- (b) A Canadian OAS pension or Allowance benefit
- (c) A CPP or QPP benefit (provided Quebec has its own social security agreement).

In principle, Canada is interested in concluding social security agreements with all countries that are a source of significant numbers of immigrants. However, two conditions must be fulfilled. First, the other country must have a public pension system that can be coordinated with Canada's OAS and CPP system. Second, the other country must be prepared to grant reciprocity on such matters as the payment of benefits to persons living in Canada.

Calculating and Paying Benefits

These agreements also allow individuals to use time spent living or working in Canada to qualify for benefits under another country's rules. Once entitlement to a benefit from another country has been established by that country's social security authority, they will calculate the amount of benefit they will pay according to their own legislation—usually on the basis of pensionable earnings while in that country and the length of time during which social security contributions were made there. The social security authorities of the other country will always pay their own benefits to persons living in Canada either directly or through a financial institution.

Provincial Understandings

Many aspects of social security fall under the constitutional jurisdiction of the provinces in Canada. These include WC plans and health care programs. As well, Quebec has legislated the QPP, which operates in that province in place of the CPP.

In order to facilitate the coordination of provincial social security programs with the comparable programs of another country, Canada's social security agreements all contain a provision that permits the conclusion of understandings between the other country and the government of a province in respect of any program under provincial jurisdiction. The decision to enter into understandings rests entirely with the other country and provincial governments.

Canada has reciprocal social security agreements with over 50 countries. Quebec has agreements with over 30 countries with regard to QPP.

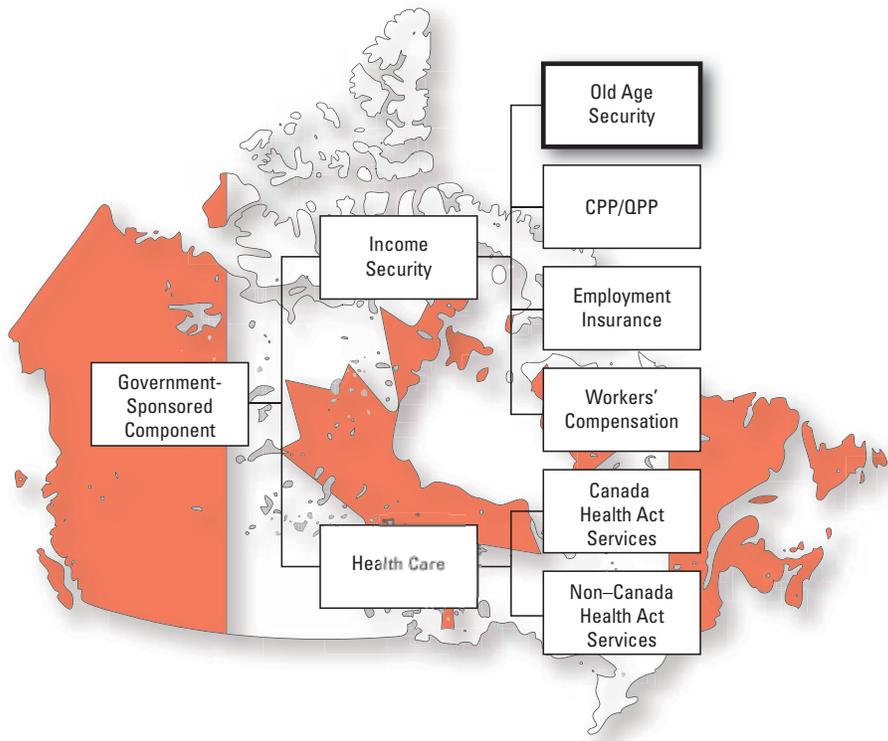
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Role of Old Age Security (OAS) in Retirement Income Security¹

Federal government-sponsored Old Age Security (OAS) consists of four programs—OAS pension, Guaranteed Income Supplement (GIS), Allowance and Allowance for the Survivor.

Exhibit I
Interface of Public and Private Programs in Social Security



1. Developed by the Certified Employee Benefit Specialist® program, Dalhousie University, 2019.

Old Age Security

The OAS program falls under federal jurisdiction and is governed by the Old Age Security Act, commonly referred to as the “OAS Act.” The OAS Act came into force in 1952, replacing legislation from 1927 requiring the federal government to share the cost of provincially run, means-tested old age benefits. The OAS Act has been amended many times.

The OAS Act is administered by the Minister of Employment and Social Development. Examples of the powers and responsibilities held by the administrative body include determining benefit eligibility, determining benefits amounts, payment of benefits, auditing benefits claims, etc.

The basic GIS, Allowance and Allowance for the Survivor benefits are adjuncts to the OAS pension program and are administered by Service Canada. It is estimated that OAS pension alone currently replaces 12.6% of the year’s maximum pensionable earnings (YMPE) (\$57,400 in 2019) for a single individual. It is estimated that the OAS pension and other benefits combined provide a minimum income guarantee for single, widowed and divorced pensioners of 31.4% of YMPE, while the maximum combined amounts payable to pensioner couples are 47.8% of YMPE for one person.

Funding of OAS

All payments provided under the OAS Act are funded on a pay-as-you-go basis from the federal government’s consolidated revenue fund. The benefit payments are general operating expenses financed by general federal tax revenue. This means the current generation of taxpayers pays for the benefits provided to the current generation of recipients.

OAS Pension

The OAS pension is a monthly benefit available to individuals aged 65 and over who meet the necessary residence requirements.

Eligibility for OAS Pension

Previous employment is not a factor in determining eligibility for the OAS pension, nor is it necessary to be retired.

In order to qualify for an OAS pension, the individual must meet these residence criteria:

- (a) Be a Canadian citizen or a legal resident of Canada with a minimum of ten years' residence in Canada after reaching the age of 18, or
- (b) If no longer resident in Canada, have resided in Canada for at least 20 years after reaching the age of 18.

Proving Residence

For individuals who were born in Canada and have lived in Canada for their whole life, no proof of residency is required. Other individuals must prove residency by providing certain acceptable documents.

A person whose home is in Canada and who ordinarily lives in Canada is generally considered to be a Canadian resident. This normally is applicable to any Canadian citizen or permanent resident.

As noted above, periods of absence from Canada can affect an individual's eligibility for the OAS pension. However, certain periods of absence are deemed not to have interrupted the individual's period of residence (or that of the individual's spouse and dependents). These periods include the following:

- (a) Absences of a temporary nature that did not exceed one year
- (b) Absences for the purpose of attending school or university
- (c) Absences required due to employment by:
 - The United Nations
 - The Commonwealth Secretariat
 - The Organisation for Economic Co-operation and Development (OECD)
 - The government of Canada
 - A provincial government
 - A municipal corporation
 - North Atlantic Treaty Organization (NATO)
 - The Canadian Armed Forces
 - A Canadian firm or corporation, if the individual maintains a permanent residence in Canada and returns within six months after the end of his or her employment outside of Canada
 - A development or assistance program sponsored or operated by the government of Canada, a provincial agency or a Canadian nonprofit agency
 - Seasonal work in lumbering, harvesting, fishing, etc.

- Seasonal work in transportation that travels between Canada and points outside Canada (i.e., aircraft, ships)
- An international charitable organization
- A missionary with any religious group or organization.

Periods of time spent living in Canada by certain individuals *do not* count as residency for the purposes of OAS, including such persons as:

- (a) Diplomats or consular officers or representatives of foreign governments
- (b) Members of non-Canadian military forces present in Canada
- (c) Spouses or dependents of individuals in (a) or (b).

Effect of International Security Agreements

International security agreements allow an individual who has some periods of residence in Canada, but not of sufficient length to be entitled to an OAS pension, to use periods of residence in the other country in order to meet the eligibility requirements of the OAS Act.

Once eligibility is established, the amount payable is equal to 1/40th of a full OAS pension for each year of actual residence in Canada, but the minimum period to qualify for a benefit remains at ten years.²

For example, Thomas, 65, lived in Austria for much of his life. He lived in Canada for 16 years after the age of 18. This year, he moved back to Austria to be nearer his aging parents. Normally 20 years of residence in Canada is needed to receive an OAS pension outside Canada, so Thomas would normally **not have qualified**. However, the social security agreement with Austria allows him to count the time he lived in Austria after the age of 18 toward meeting the 20-year residence-in-Canada requirement. Thomas **will** receive a partial OAS pension outside Canada for the rest of his life. Note that while the social security agreement helped qualify Thomas to receive an OAS pension, the payment amount is determined by the numbers of years of residence in Canada after the age of 18. Having lived in Canada for 16 years, Thomas will receive 16/40ths of the full OAS pension.

2. Under some agreements, benefits may be based only on periods of residence after specific dates.

Commencement and Cessation of OAS Pension

If not born in Canada, applicants must submit proof of their legal status in Canada (e.g., citizenship, immigration documents). If they have not resided in Canada continuously since reaching the age of 18, they must provide proof of the dates of entry(ies) and departure(s) to and from Canada. OAS pension begins the later of the month after an individual's 65th birthday, the month after he or she has met the residence and legal status requirements, or the month the individual asks to have the payments commence. If an individual applies after the age of 65 and wants OAS to commence at the age of 65, the pension may be paid retroactively to the month after his or her 65th birthday or the month following the month he or she met the residence requirements, whichever comes later. An individual can defer receiving the OAS pension for up to 60 months after he or she becomes eligible for the pension. In this case, the OAS pension is increased by 0.6% for each month of deferral, up to a maximum increase of 36% at the age of 70. Retroactive payments are only made for a maximum of 12 months, including the month in which the application is received.

OAS pension ceases if the individual requests payments to stop, if the individual is incarcerated in a federal penitentiary for two years or longer or in a provincial/territorial facility for 90 days or longer (provided that the province or territory has entered into an information-sharing agreement), or when the individual dies.

Receipt of OAS Pension While Absent From Canada

If absent from Canada, recipients are entitled to receive their OAS pension indefinitely, provided they have resided in Canada for at least 20 years after reaching the age of 18. If at the time of their departure from Canada they resided in Canada for less than 20 years after reaching the age of 18, they may receive their pension for the month of their departure and for six additional months only. Years of residence in, and/or social security contributions to, a country with which Canada has a social security agreement may decrease the 20-year requirement for receipt of OAS pension in a foreign country. OAS pension is paid in Canadian dollars, whether benefits are received in Canada or abroad.

Amount of OAS Pension

Full OAS Pension

An individual qualifies for a full OAS pension by attaining an age of at least 65 and having resided in Canada for at least 40 years after reaching the age of 18. Failing this, a full pension is also paid to an individual who meets the following requirements.

- (a) Has attained the age of 65, AND
- (b) Lived in Canada for at least ten years immediately before applying for OAS, OR:
 - Lived in Canada for at least one year before applying for OAS, AND
 - Has a period of residency in Canada, after reaching the age of 18 but excluding the ten years immediately preceding his or her date of application, which equals at least three times the number of years the person did not live in Canada in the ten years immediately before applying for OAS.

Partial OAS Pension

An individual aged 65 or older who does not qualify for a full pension can qualify for a partial pension by having lived in Canada for a period of at least ten years after his or her 18th birthday. The partial pension is $X/40$ ths of a full pension, where X is the number of complete years of residence in Canada. Once the amount of partial pension (i.e., $X/40$) is determined, the amount does not increase as the number of years of Canadian residence increases. The partial pension payment does increase with the indexation of benefits as set out below.

Individuals who defer receiving OAS to a date after the age of 65 receive a pension increased by 0.6% for each month of deferral up to a maximum of 36%.

Indexation of OAS Pension

OAS pension is adjusted quarterly if necessary at the full rate of increase in the Consumer Price Index (CPI). Statistics Canada developed CPI to measure changes in the cost of living. CPI tracks cost changes in common household expenses. This “basket” of goods consists of food, shelter, clothing, transportation, health care and other average household expenditures. Statistics Canada currently uses 2002 as the base year. In 2002, the average monthly CPI was equal to 100, and the basket of goods in 2002 cost Canadians \$100. If the current CPI is measured at 126.5, this means that the same basket of goods that cost \$100 in 2002 now costs \$126.50. It is possible that CPI reduces over the three month measurement period, reflecting a reduction in the cost of living. Monthly pension amounts are not reduced if the cost of living drops, with the result that the OAS pension can be unchanged from one quarter to the next. The computation is always done quarterly, however.

Taxation of OAS Pension

Like most other retirement income, OAS pension is taxable income. If an individual's income in a year is high enough that he or she is required to pay income tax, he or she can request the deduction of income tax from the pension each month. If individuals do not request these monthly deductions, they may be required by the Income Tax Act (ITA) to pay income tax by quarterly installments.

Each January, individuals receive a tax information slip called a Statement of Old Age Security (T4A OAS) showing the amount of OAS pension received during the previous year. Nonresidents of Canada who receive an OAS pension receive a similar tax slip, the NR4-OAS. If an individual received any retroactive payments during that year, the total amount reflects the regular benefits plus the retroactive benefits.

Nonresident tax (maximum of 25% of the gross benefit amount) is withheld from monthly OAS pension payments to recipients living outside Canada. It may differ if Canada and the recipient's country of residence have signed a tax treaty.

Old Age Security Pension Recovery Tax (OASRT)

OASRT acts to recover some, or all, of the OAS pension paid to higher income OAS recipients, and it is commonly referred to as a "clawback" of the OAS pension. OASRT applies at a rate of 15% of the individual's net earnings above a defined minimum income recovery threshold (about 145% of the average industrial wage) and continues to apply to earnings up to the point when the entire OAS pension is fully recovered. The minimum income recovery threshold used to calculate OAS clawback changes annually.

OASRT is applied to periods from July 1 through June 30, based on income for the prior taxation year. For example, OASRT will apply for the period July 1, 2019 through June 30, 2020 for those OAS recipients whose 2018 income exceeded the minimum income recovery threshold of \$75,900. The rate of tax is 15%.

For example, assume a recipient's income in 2018 was \$80,000. His or her repayment would be 15% of the difference between \$80,000 and \$75,910:

$$(\$80,000 - \$75,910) \times 0.15 = \$613.50$$

The recipient would have to repay \$613.50 of his or her OAS pension over the July 2019-June 2020 period.

The existence and operation of OASRT means that OAS recipients with higher incomes may have their full OAS pension clawed back. The income level which, if earned in 2018, would result in the clawback of the full OAS pension, is approximately \$123,386. As with the minimum income recovery threshold, this maximum income recovery threshold also changes each year.

For nonresidents of Canada, the Canada Revenue Agency (CRA) sends an Old Age Security Return of Income (OASRI) form that must be returned to CRA by April 30. The OASRI form is used to determine the total income received by a nonresident of Canada who is receiving an OAS pension. If CRA does not receive a nonresident's OASRI form by April 30, OAS payments cease beginning in July.

If OAS pension recovery tax deductions cause financial hardship, individuals can apply to CRA for relief. CRA reviews the situation and determines whether deductions should be changed.

GIS

GIS is an income-tested monthly benefit for OAS pensioners with limited income apart from the OAS pension.

Eligibility for GIS Benefit

To qualify for GIS, individuals must be receiving the OAS pension, they must be resident in Canada (which is not always necessary for receipt of the OAS pension), and their income level must be at or below a specified qualifying level. If individuals are married (legal or common law), they and their spouse must have a combined income below a specified qualifying level.

Commencement and Cessation of GIS Benefits

GIS benefits commence the month an individual is eligible for OAS, provided the eligibility requirements with respect to income are satisfied. The GIS benefit is added to OAS pension each month.

GIS benefits cease with the payment for June if income in the previous year (and combined income if married) exceeds the qualifying limit for the July payment. GIS benefits cease if an individual leaves Canada for six consecutive months. GIS benefits cease if the individual is incarcerated in a federal penitentiary for two years or longer or in a provincial/territorial facility for 90 days or longer, provided the province or territory has entered into an information-sharing agreement. GIS benefits also cease after the payment for the month in which the recipient dies. An Allowance for the Survivor may be payable to the surviving spouse, aged 60 to 64, of a deceased individual. This benefit is discussed later in this reading. GIS benefits are suspended if a recipient's renewal application is not made on time.

Since the GIS program was designed to assist people living in Canada, benefits can be paid outside Canada for a period of only six months following the month of departure. If recipients return to reside in Canada, they can apply for resumption of GIS benefits if they still meet the income conditions of eligibility.

Amount of GIS Benefit

In most cases, the amount of GIS benefit is determined by income in the previous year, marital status and the amount of OAS pension an individual is entitled to receive. If an individual has just retired or anticipates a substantial drop in pension income, his or her entitlement may be determined on the basis of an estimate of income for the current year. If the individual is married, this provision also applies to his or her spouse. The GIS amount is calculated in the same way, whether it is based on the individual's actual income from the preceding year or on an estimate of income for the current year.

If spouses are living apart voluntarily and have been separated for at least three months, they may be considered as single persons for GIS purposes. An individual receiving a partial OAS pension is eligible for a GIS pension. The amount of GIS benefit is equal to the difference between his or her partial OAS pension and the aggregate of the full OAS pension and the maximum GIS payable to a person receiving a full OAS, taking into account the amount of income that individual has (not including OAS), his or her marital status, and the spouse's eligibility for OAS pension or Allowance.

Coordination of GIS Benefits With Other Income

In the case of a single, widowed, divorced or separated OAS pensioner, the maximum monthly GIS benefit is reduced by \$1 for each \$2 of other monthly income. In the case of a married couple who are both receiving an OAS pension, the maximum monthly benefit of each pensioner is reduced by \$1 for every \$4 of their other combined monthly income.

A special provision applies in the case of a married couple when only one spouse is an OAS pensioner and the other is not eligible for either OAS pension or the Allowance. In this case, the pensioner is entitled to receive GIS benefits at the higher rate paid to single persons. The maximum monthly benefit is reduced by \$1 for every \$4 of the couple's combined monthly income (excluding the pensioner's OAS pension), and the first reduction of \$1 is made only when the combined yearly income of the couple reaches 12 times the monthly OAS pension plus \$48.

For GIS purposes, "income" is defined to be the same as income for the purposes of federal income tax but excludes OAS pension, provincial social assistance payments, Veteran Disability Pension, War Veteran Allowance and Canada Pension Plan/Quebec Pension Plan (CPP/QPP) death benefits. Income, therefore, includes any money that an OAS pensioner receives in the form of an earnings-related retirement pension, monthly income from CPP/QPP, interest, dividends, rents, wages, WC payments, etc. If a pensioner is married, the combined income of the pensioner and his or her spouse is taken into account.

Provisions in the 2019 federal budget will, if implemented, allow GIS recipients to exclude self-employment income from the "income" definition used for GIS purposes. In addition, the formula used to coordinate GIS payments with other income will be changed to let recipients retain more employment and self-employment income.

Individuals receiving GIS are eligible for CPP/QPP retirement pension if they have made at least one valid contribution to either plan. Some retired individuals who have contributed to the Employment Insurance (EI) program may be entitled to benefits under this program. Additional income supplements of varying amounts are also available in some provinces and territories.

Indexation of GIS Benefits

Once a GIS benefit is being paid, its amount is adjusted quarterly as required in January, April, July and October of each year. The change reflects increases in the cost of living as measured by CPI.

Taxation of GIS Benefits

GIS benefits are not taxable income.

Allowance and Allowance for the Survivor

The Allowance and Allowance for the Survivor are income-tested monthly benefits designed to recognize the difficult circumstances faced by couples living on the pension of only one person and by many surviving persons.

Eligibility Requirements for Allowance and Allowance for the Survivor

There are requirements relating to age, marital status, residence and income. In addition, a recipient of either the Allowance or Allowance for the Survivor must hold or have held legal status within Canada as either a citizen or a legal resident.

To receive the Allowance an individual must be aged 60-64 and the spouse or common-law partner of an OAS pensioner who is entitled to GIS. Residence requirements can be met if individuals have resided in Canada for ten years after the age of 18. If they have not, they may still qualify for a benefit if they have resided in, and/or made social security contributions to, a country with which Canada has concluded a social security agreement.

The Allowance and Allowance for the Survivor are income-tested benefits, considering both the recipient's income and that of his or her spouse when determining eligibility. "Income" is defined to be the same as income for purposes of federal income tax, with a few specific exceptions. Income includes money an individual receives in the form of an employment-related retirement pension, monthly income from CPP/QPP, interest, dividends, rents, wages, WC payments, etc.

Provisions in the 2019 federal budget relating to GIS income definition and coordination will, if implemented, apply to the Allowance and Allowance for the Survivor as well.

To receive the Allowance for the Survivor, an individual must be the surviving legal or common-law partner, 60 to 64 years of age, of a deceased OAS pensioner who was entitled to GIS. The recipient must meet the same residence requirements as for an Allowance.

Commencement and Cessation of Allowance and Allowance for the Survivor Benefits

The earliest individuals can commence receiving an Allowance is the month following their 60th birthday, if all other conditions of eligibility are met. Allowance benefits cease with the payment for June if income in the previous year (or combined income if married) exceeds the qualifying limit for the July payment. It also ceases after the payment for the month in which the recipient dies or is absent from Canada for more than six months. Allowance benefits continue to be paid for three months after the month of separation. Benefits cease after the month in which the individual again becomes a spouse either through marriage or a common-law relationship.

Benefits cease if an individual is incarcerated in a federal penitentiary for two years or longer or in a provincial/territorial facility for 90 days or longer (if an information-sharing agreement with that province or territory is in place). When recipients reach the age of 65, Allowance benefits cease, but at that time they may be entitled to receive an OAS pension and possibly a GIS benefit.

Since the program was designed to assist people living in Canada, benefits are paid outside of Canada for a period of only six months following the month of departure of either the recipient or his or her spouse. In the event of longer periods of absence, when the recipient and spouse return to reside in Canada, they can apply to reinstate their benefits.

Benefit Amounts for Allowance and Allowance for the Survivor

The maximum Allowance a spouse is entitled to is the sum of the OAS pension plus GIS at the married rate. The Allowance has the effect of providing the same guaranteed income to the OAS pensioner's family as would be provided by OAS plus GIS, if both spouses were pensioners.

The amount of the Allowance for the Survivor depends upon the income level of the survivor. It is payable as long as the survivor's income falls below a threshold that changes each year. The amount changes as the survivor's income changes. For current maximum monthly benefit amounts, refer to Professional Enrichment Resources, Canadian Benefits Guide, Aon Hewitt, section on OAS.

Coordination With Other Income

The monthly Allowance is reduced by \$3 for every \$4 of the couple's monthly income until the OAS portion is reduced to zero. After that, the GIS portion begins to be reduced at the rate of \$1 for every \$4 of the couple's additional income. For Allowance recipients, the GIS benefit paid to the OAS pensioner's spouse is also reduced by \$1 for every \$4 of the couple's additional income (a combined reduction of 50% of the couple's additional income). If an individual's spouse is an OAS pensioner, the amount of the Allowance is recalculated when the spouse dies.

For Allowance for the Survivor recipients, as income increases, the amount of the benefit payment decreases. The rate of reduction is \$1 for every \$2 of monthly income above the earnings threshold.

Indexation of Benefits

Once a benefit is being paid, its amount is adjusted quarterly in January, April, July and October of each year if there are increases in the cost of living as measured by CPI.

Taxation of Benefits

Allowance and Allowance for the Survivor benefits are not taxable income but must be reported on the recipient's income tax filing.

Provincial/Territorial Income Supplements

A number of provinces and territories have recognized the inadequate living conditions of those whose sole or primary means of support is OAS or GIS and Allowance. They have provincial/territorial income supplement programs in place to provide an additional benefit for this group of people. Supplements are funded by provincial/territorial governments.

Eligibility

Minimum acceptable monthly income thresholds for seniors are established based upon individual province/territory policy considerations. These thresholds are then used to determine the amount of supplement. The supplements are income tested and usually provide a minimum payment of a nominal amount (for income within a certain range). Not indexed to the cost of living, they are constant until changed through public policy decisions.

Provincial/territorial income supplements are automatically payable in a province or territory that provides them if the individual is receiving GIS, Allowance or Allowance for the Survivor benefits. The amounts payable and eligibility for the supplements vary considerably across jurisdictions. Most of the programs start at the age of 65. Provincial/territorial income supplements are not taxable to the recipient.

The legislation under which provincial/territorial supplements is provided is not addressed in this course.

Benefitsⁱⁿ *Action* 1



“Why should our employees care about government-sponsored benefits?”

Instructions

Visualization is an effective learning aid. Imagine you are a player in this business scenario, preparing for and involved in the conversations between the company’s CEO, the human resources and benefits manager and the communications officer.

1. Read the case narrative carefully, Study Guide Module 1, pages 53 to 59, to familiarize yourself with the project that the human resources and benefits manager and the communications officer have been assigned. As you assess the situation, consider the knowledge you bring to this conversation based on the advance reading you have done in preparation for this project.
2. Complete the **“Apply Your Knowledge”** exercise on Study Guide Module 1, page 60.
3. Complete the **“Test Your Knowledge”** exercise on Study Guide Module 1, pages 61 to 67.



“Why should our employees care about government-sponsored benefits?”

Parnaa didn't like what she read. She slowly rubbed her temples as if doing so would miraculously trigger a different conclusion. Pushing back her laptop, she rose from behind her desk and walked toward the window facing the parklike grounds that blanketed the Blue Sky Events campus in the heart of downtown Saskatoon. “*I don't get it,*” she murmured at the hungry birds sitting on the feeder hanging directly within her line of sight.

While overall the latest employee engagement survey scores were positive, several responses related to financial stress were disheartening. Results of three questions in particular were disturbing. While her award-winning company, with its nonhierarchical structure and adventurous culture, attracted a certain type of employee—fun-loving, enthusiastic and living in the moment—she knew from personal experience that financial stress quickly erodes a sense of well-being and impacts

Employee Engagement Survey

54% Concerned about ability to repay their student loan debt

40% Would have difficulty coming up with \$2,000 to cover an unexpected expense

20% Took retirement savings withdrawals in the past year

Blue Sky Events (BSE)

- Wholly owned Canadian corporation. Provides large-scale event productions such as music festivals and sporting events internationally. Has 250 full-time employees called “Blue Skyers,” who are largely Gen Y and Gen Z and over 30% new Canadians.
- Provides competitive compensation including a DC pension plan, profit-sharing program, EHC plan, dental plan and life insurance.

Parnaa, Founder and Chief Executive Officer

- Moved from Mumbai, India at age ten and views the world from her family's experiences as “new Canadians.”
- Wants employees to have high level of financial literacy. Concerned about recent employee survey results.

Kasia, HR and Benefits Manager

- Joined Blue Sky two years ago. Holds the CEBS designation with previous experience as an HR associate supporting group retirement services for an insurance company.

Luther, Communications Officer

- Has a degree in digital media and five years' experience in communications. Knows little about pension, benefits or financial literacy.

Andie, Payroll Administrator

- Experienced payroll administrator. Enjoys fast pace of BSE and interacting with a younger cohort.

Benefitsⁱⁿ Action 1

job performance. The survey summary prepared by Kasia, the HR and benefits manager, told the story of an employee population with an average age of 25 carrying large student debts, with limited knowledge of financial matters and little appetite for engaging in conversations about savings and retirement.

Parnaa wanted to help. She turned from the window and briskly walked from her office down the hall to Kasia's workspace. Kasia was engaged in conversation with her colleague Luther, the communications officer. Luther was leading all client-based communication. They waved Parnaa over with a smile. Not wanting to interrupt, she pulled a blue beanbag chair close and waited for them to finish.

A sense of casual ease infused the Blue Sky Events campus culture. Employees, known as “Blue Skyers,” were encouraged to pick their own job titles to match their current client assignment. The work environment was agile—a large, high-ceilinged warehouse-type space with multiple and varied workstations throughout, offering opportunity for both large and small team engagement, including an open kitchen. Blue Skyers could utilize whatever work group format might ignite their creativity. The office was designed for idea generation, planning and coordination activities. Most of the real delivery work happened in the field, on-site in client premises, or in rented indoor and outdoor venues.

Kasia had guessed why the BSE founder and CEO dropped by. An hour earlier, she had e-mailed the employee engagement survey findings to Parnaa. Kasia knew that the results would catch Parnaa's immediate attention. Parnaa was passionate about “financial literacy.”

Knowledge you bring to the government benefits education challenge:

- Social security system
- OAS pension
- Four pillars
- Guaranteed Income Supplement
- Allowance
- Allowance for the Survivor
- OAS pension recovery tax
- International social security agreements.

Financial Literacy

The ability to understand how money works in the world, including:

- ✓ How someone manages to earn or make it
- ✓ How he or she manages it
- ✓ How he or she invests it
- ✓ How he or she donates it to help others.

More specifically, it refers to *the set of skills and knowledge that allows an individual to make informed and effective decisions with all of his or her financial resources.*

—Drawn from Wikipedia

Parnaa looked thoughtfully at Kasia and Luther before speaking.

“When my family first arrived in Canada, we had no idea what this great country had to offer in terms of social security. My parents knew nothing about the universal health care coverage or the government-sponsored income security programs that are pillars in Canada’s retirement income system.” Parnaa opened her hands in a gesture that projected expansiveness.

“I take the health care services for granted. I don’t think much about the retirement income system either, and I’m a fourth-generation Canadian,” Luther admitted. His puzzled expression suggested he did not know where this train of thought was going.

Parnaa continued with a story of her childhood and memories of the elderly couple who lived next door. ***“Tom and Sara were lovely people. They had no children, but they embraced my sisters and me as if we were long-lost nieces. Tom had recently retired, and Sara never worked outside the home. They helped my family a great deal during our transition to Canada. I spent many after-school hours at their house until my parents got home from work. At the time, I didn’t realize how little money they had or the financial worries they carried with them in their retirement years.”***

Parnaa described how on warm evenings, Tom would sit on the back porch of her house with her dad and talk about life. Tom was very interested in why Parnaa’s parents had immigrated and how their lives in Canada differed. The stillness of the evening air carried their voices up through her open bedroom window. Parnaa was privy to many such evening conversations.

“Tom encouraged Dad to plan for the day he and mom stopped working. Tom had a huge impact on my family’s thinking about the need to plan for the future. Basically, Tom hadn’t thought about it at all. He worked all his life in a job that paid just under the average wage and believed that social security programs, like OAS and CPP, would meet all of his and Sara’s financial needs in retirement. It just wasn’t enough. After retiring, Tom had to take a part-time job to make ends meet.”

“What does this have to do with the employee survey findings?” Luther sounded confused. Kasia smiled to herself. She had worked with Parnaa long enough to know what her answer would be.

“It has everything to do with it. Our employees have indicated in the recent employee survey that financial stress is an issue. My goal is to find a way to increase their financial literacy. Get them connecting with their future selves, expose them to the financial pillars that can contribute to retirement preparedness and foster some real savings action on their part right now that would increase their financial well-being.” Parnaa’s fervent reply caught Kasia and Luther by surprise.

Benefitsⁱⁿ Action 1

“I guess I never thought about ‘financial literacy’ as a skill to be acquired. And definitely not the way you described it earlier as ‘making informed and effective decisions with all of my financial resources.’” Luther was honest. *“I know I haven’t paid attention to what I need to save. There is so much time ahead of me.”* Luther rationalized his position. *“I just paid off my own student debt last year. That was a monkey I carried on my back for too long. But what is ‘future self?’”* Luther looked puzzled.

Parnaa continued, *“I have read several articles on the concept of ‘future self’ and how connecting to our future self can alter both our financial and health-related behaviors.”*

“Research shows that people may fail to save what they will need for retirement, because of a lack of belief or the imagination to identify with their future selves. If we now care little about ourselves in the further future, our future selves are like future generations. We can affect them for the worse and, because they do not now exist, they cannot defend themselves. Like future generations, future selves have no vote, so their interests need to be specially protected.

To people estranged from their future selves, saving is like a choice between spending money today or giving it to a stranger years from now. Presumably, the degree to which people feel connected with their future selves should make them realize that they are the future recipients and thus should affect their willingness to save.”

—<http://people.stern.nyu.edu/hhershfi/resources/Research/JMR-D-ce.pdf>

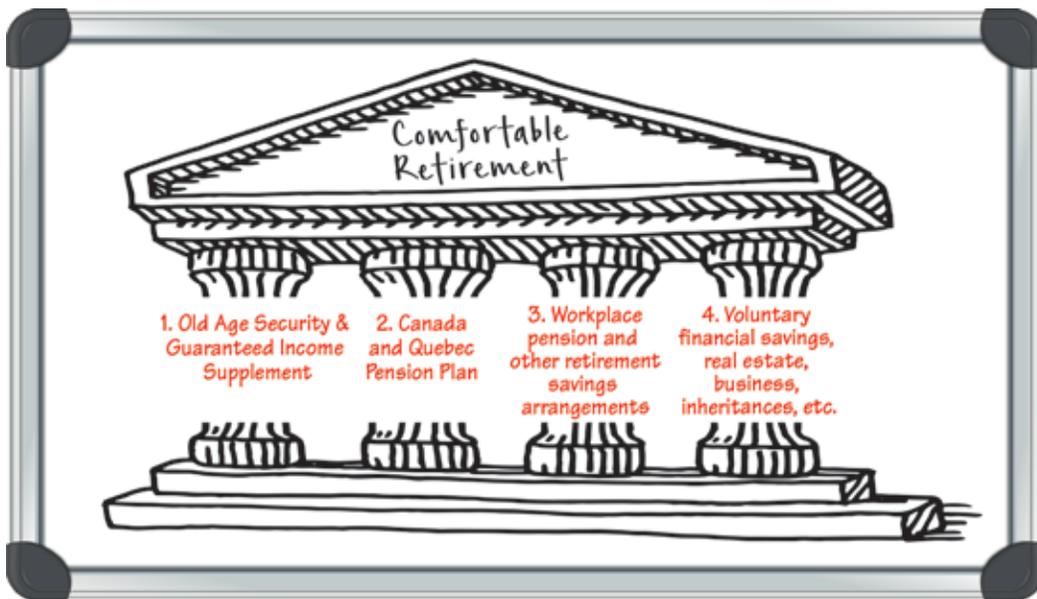


“If we are disconnected from our future selves, we are not motivated to understand the implications of today’s decisions. Many don’t know what to expect from government pension programs, how our DC pension plan and annual bonuses paid into the group RRSP contribute to financial security, or how small changes in spending today can reduce financial stress.” Parnaa summarized the problem.

“We need to do something to build awareness and understanding,” Kasia chimed in.

The conversation was definitely resonating for Luther, and he shared a story of his own. *“It was a bit shocking when I got my final loan statement showing how much interest I had paid on my student loan over five years. Seeing that did make me think about how much I could have saved if I had put the money I spent on lattes over that period toward my student loan. Imagine \$1000 a year! My future self would definitely have bought me a coffee maker.”* Luther laughed out loud at the thought. *“I may not be in exactly the same financial place as many of our new hires today, but I still haven’t paid any attention to saving. If I have a lot to learn, I bet others do, too.”*

Parnaa recognized the opportunity she had with Luther and pulled a free-standing mobile whiteboard closer to her. *“We want to think about how we can make a difference for our employees. It will take some time to figure out how to reach them. Let’s talk desired outcomes first— We want to help employees connect to their future selves and be aware of and appreciate the potential sources of income, get them thinking about what each source can and can’t do, and eventually find some ways to actually impact their financial behaviour.”* She hesitated a moment in thought, then drew a building with four pillars showing the potential sources of income that could impact whether retirement was comfortable or not.



“I like this model because it shows the roles of government, employers and individuals. Collectively, income from all these pillars can make a huge difference to retirement options and quality of life down the road.” Parnaa put the marker down and sat down again.

Kasia joined in with her observation about the value of the four-pillar drawing. ***“I like it because you can see where our BSE retirement plans fit in and how each of us, by making good financial decisions throughout our careers, can make a difference for our future selves.”*** She surprised Parnaa and Luther with her knowledge of the first pillar. ***“Most Canadians are eligible for OAS—at the age of 65, they can qualify for these benefits. OAS is the oldest of the social security programs. Around in some form since 1952, it was intended to provide partial income security for seniors in recognition of the contribution they made to Canadian society and the economy. For those with no other sources of income at the age of 65, it keeps them above the poverty level.”***

Parnaa looked at Luther. ***“I bet you can’t tell me what the other components of the OAS program include.”***

Luther shrugged his shoulders. ***“I have no idea.”*** Parnaa really did not expect Luther to know but was using the question to make a point.

“Tom and Sara didn’t know either, until they needed it.” Parnaa shared that along with the basic OAS pension, they qualified for the Guaranteed Income Supplement, an additional support for low-income Canadian seniors. ***“Even as new Canadians, my parents didn’t go through the financial challenges Tom and Sara faced in Tom’s retirement years. Watching Tom and Sara struggle changed how I thought about saving for the future.”*** Both Luther and Kasia nodded in understanding.

“There are also benefits called Allowance and Allowance for the Survivor.” Parnaa explained to Luther that a spouse or common-law partner, between the ages of 60 and 64, of an OAS pensioner receiving GIS may also receive the Allowance, and widows and widowers in this age group with low incomes may qualify for an Allowance for the Survivor. ***“This is the only income available to people who have not worked or have not worked steadily over their lives. Just starting out, it may seem hard for you to imagine. People do find themselves out of the workforce for many reasons, including starting a family, going back to school, job loss or health issues.”***

To Luther’s relief, Parnaa proceeded to give him a brief overview of Old Age Security. She was lively and engaging throughout. ***“The Canadian government pays a monthly OAS pension to individuals aged 65 or older who meet the residence requirements. OAS pension is available to Canadian citizens or legal residents aged 65 or older, who have lived in Canada for at least 10 years after the age of 18. If you lived in Canada for 40 years after the age of 18, you should be eligible to receive the maximum pension.”*** Parnaa smiled.

“While there are a few people who do not meet the age and residence requirements, I recall reading that almost 97% of Canadians over the age of 65 qualify. Canada also has more than 50 international social security agreements with other countries. These agreements help people who don’t qualify for the full OAS pension to still qualify for a partial pension,” Kasia noted. *“Each agreement coordinates the social security systems of the two countries. A person can use the combined periods of residence to meet the eligibility requirements.”*

Now quite intrigued with the idea of “free” income, Luther asked, *“I know Tom and Sara both got OAS and it wasn’t enough. How much does OAS pay at the age of 65?”*

“This is a great question and why I want Blue Skyers to be informed about the government pillar. I am going to leave that question to you to answer as part of your task. I want you to develop some key messages that we can use in an internal awareness campaign to build financial literacy in Blue Skyers. Messaging should be provocative—get them connecting to their ‘future self.’ Then get them thinking about where the money their future selves will need to live the life they envision will come from. We can build off the retirement pillars—starting with what OAS benefits can contribute.” Parnaa was on a roll, and Luther was scrambling to get her comments recorded. *“Maybe at some point, we explore using the compensation statement as a tool.”*

Sensing Luther’s anxiety, Parnaa provided some reassurance. *“Luther, I can see you are concerned. Don’t worry. Kasia will be your subject matter expert. As a CEBS graduate she knows a great deal about retirement and health security and the interconnections between both the public and private systems.”*



Apply Your Knowledge

Parnaa has tasked Luther with developing some key messaging to encourage “future self” thinking in BSE employees. Assume you are working on this assignment with Luther and Kasia. Put on your benefits advisor hat and respond to these questions:

- 1. Explain how employees can include OAS pension estimates in their retirement planning.** (Learning Outcomes 3.4, 3.5, and 6.2, Study Guide Module 1, pp. 15 and 21; Reading B, Role of Old Age Security (OAS) in Retirement Income Security, Study Guide Module 1, pp. 42-44)

- 2. A number of new Blue Skyers immigrated to Canada with their parents in recent years. Explain how Canada’s social security agreements could help them meet requirements for OAS eligibility. Provide an example.** (Learning Outcome 4.1, Study Guide Module 1, p. 17; Reading A, Overview of Canada’s Publicly and Privately Sponsored Social Security System, Study Guide Module 1, pp. 35-36; Reading B, Role of Old Age Security (OAS) in Retirement Income Security, Study Guide Module 1, p. 42)

- 3. Compare the tax treatment of OAS pension with GIS, Allowance and Allowance for the Survivor benefits.** (Learning Outcomes 6.1 and 6.3, Study Guide Module 1, p. 21; Reading B, Role of Old Age Security (OAS) in Retirement Income Security, Study Guide Module 1, pp. 45, 48 and 51)



Test Your Knowledge

Evaluate whether the messages surfaced by Luther and Kasia highlight the income potential and limitations of the Old Age Security program.

Following their initial in-person meeting with Parnaa, Kasia and Luther followed up with another planning session for the proposed project to engage Blue Skyers in improving their financial literacy. Put on Parnaa’s CEO hat, and evaluate whether Kasia and Luther are identifying the key communication points that will contribute to this objective.

Check the box with the key terms discussed during Kasia and Luther’s second planning session.

- Life expectancy
- Eligibility requirements
- Consumer Price Index
- Average wage
- OAS pension recovery tax (“clawback”)
- Social insurance vs. normal insurance
- Intergenerational transfers

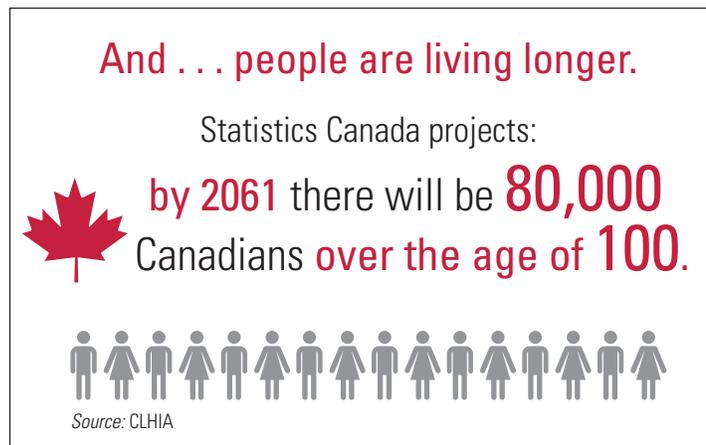
Kasia and Luther's Planning Session

After meeting with Parnaa, Luther and Kasia agreed to do some individual research and come back with some ideas for messaging that would engage employees. A few days later, they met in one of the BSE workstations to share their results and brainstorm.

"I am so glad to be working on this project with you," Kasia said between sips of her citrus-mint Frappuccino. She looked around The Sky Deck, the company's test kitchen for experimenting with innovative food and beverage concepts for their event catering services. The Sky Deck also served as the hub for informal intracompany networking.

"This is a great project," Luther responded. ***"It is helping me already. There is so much online about mortality rates, retirement readiness and the challenges of getting people to save. We know we won't live forever, and I say 'we' because I am not a saver. At the same time, we don't think about how long we might actually live, let alone what we might need or want at that age."*** Luther recognized his own behaviour in his observation. ***"Plus, there is a big difference between needs and wants. That is where quality of life comes in."***

Kasia was listening intently. ***"I agree! Watching my grandmother reach her 90s has been a real eye opener. She lives alone and travels way more than me or my parents. To be honest, I can't imagine myself at 100. I think that Statistics Canada projection of the number of centenarians would surprise a lot of our employees. Let's build your longevity stat into the communication."***



Kasia made an annotation on the whiteboard before continuing. ***"We also need to help employees change the way they think about average life expectancy and the risk of outliving their money. The longevity message needs to be linked to what that means for retirement income needs, based on average mortality rates and an average retirement age of 65. If I live to 90 and retire at 65, I have 25 years to do stuff and will want the money to do it!"*** Kasia added this to the whiteboard list.

How long will you need retirement income?

If you knew exactly how long you were going to live, it would be easy to figure out how to manage your savings to produce retirement income that would last just the right amount of time.

But the reality is that nobody knows how long their retirement will be.

Source: CLHIA

Here are the averages.

65-year-old man can expect to live to  age 84

65-year-old woman can expect to live to  age 87

Luther nodded in agreement. *“Look at how these two stats and our conversations have gotten us thinking about our future selves. We can use these stats to get others connecting with their future self—retiring at the age of 65 and living 20, 30 or more years past retirement. I get it . . . I could be spending a third of my life in retirement!”* He paused for a moment. *“I wonder what I will look like when I retire at 65.”*

Kasia laughed. *“Wow, you at 65—that is a powerful image—reminds me of the importance of both my health and financial decision making. I read online somewhere that if we could see age-progressed renderings of our future selves based on different financial and health choices, it would really influence the decisions we make today.”*

Luther nodded in agreement before continuing, *“Ok, so now I have an idea when I will retire and how long I may need retirement income. That gets me thinking about how much my future self might need.”*

The last third of your life . . .

Retirement can be a third of your life—so what are you going to do with it?

It is much better knowing what you want to do in retirement than not knowing. The clearer your vision, the more likely you are to live retirement as the best years of your life.



“Or want,” Kasia qualified. She started writing on the whiteboard, not wanting to miss his point. ***“Great idea—that question is so personal—People need to think about needs and wants and create a vision. I am thinking about doing a vision board on Pinterest. My vision may well evolve over time, but that kind of exercise influences action. This message around retirement vision is also a great segue back to the sources of retirement income using the four-pillar model that Parnaa showed us. We can build out from that.”***

“OAS is a good starting point, because I recall Parnaa saying that age and residence are the only eligibility requirements. If you have no other sources of retirement income, you will get OAS,” Luther added. Kasia nodded in agreement and added this message to the whiteboard.

“Parnaa never did tell us how much the OAS pension was—but Tom and Sara’s story certainly implied it was not adequate. How much will my future self get from OAS?” Luther reminded Kasia of his question.

Kasia smiled and handed a paper to Luther. ***“I remembered and brought this benefit summary to show you. You can see from this example that in 2019, the maximum OAS pension is about \$7,200 annually.”***

“I also see that the pension amount increases annually,” observed Luther.

“Right,” Kasia confirmed, ***“OAS rate increases are calculated four times a year (January, April, July and October) based on the Consumer Price Index (CPI). The intent of indexing is that benefits keep up with the cost of living. However, if the cost of living decreases, benefit amounts do not decrease; they stay at the same level.”***

OAS benefits have nothing to do with how much you worked, how much income you made or how much tax you paid. OAS is based solely on residency. If you were resident of Canada for 40 years between the ages of 18 and 65, you will get the maximum OAS amount. Here are the maximum OAS figures for the past few years.

2019—\$601.45

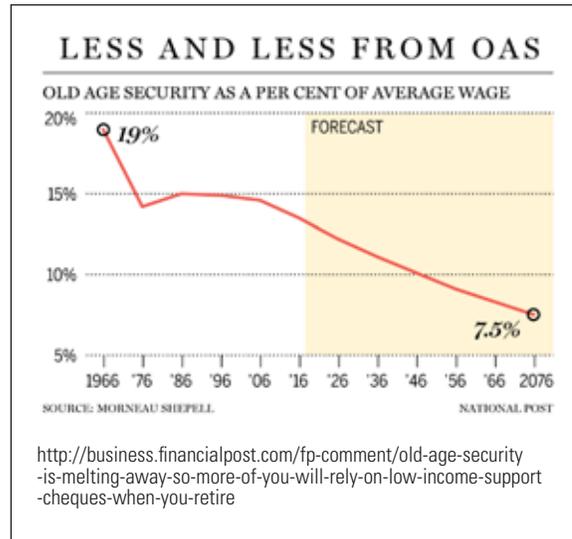
2018—\$589.59

2017—\$578.53

Kasia was happy to share something else she had picked up in her research. ***“One issue with OAS that would concern younger Canadians who won’t collect for many years is that employment earnings tend to rise faster than the CPI.”***

Luther looked puzzled. In an attempt to simplify the “so what” of her observation, Kasia drew a line graph on some remaining space on the whiteboard to help clarify.

“Right now, OAS represents 12.6% of YMPE. If wages increase by only one percent more than the Canadian rate of inflation, CPI and the OAS pension will decline as a percentage of the average wage. This means that OAS will be only 7.5% of the national average wage by 2070. This means that younger people may need to rely more on company programs and/or save more on their own.”



Luther nodded his head. *“Even I can see that the OAS contribution to my retirement income depends on my future earnings level. For someone who has never worked, like my Mum,*

OAS will be a valuable new source of income she never had. For my Dad, who earns well above the average wage, it will not cover 12.6% of his preretirement income.”

“Something else about OAS to consider—for seniors who have other sources of retirement income, the Old Age Security recovery tax may apply,” added Kasia, thinking about her own future. *“This tax, often called the ‘clawback,’ is applied against OAS once the retired person hits a prescribed earnings level. The clawback starts at about 135% of the average wage, which is around \$57,400 in 2019.”*

“If my retirement income earnings are significantly above the prescribed earnings level, not qualifying for OAS pension benefits would not be as financially significant as it would be, say, for people with no or minimal retirement income. There are other income-tested, nontaxable benefits provided under the OAS program targeted at lower income recipients. Let’s hope you and I and other Blue Skyers don’t fall into this category.” Kasia had diverged from the purpose of the meeting and brought the conversation back on target. *“But this is a level of detail beyond this communication plan. If we get employees to think through the lens of their future selves about retirement needs and provide a basic understanding of where that money will come from, we will have made progress.”*

Benefitsⁱⁿ Action 1

Luther went quiet for a minute; Kasia could see the wheels spinning. *“I agree, but I do find this conversation helpful thinking about my parents’ and my grandparents’ situations. I am glad to get this introduction. Parnaa’s story was powerful—you could feel the impact of her experience. We could come back to a couple of scenarios for our employees to make it real—get them to think about how they want their retirement years to be the same or different from their parents and grandparents. It might raise their awareness of what it would be like facing painful financial challenges in retirement and wishing they had made better choices early in their careers. Or the stories might motivate them to understand the path to financial well-being.”*

Kasia paused to look at some notes she had brought in. *“Parnaa emailed me a couple of thoughts. She said that concern about the sustainability of government programs is often in the news—It would be good for employees to understand where the money comes from.”*

Luther sat back in his chair, crossing his arms behind his head with thoughts of “free” income in his mind. *“Funny, I was just going to ask you who pays for these OAS pensions.”*

This was in Kasia’s wheelhouse. *“The OAS program is funded through general tax revenues—it is a pay-as-you-go system. Taxes collected today are used to pay benefits for those who currently meet the eligibility requirements. Once we start looking at the other government-sponsored social programs, you will see other funding approaches.”*

“Ok, humour me again. Tell me why the government provides this benefit?” Luther knew there had to be a reason.

Kasia finished capturing a few more thoughts on the whiteboard before replying.

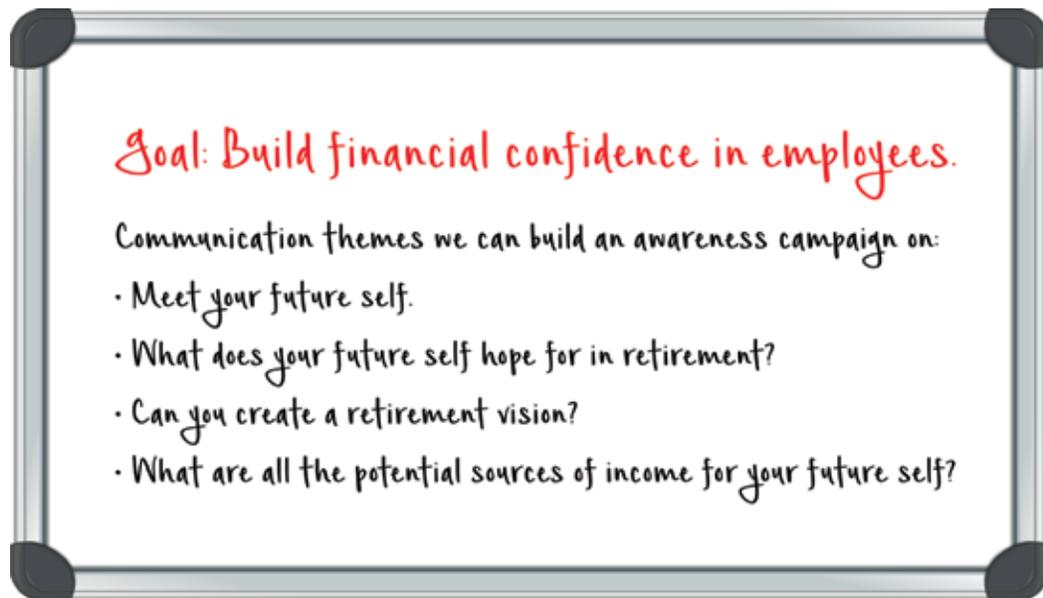
“It relates to the difference between social insurance principles and the normal business insurance principles that apply to our EHC and dental plans. Social insurance is set up to administer a certain type of government-sponsored benefit for which eligibility is dictated by socioeconomic needs vs. strict business margins or cost/benefit analysis.”

Kasia went on to explain, *“As part of the first pillar of the Canadian retirement income system, OAS provides Canadians with a minimum guaranteed income during their years of retirement. The steward of the OAS, the federal government, balances the program’s paternalistic philosophy and its financial affordability. That is why benefit eligibility and funding often come up when the government changes power.”* Luther was benefiting so much from Kasia’s overview of OAS.

Kasia explained how normal insurance differs from social insurance. *“Normal insurance, like our life insurance plan, has a process in place to ensure that contributions going into the plan cover the benefits going out. Insurers wouldn’t stay in business long if the cost of providing our benefits was more than what BSE paid to provide them.”* Kasia had a way of explaining concepts, and Luther quickly gained his footing.

“So OAS is a form of social insurance, where the benefits paid and the period of benefits entitlement are matters of public policy.” Luther paraphrased what he heard. “If I think back to Parnaa’s story, Tom and Sara’s OAS pensions were being funded by taxes paid by everyone at the time.”

“That is it exactly—when we turn 65, and assuming we are no longer working, the cost of our OAS pensions will be covered by those younger and still in the workforce. Technically, this is known as an intergenerational transfer.” Kasia brought the OAS conversation to conclusion.



“We have our work cut out for us,” Kasia observed as she took a photo of their whiteboard notations with her smartphone. “I think we should run some of our preliminary thoughts by Parnaa and see if we are on track. We can meet again to discuss the second pillar, CPP. We’ll want to explore it and the call to action—‘save now’—as well as leverage what the company pension plan offers and think about other personal savings vehicles.”

“We have thoughts about some of the messages, but we really haven’t talked about how to deliver them,” said Luther. “I will do some research on that—We might be able to use gamification. There are several examples of how it is being used to increase financial and health goals. Next time.”

Optimizing the Canada Pension Plan/Quebec Pension Plan (CPP/QPP) for Income Security

Module 2

Almost everyone who participates in the paid labour force contributes to the Canada Pension Plan (CPP) or to its sister plan, the Quebec Pension Plan (QPP). Although CPP and QPP are separate plans, each with its own legislation and administration, since their inception in 1966, the federal and Quebec provincial governments have sought to maintain parallelism in key aspects of plan design. While perhaps best known for retirement pensions, CPP/QPP also provide supplementary benefits including death benefits, survivor's benefits and disability benefits for both contributors and their families.

This module provides an overview of CPP/QPP structure, funding, and roles and responsibilities in policy setting and administration. General provisions and definitions under the CPP and QPP Acts regarding contribution requirements and amounts, pensionable employment and portability are examined. It examines the eligibility requirements, benefit amounts and other administrative considerations of contributor pensions in detail. The module examines the eligibility provisions for these pensions.

CPP and QPP face many of the same design, governance, funding and investment challenges faced by employer-sponsored retirement income plans. The CPP is designed to be self-sustaining with benefits financed by employer and employee contributions and fund investment earnings. Investment management of CPP/QPP assets is also covered.

When established, CPP/QPP was intended to provide a contributor with a retirement pension of 25% of his or her earned income, with earned income being capped at Canada's average industrial wage. Amendments effective in 2019 will, for Canadians who participate in the enhanced plan

for 40 years, result in a retirement pension of 33% of earned income that is capped at a higher level. The actual benefit depends on how much and how long a contributor has paid into CPP/QPP and the age of the individual at the time the CPP/QPP pension starts. The existence of the CPP earned income “cap” and the reality that many individuals will not qualify for the maximum benefit at that cap level give more importance to private sources of retirement income such as employer-sponsored and individual retirement savings plans.

Assigned Reading



Reading A

Canada Pension Plan/Quebec Pension Plan (CPP/QPP),
Study Guide Module 2, Pages 29-44

Reading B

Canadian Employment Benefits and Pension Guide, Special CEBS® Edition,
CCH Paragraphs 500, 511, 525, 526, 539, 561, 561a, 660, 700, 700a, 725,
727, 728, 731, 732, 760, 762, 764, 776, 777, 779, 781, 782, 784, 785, 785d,
786, 787, 788, 790, 790a, 810, 812, 814, 817, 818, 820, 824, 826, 828 and 830
Study Guide Module 2, Pages 45-107



Benefits in Action #2

“How can learning about CPP drive better financial decisions today?”
Study Guide Module 2, Pages 109-126



Professional Enrichment Resources

CPP Investment Board

<http://www.cppib.com/en/who-we-are>

Professional enrichment resources are not tested on the national examination.

Why Scan This Site?

This site provides an overview of the Board's structure and role in investing the more than \$275 billion CPP fund. CPPIB is a professional investment management organization with the sole focus of investing the CPP fund on behalf of its 20 million contributors and beneficiaries. This site provides insight into its governance strategy, investment objectives and investment performance.

Canada Pension Plan Enhancement

www.canada.ca/en/revenue-agency/news/cra-multimedia-library/businesses-video-gallery/canada-pension-plan-enhancement-webinar.html

Why View This Webinar?

This webinar provides an overview of the enhancements to CPP, effective January 1, 2019. These enhancements mean that those who contribute to CPP will receive higher benefits in exchange for making higher contributions. An objective of the enhancements is to provide a target retirement pension of 33% of a contributor's earned income (up from 25%).



Learning Outcomes

1. Explain the role of the Canada Pension Plan/Quebec Pension Plan (CPP/QPP) in Canadians' income security.
2. Explain the regulatory environment, legislative structures and funding mechanisms of CPP/QPP.
3. Explain how contributions directed to CPP/QPP are invested.
4. Describe requirements for making contributions to CPP and QPP.
5. Outline key provisions related to CPP/QPP retirement pensions.
6. Describe basic plan provisions for CPP/QPP survivor's benefits.
7. Describe basic plan provisions for CPP/QPP disability pension and disabled contributor's child's benefit.
8. Explain the tax treatment of CPP/QPP benefits and how benefits are adjusted for changes in the cost of living.

Benefits in Action #2

“How can learning about CPP drive better financial decisions today?”

1. Apply knowledge of the Canada Pension Plan (CPP) program to assess its potential contribution to income needs from the age of 60 and beyond.
2. Evaluate whether the employer's communication messages highlight the program's income potential and its limits.



Outline of Knowledge

- A. Legislative authority for the Canada Pension Plan/Quebec Pension Plan (CPP/QPP)
 - 1. CPP Act
 - 2. QPP Act
 - 3. Administrative bodies
 - 4. Change process
 - 5. Objectives for retirement security levels
- B. Funding of CPP and QPP
 - 1. Original status
 - 2. CPP changes to legislation
 - 3. Source of funding
 - 4. Investment of funds
- C. Retirement pension
 - 1. Eligibility provisions and definitions
 - 2. Payment periods
 - 3. Payment amounts and definitions
 - 4. Pension index
 - 5. Death benefits
 - 6. Taxation
- D. Survivor's benefits
 - 1. Eligibility provisions and definitions
 - 2. Payment periods
 - 3. Payment amounts and indexation
 - 4. Integration with other benefits
 - 5. Taxation

E. Disability benefits

1. Eligibility provisions and definitions
2. Payment periods
3. Payment amounts and indexation
4. Taxation

F. Investment management

1. Canada Pension Plan Investment Board (CPPIB) structure
2. CPPIB mandate
3. CPPIB accountability measures
4. CPPIB governance structure
5. Caisse de depot et placement du Quebec (Caisse) structure
6. Caisse-allowed investments



Key Terms

- Steady state funding
- Incremental full funding
- Contributory period
- Pensionable employment
- Pension credits
- Employer, employee, self-employed
- Retirement pension
- Year's maximum pensionable earnings (YMPE)
- Year's basic exemption (YBE)
- Year's additional maximum pensionable earnings (YAMPE)
- Drop-out periods
- Assignment of pensions
- Postretirement benefit
- Pension index
- Death benefit
- Survivor
- Civil union
- Survivor's pension
- Dependent child's benefit
- Orphan's benefit
- Disability pension
- Disabled contributor's child's benefit
- Severe disability
- Substantially gainful occupation
- Prolonged disability
- Gainful occupation
- Minimum qualifying period
- Canada Pension Plan Investment Board (CPPIB)
- Caisse de depot et placement du Quebec (Caisse)
- Legal for life

1



Learning Outcome

Explain the role of the Canada Pension Plan/Quebec Pension Plan (CPP/QPP) in Canadians' income security.

1.1 Describe the role of CPP/QPP in providing income security to Canadians. (Reading A, Canada Pension Plan/Quebec Pension Plan (CPP/QPP), Study Guide Module 2, pp. 29 and 31)

The objective of the public income security programs is not to provide an individual's total retirement income. Pensions and benefits payable under CPP/QPP are in addition to the Old Age Security (OAS) pension, and the combination of OAS and the CPP/QPP retirement pension is intended to ensure a basic level of retirement income for Canadians.

Until January 1, 2019, CPP/QPP was intended to provide a contributor with a retirement pension of 25% of the person's earned income, with earned income being capped at Canada's average industrial wage. As a result of enhancements being made effective January 1, 2019, the target of the enhanced CPP/QPP is to provide contributors with a retirement pension of 33% of a contributor's earned income. The cap on earned income is also being raised above the Canadian average industrial wage. Despite the increase to the cap on earned income, its existence continues to give importance to private sources of retirement income such as employer-sponsored and individual retirement savings plans.

In addition to providing retirement pensions, CPP/QPP also provide disability and survivor's pensions to those who qualify.

Learning Outcome

Explain the regulatory environment, legislative structures and funding mechanisms of CPP/QPP.



2

2.1 Describe the legislative regimes that govern the existence and operation of CPP/QPP. (Reading A, Canada Pension Plan/Quebec Pension Plan (CPP/QPP), Study Guide Module 2, pp. 30-31)

CPP falls under federal jurisdiction and is governed by “An Act to establish a comprehensive program of old age pensions and supplementary benefits in Canada payable to and in respect of contributors” commonly cited as “the CPP Act.”

The CPP Act allows a province or territory not to be a part of the federal pension plan if it sets up a comparable program. Quebec has established the QPP, which operates in that province in place of CPP. The legislation that governs the QPP program is the “Act respecting the Quebec Pension Plan,” cited as the “QPP Act.”

CPP is administered by the Minister of Employment and Social Development Canada (ESDC). The Minister of National Revenue is responsible for collecting contributions. The Minister of Finance and his or her provincial counterparts are responsible for setting CPP contribution rates, pension and benefit levels, and funding policy. The CPP Investment Board (CPPIB) is responsible for managing investments of the CPP assets.

QPP is administered by Retraite Quebec. Revenu Quebec is responsible for collecting contributions. The Caisse de depot et placement du Quebec (Caisse) is responsible for managing the investments of assets in respect of QPP.

Changes to CPP legislation governing the general level of benefits, the rate of contributions or the investment policy framework can be made only through an Act of Parliament. Notice of any proposed changes must be given by the federal government to each participating province (not including the territories). All such changes require the agreement of at least two-thirds of the included provinces, representing at least two-thirds of the population. Changes come into force only after two years’ notice, unless all provinces waive this requirement.

Quebec participates in decision making regarding changes to CPP, even though it administers its own plan, to help to ensure the portability of QPP and CPP across Canada.

2.2 Explain how CPP/QPP is financed. (Reading A, Canada Pension Plan/Quebec Pension Plan (CPP/QPP), Study Guide Module 2, pp. 32-33)

CPP is funded on a basis that provides:

- (a) Steady state funding to build a reserve of assets that would generate investment earnings to contribute to future benefits costs
- (b) Incremental full funding of benefit increases or the addition of new benefits. That is, the cost of new or higher benefits would be paid as the benefit was earned, and any costs associated with benefits that were paid but not earned would be amortized and paid for over a defined period of time, consistent with actuarial practice.

Since the inception date of QPP in 1966, any QPP contributions that exceeded benefit payouts have been invested by the Caisse de depot et placement du Quebec.

Unlike Old Age Security (OAS), CPP and QPP are not funded through general tax revenues. The contribution rates are actuarially determined, and both plans are “contributory” plans with contributions made by employees, their employers and self-employed people. Most employed and self-employed people in Canada between the ages of 18 and 70 who earn more than a specified amount in a calendar year are required to make CPP/QPP contributions. Required contribution levels under QPP are slightly higher than those under CPP.

2.3 Identify who is covered by CPP/QPP and who is excluded from coverage.

(Reading A, Canada Pension Plan/Quebec Pension Plan (CPP/QPP), Study Guide Module 2, pp. 31-32)

Coverage is mandatory for all “pensionable employment.” Both CPP and QPP define pensionable employment as all employment unless specifically excepted or employment included by regulation. A self-employed person must be a resident of Canada, whereas this is not a requirement for employees. To be covered by QPP, an employee must report to work at the employer’s establishment situated in Quebec (or be paid from a Quebec establishment if the employee does not have to report to work anywhere). Otherwise, the employee in pensionable employment is covered under CPP.

Excluded groups include migratory and casual workers (although they may elect to be covered as if they were self-employed), provincial employees (unless the province agrees to have them covered and pays the required contributions), members of the Canadian Armed Forces or the Royal Canadian Mounted Police, miscellaneous employment (exchange teachers from another country, members of religious orders, etc.), and in Quebec, the Judicature (judges in a court of law).

If an individual working in Canada and contributing to CPP is sent by their employer to work abroad on a temporary basis, an international social security agreement might enable that person to:

- (a) Continue contributing to CPP for their work abroad and have the periods abroad considered as residence in Canada for eligibility purposes
- (b) Be exempt from contributions to the other country’s social security system.

3



Learning Outcome

Explain how contributions directed to CPP/QPP are invested.

3.1 Outline the mandate of CPPIB and the key governance documents used in the implementation of that mandate. (Reading A, Canada Pension Plan/Quebec Pension Plan (CPP/QPP), Study Guide Module 2, pp. 39-41)

The mandate of CPPIB is to:

- (a) Invest in the best interests of CPP contributors and beneficiaries
- (b) Maximize long-term investment returns without undue risk, taking into account the factors that may affect the funding of CPP and its ability to meet its financial obligations
- (c) Provide cash management services to CPP so that it can pay benefits.

CPPIB cannot conduct any business or activity that is inconsistent with these objectives.

Two key governance documents reflecting the CPPIB mandate are the:

- (1) Statement of Investment Objectives, Policies, Return Expectations and Risk Management for the Investment Portfolio of the Canada Pension Plan
- (2) Statement of Investment Objectives, Policies, Return Expectations and Risk Management for the Cash for Benefits Portfolio of the Canada Pension Plan.

3.2 Identify how assets in QPP can be invested. (Reading A, Canada Pension Plan/Quebec Pension Plan (CPP/QPP), Study Guide Module 2, p. 43)

The Caisse de depot et placement du Quebec (the “Caisse”) can invest QPP funds in assets similar to those referred to as “legal for life” investments (a set of quantitative and qualitative rules required of life insurance company investments), including:

- (a) Investments in government, municipal and school boards
- (b) Company shares and bonds
- (c) Real estate and mortgages on real estate, to a limited extent.

The Caisse cannot hold more than 30% of the common stock of any corporation, but it may invest up to 30% of its portfolio in common stock. There are limitations on the amount that can be invested in a single holding by the Caisse, depending on the size of the fund’s portfolio. There are no geographic limitations on the investments.

4



Learning Outcome

Describe requirements for making contributions to CPP and QPP.

4.1 Define “contributory period,” “first additional contributory period” and “second additional contributory period” under CPP as they apply to the determination of an individual’s retirement pension and how they apply to other CPP benefits.

(Reading B, Canadian Employment Benefits and Pension Guide, Special CEBS Edition, Study Guide Module 2, Paragraph 511, pp. 58-59)

In the context of the CPP retirement pension, the contributory period is the amount of time a contributor was making net CPP contributions from employment or self-employment income. It is used to calculate the retirement pension, death benefit, survivor’s pension or orphan’s benefit. This definition is not used to calculate the CPP disability pension or disabled contributor’s child’s benefit; for these benefits a different definition of “contributory period” is used.

A CPP contributory period begins January 1, 1966, or when a person reaches the age of 18, whichever is later.

A CPP contributory period ends on the earliest of:

- (a) The month before the retirement pension begins being paid
- (b) The month before the contributor’s 70th birthday, or
- (c) The month of the contributor’s death.

The contributory period excludes any period when the contributor was receiving a CPP or QPP disability pension or any months when the contributor was receiving family allowance benefits and earnings were less than the CPP basic exemption for the year.

Two additional contributory periods have been defined as a result of the passage of Bill C-26. These are:

- (1) First additional contributory period, which commences at the later of January 1, 2019 and the contributor’s 18th birthday and ends at the same time as the contributory period ends.
- (2) Second additional contributory period, which commences at the later of January 1, 2024 and the contributor’s 18th birthday and ends at the same time as the contributory period ends.

4.2 Describe how the amount of CPP/QPP contributions is determined, and show an example of CPP contributions for an employee earning \$80,000 in 2019. Assume a 2019 year's maximum pensionable earnings (YMPE) of \$57,400. (Reading A, Canada Pension Plan/Quebec Pension Plan (CPP/QPP), Study Guide Module 2, p. 33; Reading B, Canadian Employment Benefits and Pensions Guide, Special CEBS Edition, Study Guide Module 2, Paragraphs 500 and 525, pp. 52-53 and 61)

Contributors pay a percentage of that income which is above an earnings threshold and below an earnings ceiling. The earnings threshold, called the year's basic exemption (YBE), has remained constant for the past several years. The earnings ceiling, called the YMPE, changes each year. Employer and employee contribution rates are equal, self-employed persons contribute at twice the rate of employees.

CPP contribution rates in 2019 are 5.10% of pensionable earnings for employees and employers. YBE is \$3,500, and the YMPE is \$57,400. An employee earning \$80,000 will make CPP contributions on earnings of \$53,900 (\$57,400 reduced by \$3,500) at a rate of 5.10%, equal to \$2,748.90. The employer will contribute an equal amount.

January 1, 2019 marked the first year of a seven-year period over which CPP/QPP contribution rates will increase each January 1. Following is the schedule for increases, which will apply to both employer and employee contributions

January 1	Contribution Rate Increase	Cumulative Increase Over 2018 Contribution Rate
2019	0.15%	0.15%
2020	0.15%	0.30%
2021	0.20%	0.50%
2022	0.25%	0.75%
2023	0.25%	1.00%

A new, additional range of earnings will be included under CPP/QPP starting in 2024. This range of earnings will start at the YMPE and extend to a higher limit called the year's additional maximum pensionable earnings (YAMPE).

In 2024, under CPP, employees and employers will begin contributing on the new additional range of earnings at a rate of 2% by each. The contribution rate applicable to this range of earnings will rise to 4% by each of employees and employers. In 2024, under QPP, employees and employers will begin contributing on the new additional range of earnings at the rate of 4% by each of employees and employers.

4.3 Identify rules that apply in determining the deduction of CPP contributions for employers of employees who are in receipt of a CPP retirement pension.

(Reading B, Canadian Employment Benefits and Pension Guide, Special CEBS Edition, Study Guide Module 2, Paragraph 525, pp. 61-62)

If an employer employs an individual who receives a CPP retirement pension, the rules regarding the deduction of CPP contributions depend upon the age of the employee:

- (a) If the employee is 60 to 64 years of age, the employer must deduct CPP contributions.
- (b) If the employee is 65 to 70 years of age, the employer must deduct CPP contributions unless the employee has filed an election with the employer to stop paying contributions. Once the election has been filed with the employer, contributions must cease in the following month.

4.4 Explain how the amount of contributory salary and wages is determined for CPP pensions. (Reading B, Canadian Employment Benefits and Pension Guide, Special CEBS Edition, Study Guide Module 2, Paragraph 539, p. 63)

The amount of an employee's CPP contributory salary and wages is the employee's income for the year from pensionable employment, computed in accordance with the Income Tax Act (ITA), minus any authorized deductions (other than the deduction for a member of clergy's residence). In effect, this means the employee's gross income before any deductions are made. The amount of a contributory salary and wages for the year does not include income received:

- (a) By an individual before reaching the age of 18
- (b) During a month that is excluded from an employee's contributory period due to a disability
- (c) After an employee reaches the age of 65 if a retirement pension is payable under CPP or under a provincial pension plan and the individual makes an election to exclude that income
- (d) After an individual reaches the age of 70.

Learning Outcome

Outline key provisions related to CPP/QPP retirement pensions.



5

5.1 Describe the factors used in determining the amount of a contributor's CPP/QPP retirement pension and a general rule regarding the amount payable. (Reading A, Canada Pension Plan/Quebec Pension Plan (CPP/QPP), Study Guide Module 2, pp. 34-35; Reading B, Canadian Employment Benefits and Pension Guide, Special CEBS Edition, Study Guide Module 2, Paragraphs 728 and 732, pp. 74-75 and 79)

CPP/QPP retirement pension amounts are based on how much and how long a contributor has paid into CPP/QPP and the age of the individual at the time his or her CPP/QPP pension starts. A record of earnings is maintained for every contributor to determine the amount of benefits payable. Contributions are called “pension credits” and, generally, more credits result in a higher level of CPP/QPP pension.

Prior to 2019, the amount of a retirement pension payable to a contributor at age 65 was a basic monthly amount equal to 25% of his or her average monthly pensionable earnings, adjusted to reflect the average of the final five-year maximum pensionable earnings threshold.

The enhanced CPP will provide a basic monthly retirement pension at the age of 65 determined as the total of:

- (a) 25% of average monthly pensionable earnings
- (b) 8.33% of first additional monthly pensionable earnings
- (c) 33.33% of second additional monthly pensionable earnings.

An individual may choose to retire before or after the “normal” retirement age of 65, in which case an adjustment is made to the pension amount to recognize either an expected longer or shorter payment period.

Some provisions exist that are normally not included in privately sponsored pension plans, including:

- (a) Provisions that allow for the certain periods of low earnings (e.g., due to illness, child rearing, or unemployment) to be excluded from the calculation of average earnings and from the contributory period used to determine the individual's retirement pension
- (b) Provisions that allow the individual to assign a portion of his or her retirement pension to his or her spouse or common-law partner
- (c) Provisions that allow an individual aged 65 or older who has started receiving the CPP/QPP pension and is still working to continue to contribute and accumulate an additional CPP/QPP benefit.

5.2 Describe how CPP/QPP allows for certain periods to be dropped out in computing average earnings. (Reading B, Canadian Employment Benefits and Pension Guide, Special CEBS Edition, Study Guide Module 2, Paragraph 732, p. 79)

Drop-out periods under CPP are:

- (a) Periods while receiving CPP disability benefits
- (b) Periods while caring for children under the age of seven
- (c) Periods after age 65 while contributing to CPP
- (d) Up to 17% of the contributor's months of lowest earnings prior to the age of 65, provided that at least 120 months are left in the contributory period.

Drop-out periods under QPP are:

- (a) Months in which the contributor received a family benefit
- (b) Months included in a period of indemnity
- (c) Up to 15% of the contributor's months of lowest earnings prior to the age of 65, provided that at least 120 months are left in the contributory period.

5.3 Indicate the adjustments that are made if the CPP retirement pension starts to be paid either before or after normal retirement age (NRA) of 65. (Reading B, Canadian Employment Benefits and Pension Guide, Special CEBS Edition, Study Guide Module 2, Paragraph 728, pp. 75-76)

The amount by which a contributor's early pension will be reduced is 0.6% for each month (7.2% per year) that the early retirement date precedes the contributor's 65th birthday. If the contributor starts to receive CPP retirement pension at age 60, the amounts will be 36% less than if taken at the age of 65.

If an individual chooses to delay receiving the retirement pension until he or she is older than 65, the amount of the CPP retirement pension is increased by 0.7% for each month (8.4% per year) that the postponed retirement date is later than the contributor's 65th birthday.

5.4 Explain the CPP Post-Retirement benefit (PRB). (Reading B, Canadian Employment Benefits and Pension Guide, Special CEBS Edition, Study Guide Module 2, Paragraph 728a, p. 78)

The CPP PRB is an additional benefit added to a contributor's current retirement benefit as a result of the continued CPP contributions made after the age of 65. Each year of work and contributions provides an additional PRB to be added to the contributor's current retirement benefit in the following year. The PRB is paid for the contributor's lifetime.

5.5 Describe the death benefits payable in respect of the CPP/QPP retirement pension. (Reading B, Canadian Employment Benefits and Pension Guide, Special CEBS Edition, Study Guide Module 2, Paragraphs 824, 826 and 828, pp. 105-106)

CPP and QPP pay a lump-sum death benefit to the estate of a deceased contributor who has met the minimum qualifying period. The amount of the CPP/QPP death benefit is \$2,500, as long as the deceased contributor has met the minimum requirements regarding contributory period.

The minimum requirements will be met if the deceased contributor contributed for:

- (a) At least one-third of the total number of calendar years included either wholly or partly within his or her contributory period but no less than three calendar years, or
- (b) At least ten calendar years.

Under QPP, the death benefit may be paid if the deceased contributor paid at least \$500 of QPP contributions and was not receiving either a retirement or disability pension. The death benefit payable will be the amount of the contributions up to a maximum of \$2,500.

A CPP contributor's death benefit is paid to the deceased contributor's estate.

A QPP contributor's death benefit is paid to the person or charity that has paid the funeral expenses, provided the application for the benefit is made within 60 days of the contributor's death and receipts are provided. If an application is not submitted within 60 days, the benefit can be paid to the contributor's heirs.

6



Learning Outcome

Describe basic plan provisions for CPP/QPP survivor's benefits.

6.1 Describe the eligibility provisions that must be met to qualify for CPP/QPP

survivor's benefits. (Reading A, Canada Pension Plan/Quebec Pension Plan (CPP/QPP), Study Guide Module 2, pp. 36-37; Reading B, Canadian Employment Benefits and Pension Guide, Special CEBS Edition, Study Guide Module 2, Paragraphs 760 and 762, pp. 81-83)

Two primary criteria are used to determine eligibility for CPP/QPP survivor's benefits:

- (1) The individual claiming the survivor's pension or orphan's benefit must meet the applicable definition of "survivor" or "orphan," and
- (2) The deceased contributor must have made contributions to CPP/QPP for the defined "minimum qualifying period" under the applicable plan.

In addition, under CPP only, the individual claiming to be the survivor must meet certain age-related criteria.

Generally the "survivor" definition means an individual who was either married to or in a common-law relationship with the contributor at the time of the contributor's death. Quebec uses the term "civil union" in place of "common-law" and also requires that the two individuals are not "legally separated from bed and board" at the time of the contributor's death.

To meet the minimum qualifying period, the general requirement is that the deceased individual contributed to CPP/QPP for one-third of his or her contributory period, or for ten calendar years, whichever is less.

6.2 Describe the method used to determine the amounts of a CPP survivor's pension.

(Reading A, Canada Pension Plan/Quebec Pension Plan (CPP/QPP), Study Guide Module 2, pp. 37-38; Reading B, Canadian Employment Benefits and Pension Guide, Special CEBS Edition, Study Guide Module 2, Paragraphs 764, 764a and 779, pp. 83-84 and 86-87)

The amount of the CPP survivor's pension differs depending on the age and circumstances of the survivor at the time of the contributor's death:

- (a) Survivors who are receiving a CPP retirement pension will have their survivor's pension combined with their CPP retirement pension, according to a formula. The formula used places a maximum on the combined payable amount equal to the maximum CPP retirement pension for the year.
- (b) Survivors aged 65 or older who do not receive a CPP retirement pension will receive a survivor's pension equal to 60% of the deceased contributor's CPP retirement pension.
- (c) Survivors under the age of 65 who do not receive a CPP retirement pension or CPP disability pension will receive a survivor's pension equal to a flat rate plus 37.5% of the deceased contributor's CPP retirement pension.

A survivor who receives a disability pension from either CPP or QPP and who becomes entitled to a survivor's pension is eligible to receive a combined disability and survivor's pension. The combined amount cannot exceed the amount of the maximum CPP disability pension.

In the event that an individual survives more than one spouse, only a single survivor's pension is payable. The survivor's pension payable is the larger of the two survivor's pensions.

6.3 Outline when CPP/QPP survivor's benefits commence and cease being paid.

(Reading B, Canadian Employment Benefits and Pension Guide, Special CEBS Edition, Study Guide Module 2, Paragraphs 776 and 777, pp. 85-86)

CPP survivor's pensions commence in the month following the month of the CPP contributor's death, provided that the survivor is at that time at least 35 years of age, was disabled or had dependent children. Otherwise, the survivor's pension commences in the month that the survivor reaches the age of 65. QPP survivor's pension commences in the month following the month of the QPP contributor's death.

Survivor's pensions cease with the payment made in the month of the survivor's death. Survivor's pensions do not cease in the event of remarriage of the survivor.

7



Learning Outcome

Describe basic plan provisions for CPP/QPP disability pension, disabled contributor's child's benefit and orphan's benefit.

- 7.1 Identify eligibility criteria for a CPP/QPP disability pension.** (Reading A, Canada Pension Plan/Quebec Pension Plan (CPP/QPP), Study Guide Module 2, p. 36; Reading B, Canadian Employment Benefits and Pension Guide, Special CEBS Edition, Study Guide Module 2, Paragraphs 782 and 784, pp. 89-92)

CPP/QPP disability pensions are payable to contributors who are under the age of 65 and who, under the plans' definitions, are disabled and have met the minimum qualifying period.

For CPP, an individual is considered disabled only if the disability (whether mental or physical) is severe and prolonged. Three definitions govern the assessment of the individual's disability:

- (1) "Severe" means that an individual is unable to regularly pursue any substantially gainful occupation.
- (2) "Substantially gainful" is an occupation that provides an individual with earnings equal to or greater than the amount that equals 12 times the maximum disability pension amount.
- (3) "Prolonged" means that the disability is likely to be "long continued," be of indefinite duration or result in the individual's death.

For QPP, the same basic definitions apply for individuals who are under the age of 60. For individuals between 60 and 65 years of age at the time of application, "severe" means that an individual is regularly incapable of carrying on his or her usual gainful occupation at the time the disability caused the individual to stop working. A "gainful" occupation is one that provides an individual with earnings at least equal to or greater than the basic exemption for the year.

7.2 Identify the minimum qualifying period for a CPP/QPP disability pension. (Reading B, Canadian Employment Benefits and Pension Guide, Special CEBS Edition, Study Guide Module 2, Paragraph 782, pp. 89-90)

For CPP, the minimum qualifying period is generally four of the last six calendar years that are wholly or partly within an individual's "contributory period." In some cases, the minimum qualifying period is determined differently.

For QPP, the minimum qualifying period is generally two of the last three years that are included in an individual's "contributory period." Again, in some cases the minimum qualifying period is determined differently, including for contributors between the ages of 60 and 65. Such disabled contributors must have paid contributions for two of the last three years, for at least five years and for at least ten years in their contributory period.

7.3 Identify when CPP/QPP disability pensions commence and cease payments.

(Reading B, Canadian Employment Benefits and Pension Guide, Special CEBS Edition, Study Guide Module 2, Paragraphs 788, 790 and 790a, pp. 97-98)

The first payment is made in the fourth month following the month an individual became disabled. If an individual ceases to be disabled and then becomes disabled again (in Quebec this only applies if the disability is for the same cause) within five years of the earlier disability, the disability pension will start in the month following the month of the subsequent disability.

A CPP/QPP contributor disability pension ceases being paid with the payment for the month:

- (a) The individual is no longer disabled
- (b) The individual reaches the age of 65
- (c) The individual dies, or
- (d) The individual begins receiving a CPP/QPP retirement pension.

For QPP, in addition to the above criteria, disability pensions cease being paid the month preceding the month in which a replacement indemnity becomes payable to the individual.

7.4 Explain how CPP/QPP disability pension amounts are determined. (Reading B, Canadian Employment Benefits and Pension Guide, Special CEBS Edition, Study Guide Module 2, Paragraphs 786 and 786a, pp. 94-95)

CPP/QPP disability pensions consist of a flat-rate benefit plus 75% of the amount of the individual's CPP/QPP retirement pension.

7.5 Describe the basic terms of the CPP/QPP disabled contributor's child's benefit. (Reading B, Canadian Employment Benefits and Pension Guide, Special CEBS Edition, Study Guide Module 2, Paragraphs 810, 812, 817 and 820, pp. 101-104)

The disabled contributor's child's benefit is a fixed amount payable to each child of an individual who has qualified for the CPP/QPP disability pension. The amount payable under CPP is significantly higher than that under QPP. Under CPP, in order to qualify for this benefit the child must be:

- (a) Under the age of 18
- (b) Over the age of 18 but under the age of 25 and in full-time attendance at a school or university, or
- (c) Over the age of 18 and disabled without interruption since reaching 18 years of age.

Under QPP, the child must be a minor child of the individual.

The disabled contributor's child's benefit commences in the month in which the disability pension is payable or the month in which the child is born, whichever is later. Under CPP, it stops when the child ceases to be dependent, dies, the contributor's disability pension stops, the child is adopted by someone other than the disabled contributor, or the child is no longer under custody or control of the disabled contributor. Under QPP, the disabled contributor's child's benefit ceases under the same conditions, except instead of the "dependency" requirement, it ceases when the child reaches the age of 18.

7.6 Describe the basic terms of the CPP/QPP orphan's benefit. (Reading B, Canadian Employment Benefits and Pension Guide, Special CEBS Edition, Study Guide Module 2, Paragraphs 810, 812, 814, 817 and 820, pp. 101-104)

An orphan's benefit is a fixed amount payable to each dependent child of a deceased contributor who made contributions for the minimum qualifying period. Amounts payable are the same under CPP and QPP.

CPP/QPP orphan's benefits start in the month following the death of the contributor or the month after the child is born, whichever is later. When the child is under the age of 18, payments are made to the individual or agency that has custody or control of the child.

CPP orphan's benefits cease when the child is no longer dependent, if the child dies, or if a child who is over the age of 18 but under the age of 25 ceases full-time attendance at school or university. QPP orphan's benefits cease if the child dies or when the child reaches the age of 18.

8



Learning Outcome

Explain the tax treatment of CPP/QPP benefits and how benefits are adjusted for changes in the cost of living.

- 8.1 Describe the basis for calculating the pension index.** (Reading A, Canada Pension Plan/Quebec Pension Plan (CPP/QPP), Study Guide Module 2, p. 35; Reading B, Canadian Employment Benefits and Pension Guide, Special CEBS Edition, Study Guide Module 2, Paragraph 660, p. 77)

CPP/QPP benefit amounts are adjusted in January of each year to reflect increases in the average cost of living as measured by the Consumer Price Index (CPI). These increases are legislated under the CPP Act and corresponding QPP Act and are determined by calculating the “pension index.”

The pension index is in turn based on the CPI, developed by Statistics Canada, to measure changes in the cost of living. The CPI tracks cost changes in common household expenses. This “basket” of goods consists of food, shelter, clothing, transportation, health care and other average household expenditures. To be able to index the CPP/QPP benefit amounts each January, CPI information for the period November through October is used in the calculation.

8.2 Explain how the pension index is applied to each of the CPP/QPP benefits.

(Reading A, Canada Pension Plan/Quebec Pension Plan (CPP/QPP), Study Guide Module 2, p. 35; Reading B, Canadian Employment Benefits and Pension Guide, Special CEBS Edition, Study Guide Module 2, Paragraphs 660, 764a, 764b, 786, 786a and 814, pp. 77, 84-85, 94-95 and 102)

CPP/QPP retirement pensions are adjusted in January of each year by the amount of the pension index. CPP/QPP death benefits are not indexed but rather fixed dollar amounts. CPP/QPP disability pensions are indexed each year using the pension index to determine the amount of the increase. In practice, this is the result of applying the pension index to the flat-rate component of the disability pension and the regular indexing of the CPP/QPP retirement pension that is used in the determination of the disability pension. The disabled contributor's child's benefit is also indexed each year using the pension index. Both CPP and QPP survivor's pensions are indexed, using the pension index in the calculation. Quebec does not adjust survivor's pensions in any year when the pension index identifies an increase that is less than 1%. The disabled contributor's child's benefit is indexed each year using the pension index. In all situations, if the pension index is negative, the amount of the CPP/QPP benefit in question remains constant.

8.3 Indicate the tax treatment of CPP/QPP benefits and contributions. (Reading A, Canada Pension Plan/Quebec Pension Plan (CPP/QPP), Study Guide Module 2, p. 39)

All benefits from CPP/QPP are taxable to the recipient. The CPP/QPP death benefit is taxable to the estate of the deceased contributor. All employer contributions to CPP/QPP are deductible from the employer's taxable income and do not confer a taxable benefit on the employee. Employee contributions give rise to a tax credit to the employee.

Reading

A

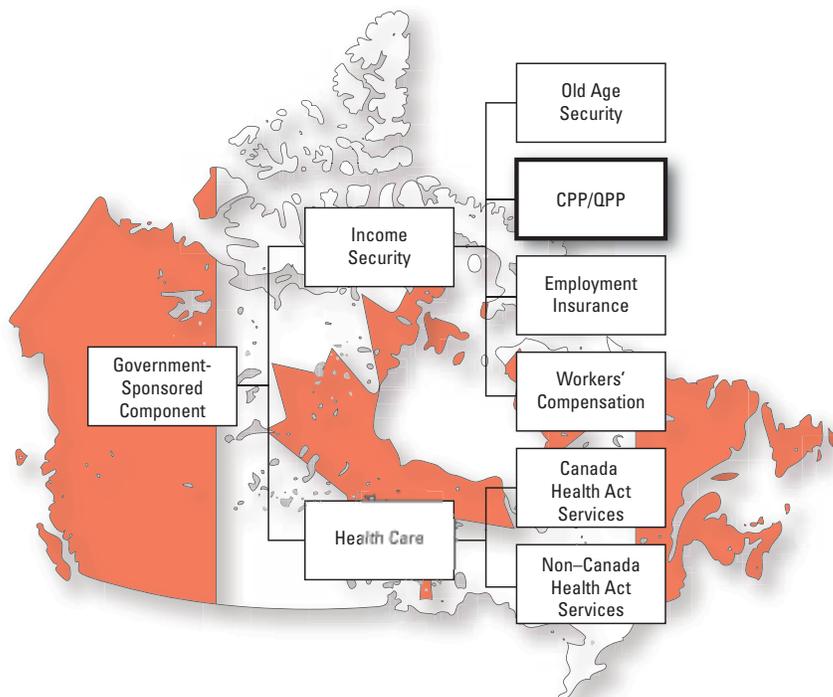
Canada Pension Plan/Quebec Pension Plan (CPP/QPP)¹

CPP/QPP pays a monthly retirement pension to people who have worked and contributed to these plans. CPP/QPP also acts as an insurance plan, providing disability and survivor’s pensions for those who qualify. Both of these programs include provisions relating to eligibility and determination of benefit amounts.

This reading provides some history and general information about CPP and QPP. It also supplements Reading B. Reading B contains the legislative and other details that drive the operation of the plans. Throughout Reading A the corresponding sections of Reading B are shown. The two readings should be considered concurrently in order to obtain a full understanding of the plans.

Investment management activities relating to CPP/QPP are also described in this reading.

Exhibit I
Overview of Canada’s Social Security System



1. Developed by the Certified Employee Benefit Specialist Program, Dalhousie University, 2019. Drawn from <http://www.esdc.gc.ca/eng/retirement>.

CPP falls under federal jurisdiction and is governed by “An Act to establish a comprehensive program of old age pensions and supplementary benefits in Canada payable to and in respect of contributors,” commonly cited as “the CPP Act.” The CPP Act came into force on January 1, 1966 and has been amended several times.

The CPP Act allows a province or territory not to be a part of the federal pension plan if it sets up a comparable program. Quebec has established QPP, which operates in that province in place of CPP. The legislation that governs the QPP program is the “Act respecting the Quebec Pension Plan,” cited here as “the QPP Act.”

CPP operates in all provinces (except Quebec) and three territories. CPP is administered by the Minister of Employment and Social Development Canada (ESDC). The Minister of National Revenue is responsible for collecting contributions. The Minister of Finance and his or her provincial counterparts are responsible for setting CPP contribution rates, pension and benefit levels, and funding policy. The CPP Investment Board (CPIB) is responsible for managing investments of the CPP assets.

QPP is administered by Retraite Quebec. Revenu Quebec is responsible for collecting contributions. The Caisse de depot et placement du Quebec (Caisse) is responsible for managing the investments of assets in respect of QPP.

Since the start of the plans in 1966, the federal and Quebec governments have always sought to maintain parallelism in the key aspects of plan design. The two plans have very similar but not identical coverage and benefits.

As joint stewards of CPP, federal and provincial finance ministers review CPP’s financial state and make recommendations as to whether benefits and/or contribution rates should be changed. Recommendations are based on a number of factors, including the results of an examination of the plan by the chief actuary. The chief actuary is required under CPP legislation to produce an actuarial report every three years and any time a bill is introduced in Parliament that, in the chief actuary’s opinion, has a material impact on estimates in the most recent actuarial report. This reporting ensures that the long-term financial implications of proposed plan changes are considered.

Changes to CPP legislation governing the general level of benefits, the rate of contributions or the investment policy framework can be made only through an act of Parliament. Notice of any proposed changes must be given by the federal government to each participating province (not including the territories). All such changes require the agreement of at least two-thirds of the included provinces, representing at least two-thirds of the population. This requirement gives Ontario an effective veto over any change, as Ontario has more than one-third of the covered population. Changes come into force only after two years’ notice, unless all provinces waive this requirement.

Quebec participates in decision making regarding changes to CPP, even though it administers its own plan. It is important that Quebec is involved in changes to CPP to ensure the portability of QPP and CPP across Canada.

The objective of the public income security programs is not to provide an individual's total retirement income. Pensions and benefits payable under CPP/QPP are in addition to the Old Age Security (OAS) pension. The combination of OAS and CPP/QPP retirement pension is intended to ensure a basic level of retirement income for Canadians.

CPP/QPP was initially intended to provide a contributor with a retirement pension of 25% of the person's earned income, with earned income being capped at Canada's average industrial wage. Despite the increase to the cap on earned income under the enhanced CPP/QPP, its existence continues to give importance to private sources of retirement income, such as employer-sponsored and individual retirement savings plans.

Changes to CPP/QPP were enacted in 2019, with the ultimate objective of increasing target benefit levels to 33% of a contributor's earned income. The cap on earned income is also being raised above the Canadian average industrial wage. The impact of the enhancement will not be fully felt until contributors have participated in the enhanced CPP/QPP for 40 years. Meanwhile, implementation of changes to financing of the plans will occur over a seven-year period commencing January 1, 2019, when the first employee and employer contribution rate increases are effective.

Eligibility and Funding of CPP and QPP (See Reading B, Canadian Employment Benefits and Pension Guide, Special CEBS Edition, Paragraphs 511, 525, 526, 539, 561, 561a and 598)

Coverage is mandatory for all "pensionable employment." Both CPP and QPP define pensionable employment as all employment unless specifically excepted or employment included by regulation. A self-employed person must be a resident of Canada, whereas this is not a requirement for employees. To be covered by QPP, an employee must report to work at the employer's establishment situated in Quebec (or be paid from a Quebec establishment if the employee does not have to report to work anywhere); otherwise, the employee in pensionable employment is covered under CPP.

An “employee” is defined as an individual who is compensated for services performed and whose duties are under the control of an employer. An employer is any person liable to pay wages, salary or other remuneration for services performed in employment. “Self-employment” refers to earning one’s livelihood directly from one’s own trade or business rather than as an employee of another.

Excluded groups include migratory and casual workers (although they may elect to be covered as if they were self-employed), provincial employees (unless the province agrees to have them covered and pays the required contributions), members of the Canadian Armed Forces or the Royal Canadian Mounted Police, miscellaneous employment (exchange teachers from another country, members of religious orders, etc.) and, in Quebec, the judicature (judges in a court of law).

An important aspect of CPP and QPP is the individual’s “contributory period.” Both plans have detailed definitions for this term, which impacts eligibility for virtually all benefits provided under the plans.

Effect of International Social Security Agreements

Through an international social security agreement, periods of contributions to the other country’s social security system may be used to meet the eligibility requirements of CPP.

If an individual working in Canada and contributing to CPP is sent by his or her employer to work abroad on a temporary basis, an international social security agreement might enable that person to:

- (a) Continue contributing to CPP for the work abroad and have the periods abroad considered as residence in Canada for eligibility purposes
- (b) Be exempt from contributions to the other country’s social security system.

CPP was initially designed as a pay-as-you-go plan with a small reserve. This meant that benefits for one generation would be largely paid from the contributions of later generations.

In 1998, with the goal of moving away from pay-as-you-go financing and improving fairness and equity across generations, a number of amendments to the CPP were put in place. The amendments gradually raised the level of CPP funding by increasing contribution rates over the period 1997 to 2003 inclusive, reduced the growth of benefits over the long term and created CPPIB to invest cash flows in the private markets to achieve higher rates of return. These important amendments resulted in:

- (a) Steady state funding to build a reserve of assets that would generate investment earnings to contribute to future benefits costs
- (b) Incremental full funding of benefit increases or the addition of new benefits. That is, the cost of new or higher benefits would be paid as the benefit was earned, and any costs associated with benefits that were paid but not earned would be amortized and paid for over a defined period of time, consistent with actuarial practice.

Since the inception date of QPP in 1966, any QPP contributions that exceeded benefit payouts have been invested by the Caisse de depot et placement du Quebec.

Unlike OAS, CPP and QPP are not funded through general tax revenues. The contribution rates are actuarially determined, and both plans are “contributory” plans with contributions made by employees, their employers and self-employed people. Most employed and self-employed people in Canada between the ages of 18 and 70 who earn more than a specified amount in a calendar year are required to make CPP/QPP contributions. Required contribution levels under QPP are slightly higher than those under CPP.

January 1, 2019 marks the first year of a seven-year period over which CPP and QPP contribution rates will increase each January 1. Following is the schedule for increases. Note that both the employee and employer CPP/QPP rates increase according to this schedule.

January 1	Contribution Rate Increase	Cumulative Increase Over 2018 Contribution Rate
2019	0.15%	0.15%
2020	0.15%	0.30%
2021	0.20%	0.50%
2022	0.25%	0.75%
2023	0.25%	1.00%

Commencement and Cessation of CPP/QPP Retirement Pension (See Reading B, Canadian Employment Benefits and Pension Guide, Special CEBS Edition, Paragraphs 725 and 728)

The CPP/QPP retirement pension is not paid automatically. Everyone must apply and provide certain documentation.

However, provisions in the 2019 federal budget will, if passed, result in the proactive enrollment of CPP contributors who are 70 years of age or older in 2020 and also have not applied for their CPP retirement pension. An opt-out period of up to 12 months will be allowed should such an individual wish to defer the pension after the proactive enrollment.

CPP/QPP retirement pensions are paid for the lifetime of the pensioner, up to and including the month in which the pensioner dies. No retirement pensions are paid after that time.

Amount of CPP/QPP Retirement Pension (See Reading B, Canadian Employment Benefits and Pension Guide, Special CEBS Edition, Paragraphs 700a, 727, 728, 728a, 728b, 731 and 732)

CPP/QPP retirement pension amounts are based on how much and how long a contributor has paid into CPP/QPP and the age of the individual at the time the CPP/QPP pension starts. A record of earnings is maintained for every contributor to CPP to determine the amount of benefits payable. Contributions are called “pension credits” and, generally, more credits result in a higher level of CPP/QPP pension.

An individual may choose to retire before or after the “normal” retirement age of 65, in which case an adjustment is made to the pension amount to recognize either an expected longer or shorter payment period. Both CPP and QPP include a number of provisions that would normally not be included in privately sponsored pension plans, including:

- (a) Provisions that allow for the certain periods of low earnings (e.g., due to illness, child rearing or unemployment) to be excluded from the calculation of average earnings and from the contributory period used to determine the individual’s retirement pension

- (b) Provisions that allow the individual to assign a portion of his or her retirement pension to his or her spouse or common-law partner.
- (c) Provisions that allow an individual aged 65 or older who has started receiving the CPP/QPP retirement pension and is still working to continue to contribute and accumulate an additional CPP/QPP benefit.

Indexation of CPP/QPP Retirement Pension (See Reading B, Canadian Employment Benefits and Pension Guide, Special CEBS Edition, Paragraph 660)

Pension amounts are adjusted in January of each year to reflect increases in the average cost of living as measured by the Consumer Price Index (CPI). These increases are legislated under the CPP Act and corresponding QPP Act and are determined by calculating the “pension index.”

The pension index is in turn based on CPI, which is developed by Statistics Canada, to measure changes in the cost of living. CPI tracks cost changes in common household expenses. This “basket” of goods consists of food, shelter, clothing, transportation, health care and other average household expenditures. To be able to index the CPP/QPP pension amount each January, CPI information for the period November through October is used in the calculation.

If the cost of living decreased over the 12-month period, the calculation would produce a negative amount. In that situation, CPP/QPP pension amounts would stay constant. There is no reduction applied should there be a decrease in the cost of living.

Survivor’s and Disability Benefits Under CPP/QPP

The CPP/QPP programs provide not only retirement pensions but also certain benefits for survivors of contributors and for contributors who become disabled before the age of 65. These additional benefits are summarized in Table I.

Table I
 CPP/QPP Survivor’s and Disability Benefits

Survivor’s Benefits	<ul style="list-style-type: none"> • Lump-sum death benefit to the estate of the contributor. Where there is no will or estate, it may be payable to the individual(s) responsible for funeral costs, the survivor or the next of kin, in that order. • Monthly survivor’s pension to the eligible spouse or common-law partner of a deceased contributor • Monthly benefit for children under the age of 18 or between the ages of 18 and 25 and in full-time attendance at a recognized institution
Disability Benefits	<ul style="list-style-type: none"> • Monthly disability pension to eligible contributors who are under the age of 65 • Monthly contributor’s child’s benefit to children under the age of 18 or between the ages of 18 and 25 and in full-time attendance at a recognized institution

Eligibility for CPP/QPP Survivor’s Benefits (See Reading B, Canadian Employment Benefits and Pension Guide, Special CEBS Edition, Paragraphs 760 and 762)

Two primary criteria are used to determine eligibility for CPP/QPP survivor’s pensions:

1. The individual claiming the survivor’s pension must meet the applicable definition of “survivor”
2. The deceased contributor must have made contributions to CPP/QPP for the defined “minimum qualifying period” under the applicable plan.

In addition, under CPP only, the individual claiming to be the survivor must meet certain age-related criteria.

Generally the “survivor” definition means an individual who was either married to or in a common-law relationship with the contributor at the time of the contributor’s death. Quebec uses the term “civil union” in place of “common-law” and also requires that the two individuals are not “legally separated from bed and board” at the time of the contributor’s death.

To meet the minimum qualifying period, the general requirement is that the deceased individual contributed to CPP/QPP for one-third of his or her contributory period, or in ten calendar years, whichever is less.

Amount of Survivor’s Pension (See Reading B, Canadian Employment Benefits and Pension Guide, Special CEBS Edition, Paragraph 764)

Changes have been made to the determination of CPP survivor’s benefits effective January 1, 2019 for survivors who are under the age of 65. These changes are not reflected in Reading B, Canadian Employment Benefits and Pension Guide, Special CEBS Edition, Paragraph 764a, and so paragraphs 4, 5, 6 and 7 of Paragraph 764a should be disregarded.

To summarize, the amount of the CPP survivor’s pension differs depending on the age and circumstances of the survivor at the time of the contributor’s death:

- (a) Survivors who are receiving a CPP retirement pension will have their survivor’s pension combined with their CPP retirement pension, according to a formula. The formula used places a maximum on the combined payable amount equal to the maximum CPP retirement pension for the year.
- (b) Survivors aged 65 or older who do not receive a CPP retirement pension will receive a survivor’s pension equal to 60% of the deceased contributor’s CPP retirement pension.
- (c) Survivors under the age of 65 who do not receive a CPP retirement pension or CPP disability pension will receive a survivor’s pension equal to a flat rate plus 37.5% of the deceased contributor’s CPP retirement pension.

In addition, there are limits on the amounts payable to survivors who are receiving their own CPP/QPP retirement pension or CPP/QPP disability pension and who become eligible to receive a survivor’s pension. If a survivor is already receiving his or her own CPP/QPP retirement pension, the combination of the retirement pension and the survivor’s pension may not exceed the maximum CPP/QPP retirement benefit in the year the survivor’s pension becomes payable.

If the survivor is receiving a CPP/QPP disability pension, the survivor's pension plus the disability pension may not exceed the maximum CPP/QPP disability pension in the year the survivor's pension becomes payable.

Amount of CPP Survivor's Pension (Reading B, Canadian Employment Benefits and Pension Guide, Special CEBS Edition, Paragraph 764a)

A survivor who has not reached the age of 65 will receive a survivor's pension equal to a flat rate benefit plus 37.5% of the deceased contributor's retirement pension. The maximum survivor's benefit payable in 2019 is \$626.63. The flat rate portion (\$193.66 in 2019) is adjusted annually according to the Pension Index for the year.

Amount of QPP Survivor's Pension (Reading B, Canadian Employment Benefits and Pension Guide, Special CEBS Edition, Paragraph 764b)

Paragraph 764b does not show the current maximum survivor's pension under QPP for 2019.

The maximum survivor's pension payable in 2019 shown in Reading B, Canadian Employment Benefits and Pension Guide, Special CEBS Edition, Paragraph 764b should be as follows:

- (a) Surviving spouses under the age of 45 who are not disabled and who do not have a child of the contributor dependent on them, \$562.22 (fixed rate portion is correct as shown).
- (b) Surviving spouses under the age of 45 who are not disabled and who have a child of the contributor dependent on them, \$895.95 (fixed rate portion is correct as shown).
- (c) Surviving spouses who are disabled and with or without children, \$931.43 (fixed rate portion is correct as shown).
- (d) Surviving spouses between the ages of 45 and 64, \$931.43 (fixed rate portion is correct as shown).

A survivor who receives a disability pension from either CPP or QPP and who becomes entitled to a survivor's pension is eligible to receive a combined disability and survivor's pension. The method used to determine the exact amount of the combined pension differs between the two plans, but in each case the combined amount cannot exceed the amount of the maximum disability pension payable under the respective plan.

Taxation of Benefits

All CPP/QPP benefits are taxable to the recipient. The death benefit is taxable to the estate of the deceased contributor. All employer contributions to CPP/QPP are deductible from the employer's taxable income and do not confer a taxable benefit on the employee. Employee contributions give rise to a tax credit to the employee.

CPP/QPP Investment Management²

CPPIB

CPPIB was incorporated as a federal Crown corporation by an Act of Parliament (the "Canada Pension Plan Investment Board Act" (CPPIB Act)) in December 1997 and made its first investment in March 1999.

The mandate of the CPPIB is to:

- (a) Invest in the best interests of CPP contributors and beneficiaries
- (b) Maximize long-term investment returns without undue risk, taking into account the factors that may affect the funding of CPP and its ability to meet its financial obligations
- (c) Provide cash management services to CPP so that it can pay benefits.

CPPIB cannot conduct any business or activity that is inconsistent with these objectives.

Changes to the legislation governing CPPIB can only be made with the cooperation of the stewards—the federal and provincial finance ministers who oversee CPP. The process mirrors the constitutional amending formula for the CPP itself—It requires agreement among the federal government and two-thirds of the provinces representing two-thirds of the population.

2. Drawn from CPP Investment Board, 2019, www.cppib.ca.

CPPIB operates as a professional investment management organization in the private sector world of financial markets, and it is based in Toronto. Strong public sector accountability is reflected in CPPIB legislation and governance and in the policies and practices of the board, officers and employees.

Specific examples of the ways CPPIB is, by law, accountable to the stewards and the public include:

- (a) An annual report tabled in Parliament by the federal Minister of Finance
- (b) Annual audits by an independent external audit firm
- (c) A review of CPP and CPPIB by federal and provincial finance ministers every three years
- (d) Special examination of records, systems and practices every six years
- (e) If deemed necessary, the finance minister has the power to appoint a firm of accountants to conduct an audit at any time
- (f) Public meetings in each participating province every two years
- (g) Regular and timely information on the website that helps interested Canadians monitor the activities and investment performance of CPPIB.

Governance Structure

CPPIB operates within a governance structure that is enshrined in legislation and carefully designed to support its distinct mission. CPPIB operates independently of CPP and at arm's length from the federal and provincial governments that are jointly responsible for CPP.

Oversight of CPPIB is provided by an independent board of directors. This board, not governments, approves investment policies and makes critical operational decisions, such as the hiring of the president and chief executive officer (CEO) and the setting of executive compensation. The board hires the president and CEO who, in turn, hires and leads the management team. These investment professionals make portfolio decisions within policies agreed to by the board of directors.

Key investment objectives, policies, standards and procedures approved by the Board of Directors of CPPIB are documented in two key governance documents that reflect two of the CPPIB mandates. These documents are the:

1. Statement of Investment Objectives, Policies, Return Expectations and Risk Management for the Investment Portfolio of the Canada Pension Plan. This document applies to the assets of the long-horizon CPPIB investment portfolio.
2. Statement of Investment Objectives, Policies, Return Expectations and Risk Management for the Cash for Benefits Portfolio of the Canada Pension Plan. This document applies to the assets required to pay CPP benefits.

Appointment of Directors

Directors are appointed by the federal finance minister, in consultation with the participating provinces and with the assistance of a nominating committee, for a term of three years. The nomination process is designed to ensure that only those with expertise in investment, business and finance are appointed to CPPIB. The chair of the nominating committee is federally appointed, and each participating provincial government appoints one representative. The nominating committee recommends candidates for appointment and reappointment to the federal finance minister. In turn, the federal Minister of Finance makes the appointments in consultation with the provincial finance ministers. Each director is appointed for a term of three years and is eligible to be reappointed twice for a maximum of three terms (or nine years of service). To ensure continuity, the terms are staggered so that no more than half of the terms expire in the same year.

The CPPIB Act legislation disqualifies certain individuals from being directors.

Responsibilities of Directors

The principal duty of the board of directors is to oversee the management of the business affairs of CPPIB. Specific duties include:

- (a) Establishing investment policies, standards and procedures
- (b) Appointing an independent auditor
- (c) Approving procedures to identify and resolve conflicts of interest
- (d) Developing a code of conduct for directors, officers and employees
- (e) Appointing the president and CEO
- (f) Monitoring management, including decisions that require board approval and assessing management performance
- (g) Assessing performance of the board itself
- (h) Approving financial statements.

Board Expectations of Management

Management is expected to comply with the CPPIB Act and Regulations as well as all policies approved by the board. Management develops, with involvement from CPPIB, the strategic direction of the organization in response to its growing asset management responsibilities and the ever-changing outlook for capital markets. The strategy incorporates risk management policies and controls as well as monitoring and reporting mechanisms.

Management is charged with developing benchmarks that objectively measure the performance of markets and asset classes in which CPP assets are invested. Benchmarks assist the board in evaluating management's investment performance and structuring performance-based compensation incentives.

Management is expected to make full and timely disclosure to CPPIB and the public of all material activities including new investments, the engagement of operational and investment partners, quarterly and annual financial results, and developments that may affect the CPPIB reputation.

Directors' Remuneration

Directors' remuneration includes an annual retainer for each director and board and committee meeting fees per meeting, including meetings attended by invitation. The chair of a committee receives an additional retainer. Separate fees are not paid for investment committee meetings when they are held on the same day as board meetings, which is the custom. The chair of the board of directors receives annual compensation but is not eligible to receive annual or committee chair retainers or meeting fees unless the fees relate to public meetings.

Board Committees

CPPIB has four standing committees. The Investment Committee and the Audit Committee are required by the CPPIB Act. The Human Resources and Compensation Committee and the Governance Committee were created by the board of directors to advance corporate governance and operating objectives. Responsibilities of these committees are:

- (1) Investment Committee. Establishes investment policies, standards and procedures and reviews, approves and monitors the CPPIB annual investment plan. It also reviews the approach to investment risk management and approves the engagement of external fund managers and asset custodians. The committee consists of the full board.

- (2) Audit Committee. Responsible for overseeing financial reporting, external and internal auditing, information systems, and internal control policies and practices.
- (3) Human Resources and Compensation Committee. Responsible for reviewing and recommending the compensation philosophy for CPPIB, recommending the performance evaluation process for the CEO, ensuring a succession planning program is in place and reviewing organizational structure.
- (4) Governance Committee. Recommends governance policy, guidelines and procedures; makes recommendations on the board's effectiveness; monitors application of the code of conduct and conflict-of-interest guidelines; and assumes other duties at the request of the board of directors.

From time to time, CPPIB, at the request of the chair, may also form ad hoc committees to address specific issues or those requiring an immediate decision.

QPP Investments

Revenues collected over and above those required by Retraite Quebec for the immediate payment of benefits and administration costs are invested by the Caisse de depot et placement du Quebec as prescribed by the QPP Act.

The Caisse is a corporation within the meaning of the Civil Code that has the general and special powers of a corporation conferred by law. The Caisse is an agent of the Crown in Right of Quebec.

The Caisse is allowed to invest in assets similar to those referred to as “legal for life” investments (a set of quantitative and qualitative rules required of life insurance company investments) including:

- (a) Investments in government, municipal and school boards
- (b) Company shares and bonds
- (c) Real estate and mortgages on real estate, to a limited extent.

The Caisse cannot hold more than 30% of the common stock of any corporation, but it may invest up to 30% of its portfolio in common stock. There are limitations on the amount that can be invested in a single holding by the Caisse, depending on the size of the Caisse portfolio. There are no geographic limitations on the investments.

The Caisse is administered by a board of directors that includes a chairperson and president. There must be at least nine and no more than 15 directors, including the chair and the president. The government of Quebec appoints all members of the board of directors except the president, who is selected by the other board members and must be approved by the government. The president is also the CEO. The president may not hold the office of board chair. At least three-quarters of the members of the board of directors must reside in Quebec. No member of the board of the Caisse can be sued for any official act performed in good faith.

An annual report is required to be made by the Caisse before April 15 of each year outlining the operations of the Caisse for the prior year.

Reading B

Canadian Employment Benefits and Pension Guide,
Special CEBS Edition

B

CANADIAN EMPLOYMENT BENEFITS AND PENSION GUIDE

Special CEBS® Edition
2019



Canadian Employment Benefits and Pension Guide — Special CEBS Edition

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PREFACE

CANADIAN EMPLOYMENT BENEFITS AND PENSION GUIDE (SPECIAL CEBS EDITION)

About this special CEBS edition

This is a special CEBS edition of the *Canadian Employment Benefits and Pension Guide*, published by LexisNexis Canada Inc. Selected excerpts have been compiled from the original text.

How to use this special edition

Disregard references to other chapters or paragraphs that are not included in this special edition. In accordance with CEBS policy, only material specified as required reading is subject to inclusion on the national examination.

Chapter 1

Contributions — General

¶500 INTRODUCTION

Overview

The Canada and Quebec Pension Plans are parallel programs designed to provide retirement pensions and supplementary benefits. The Canada Pension Plan (“CPP”) is a compulsory and universal government-sponsored pension plan that came into effect on January 1, 1966 and was fully implemented by January 1, 1976. The residents of Quebec do not, however, pay into CPP. The Government of Quebec opted instead to implement its own plan—the Quebec Pension Plan (“QPP”)—which provides similar benefits, but is sponsored by the provincial government. QPP came into effect on January 1, 1966, and became fully effective on January 1, 1976.

On October 6, 2016, the federal government introduced Bill C-26, *An Act to Amend the Canada Pension Plan, the Canada Pension Plan Investment Board Act and the Income Tax Act*, and Bill C-26 received Royal Assent on December 15, 2016. As a result, beginning in 2019, CPP will gradually be enhanced.

On February 21, 2018, Quebec’s National Assembly adopted Bill 149, *An Act to enhance the Quebec Pension Plan and to amend various retirement-related legislative provisions*. It enhances QPP beginning in 2019 in a very similar manner as the Bill C-26 amendments to CPP.

No benefit is payable unless a person makes an application and payment of the benefit has been approved. Applications are made by writing to the Minister of Human Resources and Skills Development through a district, regional, or other office, or, in Quebec, to the Retraite Québec.

Every person who has reached 18 years of age and who is employed in pensionable employment must, unless already done, file an application for the assignment of a Social Insurance Number.

Coverage

CPP/QPP apply to almost everyone who is working and their spouses or common-law partners. However, there is a minimum annual income, the year’s basic income exemption, necessary for participation in the CPP/QPP. Also, certain types of employment are exempt.

Contributions

To fund CPP and QPP, the federal government and the Quebec government

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require compulsory contributions from employees, employers, and the self-employed.

Employee Contributions

The amount that an employee must contribute to CPP/QPP is based on his or her employment income for the year, calculated from either the start of CPP/QPP or from the time the contributor turned 18, whichever is later.

There is both an income threshold and income ceiling: contributors pay a percentage of that income which is above the threshold and below the ceiling. The amount of the threshold is usually referred to as the year’s basic exemption (“YBE”). The income ceiling changes each year, and is usually referred to as the maximum pensionable earnings (“YMPE” under CPP and “MPE” under QPP).

The CPP/QPP enhancements implemented in 2019 call for a second, higher earnings limit to be added starting in 2024. Under CPP, this higher earnings limit will be known as the Year’s Additional Maximum Pensionable Earnings (“YAMPE”); under QPP it will be simply called “annual earnings greater than the MPE.” A new range of earnings will be covered by CPP/QPP, starting at the YMPE and ending at the YAMPE, or Annual earnings greater than the MPE, and these earnings will be known as “second additional pensionable earnings.”

Prior to January 1, 2019, under CPP, an employee contributed 4.95% on employment earnings between the year’s basic income exemption (\$3,500) and the YMPE. As a result of changes to CPP, employee contribution rate increases are being phased in over the period 2019 through 2025. The contribution rate for employees will increase gradually from 4.95% to 5.95% on earnings between \$3,500 and the YMPE. These earnings from 2019 onward will be referred to as “first additional pensionable earnings.” The employee contribution rate applicable to the “second additional pensionable earnings” will be 4%. Therefore, once the phase in period is complete, the employee will pay a contribution rate of 5.95% on the first additional pensionable earnings and 4% on the second additional pensionable earnings.

The employee CPP contribution is 5.10% in 2019 and it will rise to 5.95% in 2023. In 2024, employee contributions of 2% will apply to the second additional pensionable earnings; in 2025 the employee contribution on that portion of earnings will rise to 4%.

Under QPP, the benefit enhancement and increase in contribution rates is similar to CPP. The implementation timeframe is one year shorter—2019 to 2024. One should note that, although the contribution rate increases are identical under CPP and QPP, QPP has had a higher existing contribution rate. In 2019, the combined employer/employee contribution rate under CPP is 10.2%, while it is 11.1% under QPP. So, regardless of the similar increases, the contribution rates under QPP will still remain higher.

CONTRIBUTIONS — GENERAL**¶500**

The employee QPP contribution is 5.55% in 2019 and it will rise to 6.4% in 2023. Beginning in 2024, there will also be a 4% contribution rate on annual earnings greater than the MPE.

See Employee Contributions at ¶525 *et seq.*

Employer Contributions

The employer makes a contribution to CPP/QPP that matches the employee's contribution. Both employer and employee contributions are made at the same rate, and the same threshold and ceiling amounts apply.

Prior to January 1, 2019, under CPP the employer contributed 4.95% on the employee's employment earnings between the YBE (\$3,500) and the YMPE. As a result of changes to CPP, employer contribution rate increases are being phased in over the period 2019 through 2025. The contribution rate for employers will increase gradually from 4.95% to 5.95% on earnings between \$3,500 and the YMPE limit. These earnings from 2019 onward will be referred to as "first additional pensionable earnings." The employer contribution rate applicable to the "second additional pensionable earnings" will be 4%. Therefore, once the phase in period is complete, the employer will pay a contribution rate of 5.95% on the first additional pensionable earnings and 4% on the second additional pensionable earnings.

The employer CPP contribution is 5.10% in 2019 and it will rise to 5.95% in 2023. In 2024, employer contributions of 2% will apply on the second additional pensionable earnings; in 2025 the employer contribution on that portion of earnings will rise to 4%.

The employer QPP contribution is 5.55% in 2019 and it will rise to 6.4% in 2023. Beginning in 2024, there will also be a 4% contribution rate on annual earnings greater than the MPE.

See Employer's Contribution at ¶560 *et seq.*

Self-Employed Persons

Self-employed people from age 18 pay the combined rate for employees and employers. The same threshold and ceiling amounts apply. See Contributions by Self-Employed Persons at ¶600 *et seq.*

Retirement Pensions

CPP — The right to full retirement pensions became effective in 1976 after CPP had been in operation for 10 years. Since 1998 the retirement pension for a person age 65 has been 25% of his or her monthly pensionable earnings, adjusted to reflect the average of the final five-year maximum pensionable earnings.

As a result of the 2019 CPP enhancements, the CPP retirement pension will grow

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to eventually replace one-third of an individual's average work earnings, up to the YAMPE.

The enhanced CPP will provide a basic monthly retirement pension to a contributor determined as the total of:

- 25% of their average monthly pensionable earnings,
- 8.33% of their first additional monthly pensionable earnings, and
- 33.33% of their second additional pensionable earnings.

The phase-in period for higher contributions means that the new maximum retirement pension won't be obtainable until 2065.

In 2019, the maximum pension payable at age 65 is \$1,154.58 per month.

QPP — The right to full retirement pensions became effective in 1976, after QPP had been in operation for 10 years. Since then, the retirement pension for a person at age 65 has been 25% or one-twelfth of the person's average maximum pensionable earnings for the year.

Prior to 2014, to be eligible for a retirement pension, the applicant must have contributed to QPP for at least one year and: (1) reached the age of 65; or (2) reached 60 years of age and either ceased working or entered a progressive retirement agreement with his or her employer that reduced the applicant's income by at least 20%. Effective January 1, 2014, contributors age 60 and over who have contributed to QPP for at least one year are entitled to a retirement pension even if they continue working.

After 2019, the pension will gradually increase from 25% to 33.33% of a worker's income up to the MPE (\$57,400 for 2019). The phase in period for higher contributions means that the new maximum retirement pension won't be obtainable until 2065.

The 2019 maximum retirement pension payable at age 65 is \$1,154.58 per month.

Taxability of Contributions and Benefits

Contributions to CPP/QPP are deductible from income. When pension benefits are received, they are taxable like other income.

Old Age Security Benefits

An OAS pension is payable in addition to CPP/QPP retirement pension. In considering the size of the pension available on retirement, both pensions must be taken into account.

An individual has the option of deferring the payment of his or her OAS pension for up to five years past the age of eligibility and, as a result, receive enhanced

CONTRIBUTIONS — GENERAL

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monthly benefits of 0.6% per month of deferral or 7.2% per year of deferral. Whether deferral would be advantageous to an individual would depend upon each person's circumstances.

OAS pensions are subject to an income test. For those beneficiaries whose income was above the threshold amount, their pension would be subject to a "clawback." In 1996, amendments to the *Income Tax Act* were made whereby the clawback amount would be deducted from pension payments.

Pensions and Work After 65

Under CPP, beginning in 1975, and under QPP, beginning in 1977, contributors aged 65 or over can draw the full amount of the retirement pension earned, whether or not they continue to work and receive wages.

Death Benefits

The CPP/QPP death benefit is a lump-sum payment equal to \$2,500, payable as long as the deceased contributor has met the minimum requirements regarding contributory period.

The CPP death benefit is paid to the deceased contributor's estate.

The QPP death benefit is paid to the person or charity who paid the funeral expenses if an application including proof of payment is made within 60 days of the contributor's death. If, after 60 days of the contributor's death, no application has been filed along with proof of payment, the death benefit can be paid to the deceased's heirs.

Qualifying Period for Death Benefits and Survivor's and Orphan's Pensions

For the purposes of death benefits, and survivor's and orphan's pensions, deceased contributors are considered to have made contributions for not less than the minimum qualifying period only if they have made contributions for at least one-third of the total number of calendar years included either wholly or partly within their contributory period and, in any case, for at least three calendar years. Deceased contributors are also considered to have made contributions for not less than the minimum qualifying period if they have made contributions for at least 10 calendar years. The contributory period starts January 1, 1966, or when contributors reach the age of 18, whichever comes later.

Under QPP, the contributor may also be considered qualified if: (1) he or she was entitled, during his or her contributory period, to a tax credit for a severe and prolonged impairment in mental or physical functions under the *Quebec Taxation Act*; (2) he or she made contributions for at least one-fourth of the total number of years wholly or partly included in his or her contributory period, but for at least three

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years; and (3) no retirement pension or disability pension was payable to him or her under QPP or a similar plan.

All contributions made by a contributor are considered when determining the eligibility for survivor death benefits, including those contributions made after a contributor started receiving a retirement pension.

Survivor's Pension

The survivors of deceased contributors who have made contributions for the minimum period are entitled to a pension if the survivor has reached 65 years of age. If the survivor has not reached 65 years of age at the time of the contributor's death, the survivor may still be entitled to a survivor's pension where:

- the survivor was at least 35 years old at the time of the contributor's death;
- there were dependent children at the time of the contributor's death; or
- the survivor is disabled.

A survivor's pension first becomes payable in the month following the month in which the criteria for entitlement are met.

The surviving spouse's pension under QPP can be increased if the deceased contributor was entitled to a retirement pension supplement.

As a result of Bill C-26 (CPP) and Bill 149 (QPP), the enhancements discussed under the Retirement Pension section, above, will also be applicable to CPP and QPP survivor's pensions.

Survivor's Pension and Remarriage

Effective January 1, 1984 under QPP, and effective January 1, 1987 under CPP, the survivor's pension is not terminated on remarriage. Moreover, where payment of a survivor's pension has been discontinued owing to remarriage which occurred before January 1, 1984 (under QPP) or before January 1, 1987 (under CPP), the pension becomes payable again upon application for it from January 1, 1984 (under QPP) or from January 1, 1987 (under CPP).

Orphan's and Disabled Contributor's Child's Benefits

Upon approval of an application, an orphan's or a disabled contributor's child's benefit is payable. It is payable up to the age of 18, or to age 25, if the orphan or child is in full-time attendance at a school or university. Where payment of a benefit is approved, the benefit is payable monthly, commencing:

- (1) in the case of a disabled contributor's child, the later of the month in which a disability pension is payable, or the month next following the

CONTRIBUTIONS — GENERAL

¶500

month in which the child was born or otherwise became a child of the contributor, and

- (2) in the case of an orphan, the later of the month following the month in which the contributor died or the month next following the month in which the child was born.

A child may receive up to two flat-rate benefits under CPP, if both parents were CPP contributors and are either deceased or disabled and if all conditions of eligibility are met with respect to both benefits.

Payment of a benefit ceases with the payment for the month in which the beneficiary ceases to be a child of a disabled contributor to whom a disability pension is payable, or ceases to be an orphan, or dies.

Disability Benefits

A contributor of any age under CPP, and a contributor under age 60 under QPP, is regarded as disabled if an examination reveals a medically determinable impairment in which physical or mental disability is so severe and prolonged that the contributor is unable to secure regular and substantially gainful employment. Under QPP, a contributor age 60 to 64 may be regarded as disabled if the contributor is incapable regularly of carrying on the substantially gainful occupation held at the time when she or he ceased working due to the disability.

QPP contributors between the ages of 60 to 64 (inclusive) who are deemed to have been disabled because they were unable to work at their last occupation will have to prove that they have recently worked. A contributor in this situation must have contributed to the Plan for at least 4 of the 6 years preceding his or her disability.

As a result of Bill C-26 (CPP) and Bill 149 (QPP), the enhancements discussed under the Retirement Pension section, above, are also applicable to CPP and QPP disability pensions.

Portability of Pensions

There is full portability of pensions. Thus, a contributor's pension rights are not reduced in any way by changing employment or residence.

The administration of CPP and QPP is fully coordinated. If a contributor to one plan becomes a contributor to the other plan through a change in job or residence, the earnings records of the contributor are recorded under both plans and merged, with only one combined pension being paid. CPP determines which of the two jurisdictions pays the pension.

Keeping Pensions Up-to-Date

CPP and QPP have built-in provisions for keeping pensions up-to-date with the

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cost-of living as defined by the Consumer Price Index (“CPI”). Pensions are escalated in accordance with the Pension Index that reflects the increase in CPI by comparing the average of the CPI for the 12-month period ending each October 31st to the average of CPI in the 12-month period ending on the preceding October 31st. This allows CPP and QPP retirement pensions to stay in step with improvements in productivity and wage rates.

¶511 CONTRIBUTORY PERIOD

CPP

Section 49 of CPP defines the “contributory period” of a contributor—i.e., the amount of time the contributor was making net CPP contributions from employment or self-employment income for the purpose of calculating the retirement pension, death benefit, survivor’s pension, or orphan’s benefit. Note that a person’s contributory period for the purposes of the disability benefit or disabled contributor’s child’s benefit is defined in paragraph 44(2)(b) of CPP.

The contributory period begins January 1, 1966, or when a person reaches 18 years of age, whichever is later (CPP, s. 49).

The base contributory period ends:

- (1) where the contributor starts receiving a benefit (except for a disability pension) before the end of 1986, when the contributor reaches 65 years of age, or if the contributor makes a contribution for earnings after he or she reaches 65 years of age, with the month in which the contributor last made a contribution, and in any case, not later than the month in which the contributor dies; or
- (2) where the contributor starts receiving a benefit (except for a disability pension) after the end of 1986, the earliest of:
 - (a) the month preceding the month in which the contributor reaches the age of 70,
 - (b) the month in which the contributor dies, or
 - (c) the month preceding the month in which the contributor starts receiving a retirement pension (CPP s. 49).

The contributory period excludes:

- (1) any months where the contributor was receiving a CPP or QPP disability pension; or
- (2) months in which the contributor was receiving family allowance benefits in a year where his or her unadjusted pensionable earnings were equal to or less than his or her basic exemption for the year (\$3,500 for 2019) (CPP s. 49).

CONTRIBUTIONS — GENERAL

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As a result of the passage of Bill C-26, which enhances CPP starting in 2019, two additional contributory periods have been defined as the “first additional contributory period” and “second additional contributory period.”

First Additional Contributory Period

The first additional contributory period of a contributor is the period commencing January 1, 2019, or when the contributor reaches 18 years of age, whichever is later, and ending with the earliest of:

- (1) the month preceding the month in which the contributor reaches 70 years of age,
- (2) the month in which the contributor dies, and
- (3) the month preceding the month in which the retirement pension commences (CPP, s. 49.1).

Second Additional Contributory Period

The second additional contributory period of a contributor is the period commencing January 1, 2024, or when the contributor reaches 18 years of age, whichever is later, and ending with the earliest of:

- (1) the month preceding the month in which the contributor reaches 70 years of age,
- (2) the month in which the contributor dies, and
- (3) the month preceding the month in which the retirement pension commences (CPP, s. 49.2).

QPP

As a result of Bill 149, which received assent on February 22, 2018, QPP will be enhanced in a similar method to CPP. As a result, QPP will introduce an additional plan in two stages. The first stage will commence in 2019 and the second in 2024. As a result of these changes, QPP will include both a base plan and an additional plan (QPP, s. 1(0.1)). Beginning in 2019, the employer will have to withhold the base contribution and a first additional contribution on an employee’s pensionable salary, which does not exceed the MPE. This rate of the first additional contribution will gradually increase from 2019 to 2023, when it reaches 2% (split between employer and employee). In 2024, the employer will be required to withhold the base contribution, the first additional contribution, and a second additional contribution on an employee’s pensionable salary exceeding the MPE, but less than the YAMPE (Year’s Additional Maximum Pensionable Earnings). The second additional contribution will be 8%, which will be split equally between the employee and employer.

Under QPP, the base contributory period, first additional contributory period, and

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second additional contributory period of a person begin on his or her eighteenth birthday or on the following date, if he or she reached 18 years of age before that date:

- (1) January 1, 1966, for his or her base contributory period;
- (2) January 1, 2019, for his or her first additional contributory period; or
- (3) January 1, 2024, for his or her second additional contributory period (QPP, s. 101).

Each of those periods terminate at the end of the earliest of the following months:

- (1) the month before the month in which a retirement pension commences;
- (2) the month before the person turns 70 years of age; or
- (3) the month in which the person dies (QPP, s. 101).

The base contributory period does not include any month:

- (1) for which a disability pension was payable to a person under QPP or CPP;
- (2) falling between the month the person became disabled and the month a replacement indemnity under the *Act respecting industrial accidents and occupational diseases* becomes payable to the person, if the date of disability fixed is later than June 30, 1993;
- (3) after January 1, 1994, where a month is included in a person's period of indemnity, if the same month is included in a year when the person's unadjusted pensionable earnings do not exceed the personal exemption amount; or
- (4) for which a family allowance was payable to the person, if included in a year when his or her unadjusted pensionable earnings did not exceed the personal exemption amount for the year (QPP, s. 101).

It should be noted that the contributory period of a person is the total number of months he or she *could* have been covered under CPP or QPP. For instance, an immigrant aged 45 arrives in Canada in 1976, 10 years after CPP and QPP have been in operation and retires at age 65 in 1996. The contributory period for the purpose of calculating the person's retirement pension would begin in 1966, even though he or she did not become a resident of Canada until 1976. The earnings for this 10-year period would be recorded as zero.

Chapter 2

Employee Contributions

¶525 OVERVIEW

Beginning in 2019, CPP is gradually being enhanced. Currently, CPP/QPP retirement pensions replace one-quarter of an individual's average work earnings. The enhancements will mean that retirement pensions will begin to grow to replace one-third of an individual's average work earnings. Such an increase in benefits obviously necessitates an increase in contributions.

Under CPP, from 2019 to 2023, the contribution rate for employees will gradually increase by one percentage point (4.95% to 5.95%) on earnings between \$3,500 and the YMPE. In 2024, employees will begin contributing on a new, additional range of earnings at a rate of 2% in 2024 and 4% in 2025. This range of earnings will start at the original earnings limit (YMPE) and extend to a new Year's Additional Maximum Pensionable Earnings limit (YAMPE), which is expected to be 14% higher by 2025.

Under QPP, from 2019 to 2023, the contribution rate for employees will gradually increase by one percentage point (5.4% to 6.4%) on earnings between \$3,500 and the MPE. In 2024, employees will also contribute on annual earnings greater than the MPE (the amount of pensionable earnings in excess of the MPE and the new pensionable earnings ceiling) at a rate of 4%.

The YMPE under CPP and MPE under QPP for 2019 is \$57,400—up from \$55,900 in 2018.

The YBE under CPP and QPP for 2019 is \$3,500.

The employee contribution rate (base rate and first additional contribution rate combined) under CPP for 2019 is 5.1% (4.95% base and 0.15% first additional contribution). This is an increase from the 2018 rate of 4.95%.

The employee contribution rate (base rate and first additional contribution rate combined) under QPP for 2019 is 5.55% (5.4% base and 0.15% first additional contribution). This is an increase from the 2018 rate of 5.4%.

The maximum employee contribution to CPP for 2019 is \$2,748.90. The maximum in 2018 was \$2,593.80.

The maximum employee contribution to QPP for 2019 is \$2,991.45. The maximum in 2018 was \$2,829.60.

Employers may have to deduct CPP contributions from the pensionable earnings paid to employees who are at least 60 years of age but under 70, even if the employees are receiving a CPP or QPP retirement pension.

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Employees 60 to 65 Years of Age: An employee 60 to 65 years of age who works and receives a CPP or QPP retirement pension will have to contribute to CPP and the employer must deduct and remit CPP contributions.

Employees Over 65 to 70 Years of Age: An employee 65 to 70 years of age who works and receives a CPP or QPP retirement pension will have to contribute to CPP, and the employer must deduct and remit CPP contributions, *unless* the employee has filed an election with the employer to stop paying CPP contributions. The election takes effect on the first day of the month following the month in which the employee provides the employer with a completed and signed election form.

An employee 65 to 70 years of age who works and receives a CPP or QPP retirement pension will have to contribute to CPP, and the employer must deduct and remit CPP contributions, if the employee revoked his or her election to stop paying CPP contributions in 2013 or later.

¶526 EMPLOYEES' OBLIGATION TO CONTRIBUTE

Beginning in 1966, every employee employed in pensionable employment during a year that falls within his or her contributory period is required to make an employee's contribution for the year (CPP, s. 8, 49; QPP, s. 50, 101).

In 2019, the employee's CPP contribution is equal to 5.1% (4.95% for the base contribution and 0.15% for the first additional contribution) of the lesser of the contributory salary and wages for the year, minus the YBE, or the maximum contributory earnings for the year, minus whatever salary and wages are paid to the employee by such employer and upon which contributions have been paid under a similar plan.

In 2019, the employee's QPP contribution is equal to 5.55% (5.4% for the base contribution and 0.15% for the first additional contribution) of the lesser of the contributory salary and wages for the year, minus the YBE, or the maximum contributory earnings for the year minus whatever salary and wages are paid to the employee by such employer and upon which contributions have been paid under a similar plan.

Contributions are deducted by the employer from the salary or wages paid to the employee. Deductions for employees' contributions are made in the year in which the remuneration is paid, whether or not the remuneration was earned in that year (CPP, s. 8; CPP Reg., s. 5; QPP, s. 59; *Regulation respecting contributions to the Quebec Pension Plan*, s. 6). Residence is not a requirement for making contributions to or receiving benefits from CPP or QPP as in the case of a self-employed person.

EMPLOYEE CONTRIBUTIONS

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¶539 AMOUNT OF CONTRIBUTORY SALARY AND WAGES

CPP — The amount of an employee's CPP contributory salary and wages is the employee's income for the year from pensionable employment computed in accordance with the *Income Tax Act*, minus any authorized deductions other than the deduction for a residence of a member of the clergy. This, in effect, means the employee's *gross income* before any deductions have been made (except the deduction for a residence of a member of the clergy). The amount of a contributory salary and wages of an employee for the year does not include any income received:

- (1) by an individual before reaching 18 years of age;
- (2) during a month that is excluded from the employee's contributory period due to a disability;
- (3) after the employee reaches 65 years of age if:
 - (a) a retirement pension is payable to the individual under CPP or under a provincial pension plan, and
 - (b) the individual makes an election to exclude the income; or
- (4) after the individual reached 70 years of age.

QPP — The amount of an employee's QPP contributory salary and wages is the employee's income for the year from pensionable employment computed in accordance with the *Taxation Act* of Quebec, minus any authorized deductions. This, in effect, means the employee's *gross income* before any deductions have been made. The amount of a contributory salary and wages of an employee for the year does not include any income received:

- (1) by an individual before reaching 18 years of age;
- (2) during a month that is excluded from the employee's contributory period due to being determined to be disabled under QPP, CPP, or under a similar plan;
- (3) by an individual to whom a retirement pension has become payable under QPP, CPP, or under a similar plan; or
- (4) by an individual after reaching 70 years of age (QPP, s. 45, 46).

The exclusion of income or amounts referred to in (3) and (4) does not apply for years subsequent to 1997 (QPP, s. 45).

Beginning in 1975 under CPP, and in 1973 under QPP, the income earned by a contributor, but not actually received before the contributor's death, is included as part of that contributor's contributory salary and wages.

Chapter 3

Employer Contributions

¶561 OVERVIEW

Employer contributions to CPP/QPP are equal to those of employees. Increased contribution rates required due to enhancement of CPP/QPP apply equally to employer contributions.

Under CPP, from 2019 to 2023, the contribution rate for employers will gradually increase by one percentage point (4.95% to 5.95%) on earnings between \$3,500 and the YMPE. In 2024, employers will begin contributing on an additional range of earnings, at a rate of 2% in 2024 and 4% in 2025. This range of earnings will start at the original earnings limit (YMPE) to the additional earnings limit (YAMPE), which is expected to be 14% higher by 2025.

Under QPP, from 2019 to 2023, the contribution rate for employers will gradually increase by one percentage point (5.4% to 6.4%) on earnings between \$3,500 and the MPE. In 2024, employers will also contribute on annual earnings greater than the MPE (the amount of pensionable earnings in excess of the MPE and the new pensionable earnings ceiling), at a rate of 4%.

The YMPE amount under CPP and QPP for 2019 is \$57,400 — up from \$55,900 in 2018.

The YBE under CPP and QPP for 2019 is \$3,500.

The employer contribution rate (base rate and first additional contribution rate combined) under CPP for 2019 is 5.1% (4.95% base and 0.15% first additional contribution). This is an increase from the 2018 rate of 4.95%.

The employer contribution rate (base rate and first additional contribution rate combined) under QPP for 2019 is 5.55% (5.4% base and 0.15% first additional contribution). This is an increase from the 2018 rate of 5.4%.

The maximum employer contribution to CPP for 2019 is \$2,748.90. The maximum in 2018 was \$2,593.80.

The maximum employer contribution to QPP for 2019 is \$2,991.45. The maximum in 2018 was \$2,829.60.

¶561a EMPLOYER'S OBLIGATION TO CONTRIBUTE

The employer has a specific obligation to make contributions in respect of remuneration paid to each employee employed in pensionable employment. It is the

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counterpart of the obligation of the employee to make contributions (CPP, s. 9; QPP, s. 52).

In 2019, the employer CPP contribution rate (base rate and first additional contribution combined) under CPP is 5.1% (4.95% base and 0.15% first additional contribution). This contribution rate is applied to the employee's pensionable earnings, equal to:

- (1) the contributory salary and wages of an employee for the year, minus the employee's basic exemption; and
- (2) the maximum contributory earnings of the employee for the year, minus any salary and wage of the employee on which a contribution has been made for the year by the employer, with respect to the employee, under a provincial pension plan (CPP, s. 9(1)).

In 2019, the maximum CPP employer contribution in respect of any one employee is \$2,748.90; the employer also remits the employee CPP contributions that have been deducted from the employees' earnings.

In 2019, the employer's QPP contribution rate (base rate and first additional contribution combined) under QPP is equal to 5.55% (5.4% for the base contribution and 0.15% for the first additional contribution). This contribution rate is applied to the employee's pensionable earnings, equal to the lesser of:

- (1) the contributory salary and wages for the year, minus the basic exemption for the year, or
- (2) the maximum contributory earnings for the year minus whatever salary and wages are paid to the employee by such employer and upon which contributions have been paid under a similar plan.

In 2019, the maximum amount an employer is required to pay in respect of any one employee is \$2,991.45 under QPP; the employer also remits the employee QPP contributions that have been deducted from employees' earnings.

¶598 CONTRIBUTION BY SELF-EMPLOYED PERSON

The YMPE amount under CPP and QPP for 2019 is \$57,400—up from \$55,300 in 2018.

The YBE amount under CPP and QPP for 2019 is \$3,500.

The self-employed contribution rate (base rate and first additional contribution combined) under CPP for 2019 is 10.2% (9.9% base and 0.3% first additional contribution). This is an increase from the 2018 rate of 9.9%.

The self-employed contribution rate (base rate and first additional contribution

EMPLOYER CONTRIBUTIONS

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combined) under QPP for 2019 is 11.1% (10.8% base and 0.3% first additional contribution). This is an increase from the 2018 rate of 10.8%.

The maximum self-employed contribution to CPP for 2019 is \$5,497.80. The maximum in 2018 was \$5,187.60.

The maximum self-employed contribution to QPP for 2019 is \$5,982.90. The maximum in 2018 was \$5,659.20.

Chapter 4

Pensions and Supplementary Benefits — General

¶700 DEFINITIONS

The following definitions are applicable in determining entitlement to pensions and supplementary benefits:

¶700a BASIC NUMBER OF CONTRIBUTORY MONTHS

The basic number of contributory months definition is used when calculating benefits. The basic number is used as the denominator to determine average monthly pensionable earnings for retirement pensions payable after December 1975 where the total number of months in the retiree's contributory period is less than 120 months. The definition allows the contributor to subtract the number of months when a disability pension is paid to the contributor from the basic 120-month figure. The remainder then becomes the contributor's basic number of contributory months. For example, if the contributor has contributed for eight years (96 months) but received no disability benefits, the denominator is 120. If the contributor has contributed for eight years, but received disability benefits for two years, the denominator is 96.

CPP — The basic number of contributory months in the case of any contributor means 120 minus the number of months that were excluded from the contributor's contributory period under CPP or under a provincial pension plan by reason of disability (CPP, s. 42(1)).

QPP — The basic number of base contributory months is:

- (1) 120 months for a retirement pension, less the excluded months;
- (2) 24 months for a disability pension, or, if the contributor qualifies for a disability pension before July 1, 1993, 60 months; and
- (3) 36 months for a surviving spouse's pension or death benefit in respect of a contributor who died after December 31, 1993 and who was not receiving a QPP or CPP retirement pension at the time of his or her death (QPP, s. 116.2).

Excluded from the base contributory period are:

- (1) months in which the individual was receiving a disability pension under QPP or similar plan;

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- (2) where the date of disability is later than June 30, 1993, those months that fall between the month in which the contributor became disabled and the first month when a pension is payable; and
- (3) those months included in a period of indemnity, if the same month is included in a year for which the contributor's unadjusted pensionable earnings do not exceed the contributor's personal exemption (QPP, s. 101).

Chapter 5

Retirement Pension

¶725 BENEFITS PAYABLE

The normal commencement age for a CPP or QPP retirement pension is age 65. Effective January 1, 1987, under CPP, a retirement pension is payable to a contributor who has reached 60 years of age (CPP, s. 44(1)(a)). Effective January 1, 2015, under QPP, a contributor is qualified for a retirement pension from the age of 60 (QPP, s. 105(a), 106.3).

CPP — A retirement pension is payable to a person who has contributed to CPP for at least one year and has reached the age of 60. There is no requirement that the person has ceased employment.

The CPP retirement pension is payable commencing with the latest of:

- (1) the month in which the applicant reached 60 years of age;
- (2) the month following the month in which the application was received if the applicant was under 65 years of age when he or she applied;
- (3) the 11th month preceding the month in which the application was received if the applicant had reached 65 years of age when he or she applied, but in no case earlier than the month in which he or she reached 65 years of age; or
- (4) the month chosen by the applicant in his or her application.

QPP — Individuals age 60 and over who have contributed to QPP for at least one year are able to apply for their retirement pension even if they are still working.

For a QPP contributor who has not yet reached age 65, the retirement pension is payable from the latest of the following months:

- (1) the month of the contributor's 60th birthday;
- (2) the month following the month of the application of a contributor under 65 years of age;
- (3) the month designated in the contributor's application for the first payment of the retirement pension.

For a QPP contributor who is age 65 or over, the retirement pension can start on the date designated in the contributor's application for the first payment of the retirement pension, but in no event can this be a date that is more than 12 months from the date that the application is filed, or before their 65th birthday.

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¶727 ASSIGNMENT OF RETIREMENT PENSION TO COMMON-LAW PARTNER/SPOUSE

CPP — Common-law partners or spouses in an ongoing relationship can apply to share their CPP retirement pension payments through an assignment of a portion of a contributor's retirement income to his or her common-law partner or spouse (CPP, s. 65.1).

Where a retirement income is payable to both common-law partners or both spouses under CPP, or a retirement pension is payable to the other common-law partner or spouse under a provincial pension plan and an assignment is permitted, the assignment will be made in respect of both retirement pensions (CPP, s. 65.1(6)).

Where one common-law partner or spouse is a contributor under CPP, and the other is not a contributor under CPP or a provincial pension plan, a retirement pension is payable to the contributor under CPP, and when the non-contributor common-law partner or spouse has reached age 60, the assignment will be made only in respect of the retirement pension of the contributor (CPP, s. 65.1(7)).

Upon assignment, each common-law partner or spouse will receive a portion of the other's retirement pension, if any. The portion will be calculated using the length of time the couple have lived together in relation to their contributory period. For example, if a couple has lived together for 20% of their contributory periods, 20% of the retirement pension they are entitled to may be divided between them (CPP, s. 65.1(9)).

The assignment of the retirement pension payments starts once an application for assignment is approved. There is no retroactivity (CPP, s. 65.1(10)).

The assignment ends:

- (1) the month one of the common-law partners or spouses dies;
- (2) the 12th month after a separation;
- (3) if only one common-law partner or spouse has been a contributor, the month the non-contributor common-law partner or spouse has sufficient employment earnings to become a contributor;
- (4) the month of divorce or annulment of marriage; or
- (5) the month following the month in which the Minister approves a request or requests in writing from both common-law partners or spouses that the assignment be cancelled (CPP, s. 65.1(11)).

If the assignment was cancelled upon written request by both common-law partners or spouses, reinstatement can occur when either common-law partner or spouse makes a written request to the Minister to have the assignment reinstated.

RETIREMENT PENSION

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The reinstated assignment will begin on the first day of the month following the month in which the request is approved (CPP, s. 65.1(11.1), (11.2)).

QPP — A retirement pension may be partitioned between the beneficiary and the beneficiary’s spouse if:

- (1) they are married and not legally separated or if they are in a civil union, upon written application by either of them;
- (2) neither the beneficiary nor the beneficiary’s spouse of the opposite or the same-sex is married to or in a civil union with another person and they have been living in a *de facto* union for at least three years or one year where a child was born or adopted, upon written application made jointly; or
- (3) the beneficiary’s spouse satisfies one of the following conditions:
 - (a) he or she is the beneficiary of a QPP retirement pension,
 - (b) he or she is the beneficiary of a CPP retirement pension, or
 - (c) he or she has reached 60 years of age and is not a contributor whose unadjusted pensionable earnings have been partitioned (QPP, s. 158.3).

Persons in *de facto* unions are able to apply for a partition of a retirement pension (*An Act to reform the Quebec Pension Plan and to amend various legislative provisions*, S.Q. 1997, c. 73, s. 98(2)). Effective June 24, 2002, persons in a “civil union” are able to apply for a partition of a retirement pension (*An Act instituting civil unions and establishing new rules of filiation*, S.Q. 2002, c. 6, s. 168(1)).

The amount of pension the spouse is entitled to is calculated in accordance with sections 158.5 and 158.6 of QPP.

The partition of the retirement pension payments starts from the later of the month after Retraite Québec approval or the month indicated in the partition application, and cannot be later than 12 months after the month of application. Both spouses will be notified as soon as the partition has been approved (QPP, s. 158.7).

The assignment ends at the end of the month in which one of the following events occurs:

- (1) the death of either spouse;
- (2) Retraite Québec is informed that a spouse who has reached 60 years of age and is not a contributor whose unadjusted pensionable earnings have been partitioned has become a contributor;
- (3) Retraite Québec receives one of the following documents: (i) a judgment of divorce, annulment of marriage or separation of the spouses, (ii) an application for cessation of partition of the pension signed by both

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married or civil union spouses or by either of the *de facto* spouses, or (iii) a judgment of dissolution or annulment of the civil union of the spouses or a notarized joint declaration dissolving the civil union;

- (4) Retraite Québec is informed that the *de facto* spouses have ceased to live in a *de facto* union for at least 12 months (QPP, s. 158.8).

¶728 AMOUNT OF RETIREMENT PENSION

CPP — On October 6, 2016, the federal government introduced Bill C-26, *An Act to Amend the Canada Pension Plan, the Canada Pension Plan Investment Board Act and the Income Tax Act*, and Bill C-26 received Royal Assent on December 15, 2016. As a result, beginning in 2019, CPP will gradually be enhanced. The objective of the enhancements is for CPP to ultimately replace one-third of an individual's average work earnings, up to a new, higher, earnings threshold.

Prior to 2019, the amount of a retirement pension payable to a contributor age 65 and over was a basic monthly amount equal to 25% of his or her average monthly pensionable earnings, adjusted to reflect the average of the final five-year maximum pensionable earnings threshold (CPP, s. 42(1), 46(1)).

The enhanced CPP will provide a basic monthly retirement pension at age 65 determined as the total of:

- (1) 25% of their average monthly pensionable earnings,
- (2) 8.33% of their first additional monthly pensionable earnings, and
- (3) 33.33% of their second additional monthly pensionable earnings (CPP, s. 46(1)(a)).

The commentary at ¶731 covers what is meant by average monthly earnings and how these earnings are computed for the purposes of a retirement pension and certain supplementary benefits.

The CPP enhancements are being phased in over a period of time and, as a result, the new maximum pension will not be available until contributors have participated in the fully implemented enhanced plan for 40 years.

For a contributor who retires at age 65 in 2019, and whose earnings always exceeded the YMPE, the retirement pension in (1) above is 25% of the average YMPE for 2015, 2016, 2017, 2018, and 2019 (\$53,600, \$54,900, \$55,300, \$55,900, and \$57,400, respectively.) This means 25% of \$55,420, equal to \$13,855 a year or \$1,154.58 per month.

While entitlement to enhanced benefits begins in 2019, such benefits will not be paid until 2020, following receipt of the 2019 contribution information. Because the phase-in period extends until 2065, the calculations shown in (2) and (3) will be adjusted and pro-rated for contributors who retire before 2065.

RETIREMENT PENSION

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Retirement pensions can start as early as age 60, and they can be postponed as late as age 70. The amount of retirement pension varies according to the retiree's age at the beginning of the pension payment. For a person whose pension begins at age 65, the amount is neither increased nor reduced.

If a person retires before age 65, retirement benefits will be lower, due to the expectation that the person will likely collect benefits for a longer period of time and the fact that contributions will be made for fewer years than for someone who retires at age 65. For a person who retires after age 65, the retirement benefit will be higher, due to the expectation that, compared to someone who retires at age 65, this person will likely collect benefits for a shorter period of time and the fact that contributions have been made for a longer period of time (CPP, s. 46(3) to 46(6)).

Retirement Pensions Before Age 65: If a contributor chooses to start his or her pension before age 65, the monthly retirement pension is reduced by 0.6% per month (7.2% per year) between the date their pension starts and the month in which they reach age 65. This means that a contributor who starts receiving the CPP pension at the age of 60 will receive a pension that is 36% less than if taken at age 65.

Retirement Pensions After Age 65: If a contributor chooses to start his or her pension after 65, the monthly payment amount will increase by 0.7% for each month after age 65 that the person delays receiving it up to age 70 (8.4% per year). This means that a contributor who starts receiving their retirement pension at the age of 70 will receive 42% more than if they had taken it at 65.

After payments begin, the pension is adjusted annually by the Pension Index (discussed later), which reflects changes in the cost of living.

QPP — On February 21, 2018, Quebec's National Assembly adopted Bill 149, *An Act to enhance the Quebec Pension Plan and to amend various retirement-related legislative provisions*. It enhances QPP beginning in 2019 in a very similar manner as the Bill C-26 amendments to CPP.

As with CPP, prior to 2019, the amount of QPP retirement pension payable to a contributor age 65 and over was a basic monthly amount equal to 25% of his or her average monthly pensionable earnings, up to the average of the final five-year maximum pensionable earnings threshold.

The enhanced QPP will provide a basic monthly retirement pension at age 65, determined as the total of:

- (1) 25% of their average base monthly pensionable earnings;
- (2) 8.33% of their average first additional monthly pensionable earnings; and
- (3) 33.33% of their average second additional monthly pensionable earnings (QPP, s. 120).

The QPP enhancements are being phased in over a period of time and, as a result,

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the new maximum pension will not be available until contributors have participated in the fully implemented enhanced plan for 40 years.

The maximum amount of QPP retirement pension for a contributor age 65 who retires in 2019 is \$1,154.58. (The calculation is the same as shown above for CPP.)

While entitlement to enhanced benefits begins in 2019, such benefits will not be paid until 2020 following the receipt of the 2019 contribution. Because the phase-in period extends until 2064, the calculations shown in (2) and (3) above will be adjusted and pro-rated for contributors who retire before 2065.

The amount of retirement pension varies according to the retiree's age at the beginning of the pension payment. Retirement pensions can start as early as age 60, and they can be postponed as late as age 70. For a person whose pension begins at age 65, the amount is neither increased nor reduced.

If a person retires before age 65, retirement benefits will be lower, due to the expectation that the person will likely collect benefits for a longer period of time and the fact that contributions will be made for fewer years than someone who retires at age 65. For a person who retires after age 65, the retirement benefit will be higher, due to the expectation that, compared to someone who retires at age 65, this person will likely collect benefits for a shorter period of time and the fact that contributions have been made for a longer period of time.

Retirement Pensions Before Age 65: If a contributor chooses to start his or her pension before age 65, the monthly payment amount will be reduced by 0.6% for each month (7.2% per year) between the date their pension starts and the month in which they reach age 65. This means that a contributor who starts receiving the QPP pension at the age of 60 will receive a pension that is 36% less than if taken at age 65.

Retirement Pensions After Age 65: If a contributor chooses to start his or her pension after 65, the monthly payment amount will increase by 0.7% for each month after age 65 that the person delays receiving it up to age 70 (8.4% per year). This means that an individual who starts receiving the QPP retirement pension at the age of 70 will receive 42% more than if they had taken it at 65.

After payments begin, the pension is adjusted annually by the Pension Index (discussed later), which reflects changes in the cost of living.

Retroactive Retirement Pension for Persons Age 65 and Over: In the event that a person over the age of 65 ceases working and does not immediately apply for his or her retirement pension, the CPP/QPP pension can be paid retroactively to the date selected by the person, but the maximum retroactive payment period is 12 months. Previous to 2014, the retroactive payment could cover a maximum of five years (60 months).

RETIREMENT PENSION

¶728a

¶660 PENSION INDEX

The Pension Index is used as the basis for calculating increases in the amount of CPP benefits payable from year to year.

CPP — The Pension Index for the year is the average of the CPI for the 12-month period ending October 31 of the previous year. Where the computation yields a Pension Index that is less than the Pension Index for the preceding year, the Pension Index will be taken to be the Pension Index for the preceding year (CPP, s. 43; CPP Reg., s. 75).

QPP — The Pension Index for 1967 is the average CPI for the 12-month period ending June 30. The Pension Index for each of the years 1968 to 1972 is calculated as the average for the 12-month period ending June 30 in the preceding year of the CPI for each month in that 12-month period or 1.02. For 1973, the Pension Index is equal to 1.03 times the CPI for the preceding year, whichever is the lesser. The Pension Index for the year 1974 is computed as the average of the CPI for Canada for each month in the 16-month period ending October 31, 1973. The Pension Index for the year 1975 and each subsequent year is to be computed as the average of the CPI for Canada for each month in the 12-month period ending October 31 in the preceding year. Where the Pension Index is less than 1.01 times that for the preceding year, the Pension Index will be the same as the previous year's (QPP, s. 117).

¶728a POST-RETIREMENT BENEFIT

Contributors who are receiving CPP retirement pensions and choose to work can continue to make CPP contributions. These contributions will increase their pension payments through the Post-Retirement Benefit ("PRB"). The PRB is comprised of contributions made while contributors are receiving CPP retirement pensions. If contributors are under age 65, contributions will be mandatory for them and their employers. If contributors are age 65 to 70, contributions will be voluntary (their employers will have to contribute if they do). Contributions stop once a contributor reaches the age of 70 or stops working.

Working CPP retirement pension recipients who wish to opt out of contributing to CPP after age 65 are required to inform the Canada Revenue Agency. Employees can do this by filing *Form CPT30, Election to Stop Contributing to the Canada Pension Plan, or Revocation of a Prior Election*. A copy of Form CPT30 must be given to the contributor's employer, and the original must be sent to the Canada Revenue Agency. The election takes effect on the first day of the month following the date the contributor gave a copy of the completed Form CPT30 to his or her employer. For example, if the contributor gives form CPT30 to his or her employer in February 2019, then the election will take effect on March 1, 2019.

Self-employed contributors can opt out by completing the applicable section of

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Schedule 8, CPP Contributions on Self-Employment and Other Earnings, and filing it with the contributor's income tax and benefit return.

CPP contribution changes implemented in 2019 also apply to the PRB.

PRB Basics:

- Employee and employer each contribute at the required rate (e.g., 5.15% in 2019, increasing to 5.95% by 2023), with self-employed individuals contributing both the employee and employer share.
- The amount of the PRB depends upon the contributor's age and his or her earnings during the previous year.
- Contributions made while contributors are receiving their CPP retirement pensions build up only the PRB. These contributions do not create eligibility or increase the amount of other CPP benefits, nor are they subject to credit splitting or retirement pension sharing.
- Like other CPP benefits, a PRB is taxable.
- Each year of work provides an additional PRB that begins the following year and is paid for life.
- The PRB is added to an individual's CPP retirement pension, even if the maximum pension amount is already being received (CPP, s. 76.1, 76.2).

¶728b QPP RETIREMENT PENSION SUPPLEMENT

An individual can continue to work and receive his or her pension. The individual must contribute to QPP once his or her earnings exceed the \$3,500 basic exemption. Such contributions entitle the individual to an increase in the individual's retirement pension through the retirement pension supplement. No application needs to be filed because it will be automatically paid. The total supplement for the year is 0.5% of the earnings on which the individual contributed during the previous year. The maximum retirement pension supplement in 2019 is \$21.83 per month.

¶731 AVERAGE MONTHLY PENSIONABLE EARNINGS

CPP — To calculate the average monthly pensionable earnings of a CPP contributor who becomes entitled to a retirement pension, divide the contributor's total pensionable earnings by either the total number of months in his or her contributory period, or by the basic number of contributory months, which is 120, whichever is greater. If, for instance, the number of months in his or her contributory period was 200, the figure 200 and not 120 would be the denominator which would

RETIREMENT PENSION

¶732

be divided into the amount of total pensionable earnings to determine the amount of the contributor's average monthly pensionable earnings for retirement purposes (CPP, s. 48(1)).

QPP — The average monthly pensionable earnings for a QPP contributor are equal to the total pensionable earnings of the contributor for each month in his or her contributory period divided by either the contributor's total number of months in his or her contributory period, or by the basic number of contributory months, which is 120, less months excluded due to disability or a period of indemnity, whichever is greater (QPP, s. 116.2).

For the purposes of calculating total pensionable earnings, an individual may be able to deduct certain low earnings months from his or her contributory period. When such a deduction is made, the corresponding pensionable earnings for those months ("drop-out" months) are deducted from total pensionable earnings (see ¶732).

¶732 "DROP-OUT" MONTHS AND DEDUCTIONS ALLOWED

To compensate for periods of unemployment, low earnings, and sickness and disability, CPP and QPP allow certain periods to be dropped out or ignored in computing the average earnings.

CPP — The "drop-out" periods include:

- (1) periods while receiving CPP disability benefits;
- (2) periods while caring for children under the age of seven;
- (3) periods after age 65 while contributing to CPP; and
- (4) up to 17% of the contributor's months of lowest earnings prior to age 65, provided that at least 120 months are left in the contributory period (CPP, s. 48(2) to 48(4)).

QPP — The following months may be excluded:

- (1) months in which the contributor has received a family benefit;
- (2) months included in a period of indemnity;
- (3) up to 15% of the contributor's months of lowest earnings prior to age 65, provided that at least 120 months are left in the base contributory period (QPP, s. 116.3 to 116.5).

The QPP contributor's base pensionable earnings for a year subsequent to 1997, but prior to 2008, that relate to months subsequent to the end of the base contributory period (i.e., after the contributor turns 65) may be substituted for the base pensionable earnings relating to months of the base contributory period in

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which the base contributory earnings are lower. The substitution shall first be effected in respect of the months for which the base contributory earnings are the lowest (QPP, s. 116.5).

Chapter 6 Survivor's Pension

¶760 BENEFITS PAYABLE

CPP — CPP defines a “survivor” to mean:

- (1) a person who was married to the contributor at the time of the contributor's death; or
- (2) a person who was the common-law partner of the contributor at the time of the contributor's death (CPP, s. 42(1)).

A survivor's pension will be paid to the surviving spouse of a deceased contributor who has made contributions for not less than the minimum qualifying period, if the surviving spouse:

- (1) has reached 65 years of age; or
- (2) in the case of a surviving spouse who has not reached 65 years of age:
 - (a) had reached 35 years of age at the time of the contributor's death,
 - (b) was a surviving spouse with dependent children at the time of the contributor's death, or
 - (c) is disabled (CPP, s. 44(1)(d)).

Effective June 18, 2015, CPP was amended to prohibit the payment of a survivor's pension to an individual who has been convicted of first- or second-degree murder or manslaughter of the contributor.

“Survivor with dependent children” means a survivor of a contributor who maintains “wholly or substantially” one or more dependent children of the contributor (CPP, s. 42(1)). CPP defines the term “wholly or substantially” to mean that the survivor provides more than 50% of the maintenance for the child(ren) of the contributor, excluding maintenance provided by any dependent child of the contributor (CPP, s. 42(1); CPP Reg., s. 65).

QPP — QPP defines “surviving spouse” to mean any person who, on the day of the death of the contributor:

- (1) is married to the contributor and is not legally separated from bed and board;
- (2) is in a civil union with the contributor; or
- (3) provided the contributor is either legally separated from bed and board or neither married nor in a civil union on the day of his or her death, has been living with the contributor in a *de facto* union for at least three years

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or living with the contributor for at least one year if there was a child born of their union (or is to be born of their union), they adopted a child together or one of them has adopted a child of the other (QPP, s. 91).

For the purposes of (3), the birth or adoption of a child prior to the period of *de facto* union in progress on the day of the death of the contributor may enable a person to qualify as a surviving spouse (QPP, s. 91).

With the proclamation of Bill 84, *An Act instituting civil unions and establishing new rules of filiation* (S.Q. 2002, c. 6), effective June 24, 2002, the definition of “surviving spouse” was amended to allow same-sex partners who have entered into a civil union to automatically qualify as surviving spouses. Even prior to Bill 84, a same-sex partner could qualify as a surviving spouse, but he or she had to meet the cohabitation period time specifications set out in QPP (note that these rules continue to apply for those who chose not to enter into a civil union).

As of January 1, 1998, the person who is married to the contributor on the day the contributor dies, but is separated from bed and board due to a judgment effective between June 30, 1989 and January 1, 1994, may be considered to be the contributor’s spouse where:

- (1) no partition of earnings occurred following the judgment;
- (2) no new judgment of separation from bed and board took effect after December 31, 1993; and
- (3) there is no person who has been living with the contributor in a *de facto* union for at least three years or living with the contributor for at least one year if there was a child born of their union, they adopted a child together or one adopted the child of the other (QPP, s. 91.1).

A surviving spouse is entitled to a surviving spouse’s pension regardless of age. However, the amount of the pension varies according to the survivor’s age, whether or not they have children, and whether or not they are disabled (QPP, s. 133).

The deceased contributor must have made contributions for not less than the minimum qualifying period (see ¶762), otherwise no survivor’s pension is payable (CPP, s. 44(1)(d); QPP, s. 105(d)).

¶762 QUALIFYING PERIOD

CPP — A contributor is considered to have made contributions for not less than the minimum qualifying period if he or she has made contributions during the contributor’s contributory period on earnings that are not less than the contributor’s basic exemption:

- (1) for at least one-third of the total number of calendar years included either wholly or partly within his or her contributing period, excluding any

SURVIVOR'S PENSION**¶764**

month in a year in which the contributor turned 65, and for which his or her unadjusted pensionable earnings were less than the basic exemption for that year for at least three calendar years; or

- (2) for at least 10 calendar years (CPP, s. 44(3)).

Generally, if the contributor's contributory period was 10 years or more, he or she must have contributed for one-third of the calendar years in the contributory period, or in 10 calendar years, whichever is less. Two examples of the application of these rules are:

- (1) A person who made contributions in December 2012, and who continues to contribute during all of 2013 and for the first month of 2014, will have contributed to CPP during three calendar years.
- (2) A survivor's benefit was first payable in February 1968. If a contributor had made contributions continuously from January 1, 1966, for all of 1967 and for January 1968, and then died, the contributor would have made contributions in respect of the three minimum qualifying years.

QPP — A deceased contributor is considered to have made base contributions for the minimum qualifying period if the base contributions were made for at least one-third of the total number of calendar years included either wholly or partly within the base contributory period, and, in any case, for at least three calendar years, or if he or she made base contributions for at least 10 calendar years.

The contributor may also be considered qualified if:

- (1) he or she was entitled, during his or her base contributory period, to a tax credit for a severe and prolonged impairment in mental or physical functions under the *Quebec Taxation Act*;
- (2) he or she made base contributions for at least one-fourth of the total number of years wholly or partly included in his or her contributory period, but for at least three years; and
- (3) no retirement pension or disability pension was payable to him or her under QPP or under a similar plan.

All base contributions made by a contributor will be considered when determining the eligibility for survivor's and death benefits, including those contributions made after a contributor started receiving a retirement pension.

¶764 AMOUNT OF SURVIVOR'S PENSION

The CPP/QPP enhancements resulting from the passage of Bill C-26 and Bill 149 will also increase the CPP/QPP survivor's pension.

The basic monthly amount of a survivor's pension is complicated due to the

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number of factors which must be taken into account. These factors include various age groupings of a survivor for benefit purposes (35, 45, 55, and 65) and the survivor's status (disabled or with dependents).

¶764a AMOUNT OF CPP SURVIVOR'S PENSION

There are two categories in determining the amount of a survivor's pension payable under CPP. Within these categories, further criteria are used to determine the exact amount of the survivor's pension payable. The two categories are: survivors under the age of 65 and those 65 years of age or older (CPP, s. 58).

Survivors 65 years of age or older who are receiving a retirement pension will have their survivor's pension combined with their retirement pension.

Survivors 65 years of age or older who are not receiving a CPP or QPP retirement pension will receive 60% of the deceased contributor's retirement pension (CPP, s. 58(1)(b)). The maximum survivor's pension payable in 2019 is \$692.75.

A survivor between 45 and 64 years of age who is not receiving a CPP or QPP retirement pension will receive a flat-rate benefit of \$193.66, plus 37.5% of the amount of the contributor's retirement pension. The maximum survivor's benefit an individual in this category can receive in 2019 is \$626.63.

The \$193.66 flat-rate benefit is adjusted annually in line with changes in the Pension Index (see ¶660).

The maximum survivor's benefit is reduced for survivors under 45 years of age who are not disabled or who do not have dependent children (CPP, s. 58(1)(a)).

No survivor's pension will be paid to a survivor under age 35, unless he or she is disabled or has dependent children (CPP, s. 44(1)(d)). Upon reaching age 65, the survivor will be entitled to a survivor's pension.

A survivor with dependent children is entitled under CPP to receive an orphan's benefit for each dependent child. The amount of the orphan's benefit is \$250.27 for each child in 2019. If a survivor remarries, it does not affect the right to receive a survivor's pension or an orphan's benefit.

¶764b AMOUNT OF QPP SURVIVOR'S PENSION

Surviving spouses under the age of 65 to whom neither a disability pension or a retirement pension is payable under QPP or CPP will be entitled to a survivor's pension equal to 37.5% of the deceased contributor's retirement pension plus the appropriate flat-rate amount.

The flat-rate amount varies according to the age of the surviving spouse, whether

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there are dependent children, and whether the surviving spouse is disabled (QPP, s. 124). Listed below are the various flat-rate amounts for 2019. Beside each flat-rate amount, in brackets, is the maximum survivor's pension the person could receive (QPP, s. 133):

- (1) Surviving spouses under the age of 45 who are not disabled and who do not have a child of the contributor dependent on them, \$127.12 (\$560.09);
- (2) Surviving spouses under the age of 45 who are not disabled but have at least one child of the contributor dependent on them, \$460.85 (\$893.82);
- (3) Surviving spouses who are disabled and with or without children, \$496.33 (\$929.30);
- (4) Surviving spouses between 45 and 64 years of age, \$496.33 (\$929.20).

Where the normal adjustment to the Pension Index would result in a change of less than 1%, then the Pension Index is deemed to remain the same (QPP, s. 117).

Surviving spouses who are 65 years of age and over, and to whom no retirement pension is payable under QPP or CPP, will receive 60% of the deceased contributor's retirement pension to a maximum of \$692.75 in 2019 (QPP, s. 134).

Where the spouse is 55 years of age or over, however, the basic monthly amount includes the difference between the flat-rate amount that would be included in the surviving spouse's pension, if no disability pension were payable, and the flat-rate benefit included in his or her disability pension for that month. In other words, \$469.33 less the flat-rate benefit included in his or her disability pension. If no flat-rate benefit from a disability pension is included, then the maximum survivor's pension is the sum of \$469.33 and \$432.97, or \$929.30 (QPP, s. 135).

The orphan's benefit is \$250.27 a month in 2019 (QPP, s. 138).

¶776 COMMENCEMENT AND DURATION OF PENSION

The CPP survivor's pension is payable for each month, commencing with the month following:

- (1) the month in which the contributor died, where the survivor had reached 35 years of age at the time of death, or was a survivor with dependent children;
- (2) the month in which the survivor became a survivor who, not having reached 65 years of age, is disabled, in the case of a survivor other than a survivor described in (1) above; or
- (3) the month in which the survivor reached 65 years of age, in the case of

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a survivor other than a survivor described in (1) or (2) above (CPP, s. 72).

The QPP surviving spouse's pension commences the month following the contributor's death (QPP, s. 170).

A CPP/QPP survivor's pension is not, in any case, payable earlier than the 12th month preceding the month following the month in which the application was received. As in the case of other supplementary benefits, this provision gives flexibility and permits going back 12 months for payment of the survivor's pension (CPP, s. 72; QPP, s. 170).

However, in relation to survivor's pensions under QPP, if the contributor has disappeared or is absent, the retroactive payment of a surviving spouse's pension may exceed 12 months, provided the application for a pension is made before the end of the 12th month following the declaratory judgment of death, the attestation of death, or the identification of the deceased contributor. Unless warranted by exceptional circumstances in the opinion of Retraite Québec, retroactivity is limited to 36 months, including the month the application is submitted. In order for retroactivity to exceed 12 months, the application for a declaratory judgment of death must, in the opinion of Retraite Québec, have been made with due diligence under the circumstances (QPP, s. 176.1).

A CPP/QPP survivor's pension will continue to be paid during the surviving spouse's lifetime and will cease with the payment for the month in which he or she dies (CPP, s. 73; QPP, s. 171).

¶777 SURVIVOR'S REMARRIAGE

Until 1987 under CPP and 1984 under QPP, the survivor's pension terminated upon remarriage. Since those dates, payments of survivor's pensions continue to receive payment regardless of remarriage. Individuals whose survivor's pension had been discontinued due to remarriage could apply for its reinstatement, but no retroactive payments would be made for periods prior to January 1, 1984 or January 1, 1987, as the case may be (CPP s. 63.1; QPP s. 108.3, 108.4).

Under both CPP and QPP, when a contributor dies within one year after remarrying, no survivor's pension is payable if the Minister or Retraite Québec is not satisfied that the contributor was, at the time of marriage, in such a condition of health as to justify him or her in having an expectation of surviving for at least one year after the marriage. This is to prevent marriages from being contracted with elderly people in receipt of pensions and in poor health which might be made in the expectation and for the purpose of receiving a survivor's pension (CPP, s. 63(7); QPP, s. 114).

¶779 LIMIT OF ONE SURVIVOR'S PENSION

Both CPP and QPP contain provisions which limit a person to receiving only one

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survivor's pension (CPP, s. 63(6); QPP, s. 108, 108.1, 108.2).

In the unfortunate case where a spouse (or common-law partner) survives more than one spouse (or common-law partner), it would appear that the survivor would be eligible to receive more than one survivor's pension—possibly two CPP pensions, or two QPP survivors' benefits, or one CPP or QPP along with a provincial pension plan. However, this is not possible under the legislation, which allows a survivor to collect only one survivor's pension. The pension that will be paid is the greater of such pensions.

Chapter 7

Disability Pension

¶781 DISABILITY BENEFITS PAYABLE

Both CPP and QPP establish that disability pensions are payable to those who qualify (CPP, s. 44(1)(b); QPP, s. 105). To be eligible to receive a disability pension, a contributor must meet two basic criteria:

- (1) the contributor must have made contributions for a minimum qualifying period; and
- (2) the contributor must be found to be disabled.

¶782 DISABILITY QUALIFYING PERIOD

CPP — A CPP disability pension will be paid to a contributor under age 65, who is not in receipt of a retirement pension, who is disabled, and who:

- (1) has contributed for the minimum qualifying period (CPP, s. 44(1)(b)(i));
- (2) would have received a disability pension on the date he or she was deemed disabled had an application for a disability pension been received before the application was actually received (CPP, s. 44(1)(b)(ii)); or
- (3) would have received a disability pension on the date he or she was deemed disabled if a division of unadjusted pensionable earnings that was made under section 55 or 55.1 of CPP had not been made (CPP, s. 44(1)(b)(ii)).

Contributing for the minimum qualifying period is defined as making contributions during the contributor's contributory period on earnings that are not less than the contributor's basic exemption without regard to the YBE:

- (1) for at least four of the last six calendar years either wholly or partly within the person's contributory period;
- (2) where there are fewer than six calendar years, either wholly or partly within the person's contributory period, then for at least four years;
- (3) where a person has contributed to CPP for at least 25 years, for at least three out of the last six years either wholly or partly within the person's contributory period; or
- (4) for each year after the month the contributor's previous disability benefits ceased (CPP, s. 44(2)(a)).

The contributory period of a person starts January 1, 1966, or when the person

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reaches the age of 18, whichever is later, and ends the month when the person is determined to have become disabled. Certain months are not included in this time period. The excluded months are those where the person was deemed disabled either under CPP or a provincial pension plan and those months after December 1977, when the person was receiving a family allowance and the person's unadjusted pensionable earnings were equal to or less than the YBE (CPP, s. 44(2)(b)).

For the purposes of determining the minimum qualifying period of a contributor referred to in subparagraph 44(1)(b)(ii), the basic exemption for the year in which he or she would have been considered to have become disabled, and in which the unadjusted pensionable earnings are less than the relevant YBE for that year, is an amount equal to that proportion of the amount of that YBE that the number of months that would not have been excluded from the contributory period by reason of disability is of 12 (CPP, s. 44(2.1)).

The deduction of months allowed for child rearing may reduce the basic number of contributory months for the purpose of calculating a disability benefit. However, the basic number of contributory months cannot go lower than 24 for those deemed to be disabled in 1997 and 48 months for those found to be disabled after December 31, 1997 (CPP, s. 48(2)(a)).

No person is eligible or can qualify for a disability pension when a retirement pension is payable to that person (CPP, s. 70(3)).

QPP — To qualify for a QPP disability pension, a contributor must be under 65 years of age, be disabled, and have paid contributions during one of the following:

- (1) two of the last three years wholly or partly included in the individual's contributory period;
- (2) two years if the individual's contributory period is only two years;
- (3) five of the last 10 years wholly or partly included in the individual's contributory period; or
- (4) half of the total number of years wholly or partly in the individual's contributory period, but not less than two years (QPP, s. 106).

However, a contributor 60 years of age or over whose disability is severe because he or she is incapable regularly of carrying on his or her *usual gainful occupation* (see ¶784c) will be entitled to a disability pension only if he or she contributed to the plan for at least four of the last six years wholly or partly included in his or her contributory period (QPP, s. 95, 106).

The contributory period of a person starts January 1, 1966, or when the person reaches the age of 18, whichever is later, and ends the month when the individual is determined to have become disabled (QPP, s. 101, 106).

Certain months are not included in this time period:

DISABILITY PENSION**¶784**

- (1) where the individual was eligible for a disability pension under QPP or a similar plan, the months between when the individual became disabled and the first month the pension was payable;
- (2) the months included in a period of indemnity if the same month is one for which the individual's unadjusted pensionable earnings were equal to or less than the YBE; and
- (3) those months when the individual was receiving a family allowance and the individual's unadjusted pensionable earnings were equal to or less than the YBE (QPP, s. 101).

A contributor who is between 60 and 65 years of age and who has ceased to pursue the substantially gainful occupation held or became, before that date, incapable regularly of carrying on any substantially gainful occupation, is entitled to a disability pension. The contributor must have paid contributions for one-third of the total number of contributory years but for at least five years, or for at least 10 years (QPP, s. 106.1).

A disability pension is payable to a contributor who has been disabled in a motor vehicle accident after January 1990, only if the amount of income replacement indemnity payable under the *Automobile Insurance Act* is less than the disability pension the person would otherwise be paid (QPP, s. 105.1).

No person is eligible or can qualify for a disability pension when a retirement pension is payable to that person (QPP, s. 106.2).

No person can qualify for a disability pension for a month when a replacement indemnity under the *Act respecting industrial accidents and occupational diseases* is payable to that person. This provision does not apply to a contributor whose indemnity is payable for less than 16 days in the month provided the month does not precede the month of the contributor's 65th birthday or the month of the contributor's death (QPP, s. 96.1, 105.2).

¶784 DEFINITION OF DISABLED UNDER CPP

Subsection 42(2) of CPP sets out the test for when a claimant is disabled. Under paragraph 42(2)(a), a person is considered disabled only if it is determined that the person has a severe and prolonged mental or physical disability. A disability is "severe" only if the person is incapable regularly of pursuing any substantially gainful occupation (CPP, s. 42(2)(a)(i)). A disability is "prolonged" if it is determined that the disability is likely to be long continued, of indefinite duration, or is likely to result in death (CPP, s. 42(2)(a)(ii)).

"Substantially gainful" describes an occupation that provides a salary or wages equal to or greater than the maximum annual amount a person could receive as a

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disability pension (or 12 times the maximum monthly disability pension amount). Section 68.1 provides a formula for determining a threshold for a “substantially gainful” occupation, which is essentially 12 times the maximum CPP disability benefit. The CPP disability pension is indexed annually pursuant to CPP to allow for inflation. As a result, the threshold amount for 2019 is \$16,347.60 (based on \$1,362.30 per month).

A person will be deemed to have become disabled at the time determined by regulation as the time when he or she became disabled. The day on which a person (including a contributor referred to in subparagraph 44(1)(b)(ii)) became disabled cannot be earlier than 15 months before the application for a benefit is submitted (CPP, s. 42(2)(b)).

¶784c DEFINITION OF DISABLED UNDER QPP

Under QPP, the age of the applicant can affect the test for disability. Section 95 of QPP states that a person is considered disabled only when it is declared that the person is suffering from a severe and prolonged mental or physical disability. A disability is “severe” only if the person is incapable regularly of pursuing any substantially gainful occupation. A disability is “prolonged” if it is likely to result in death or is of indefinite duration.

To be considered a “substantially gainful occupation,” the person’s income from his or her usual occupation must have been at least equal to the maximum disability pension for the year as if the person had not become disabled (*Regulation respecting benefits*, s. 17).

To be considered a “gainful occupation,” the person’s income from his or her usual occupation must have been at least equal to the basic exemption for the year as if the person had not become disabled (*Regulation respecting benefits*, s. 18).

The definition of “severe” is altered when dealing with applicants who are between 60 and 65 years of age. Where a person is 60 years of age or over, a disability is considered “severe” if the person is incapable regularly of carrying on the usual gainful occupation held when, due to the disability, the person had to stop working (QPP, s. 95).

¶785 DETERMINATION OF DISABILITY UNDER CPP

When a person claims to be disabled under CPP, the following information must be submitted in order to make a determination:

- (1) a report of any physical or mental impairment which includes:
 - (a) the nature, extent, and prognosis of the impairment,

DISABILITY PENSION**¶785d**

- (b) the findings on which the diagnosis and prognosis were made,
 - (c) any limitation resulting from the impairment,
 - (d) any other information, including recommendations for further diagnostic work or treatment;
- (2) a statement of the applicant's occupation and earnings at the time the disability commenced;
 - (3) a statement of the applicant's education, employment experience, and daily life activities (CPP Reg., s. 68(1)).

An applicant may also be required to submit a statement of occupation and earnings for any period or undergo special examinations and supply necessary reports in order to determine the applicant's disability (CPP Reg., s. 68(2)).

The reasonable costs of a required special examination or report, including travel and living expenses of the applicant and an accompanying person deemed necessary, will be either advanced or reimbursed to the applicant (CPP Reg., s. 68(3), (4)).

Once an applicant has been determined to be disabled, the determination of whether and how much benefit will be paid will be made. The person may be required, from time to time, to:

- (1) undergo special examinations;
- (2) supply reports; and
- (3) supply statements of occupation and earnings for any period (CPP Reg., s. 69(1)).

If it is determined that the beneficiary could benefit from rehabilitation, he or she may be required to participate in rehabilitative measures (CPP Reg., s. 69(2)).

The reasonable costs, including travel and living expenses of the beneficiary and an accompanying person, as well as the cost of any required examination, report, or rehabilitation measure will be paid in advance or reimbursed (CPP Reg., s. 69(3), (4)).

A beneficiary may be classified as able if he or she fails to attend an examination, fails to supply a report, or fails to supply a statement when required to do so (CPP Reg., s. 70(1)). The exception is where the beneficiary has "good cause," which is defined as a significant risk to a beneficiary's life or health (CPP Reg., s. 70(2)).

¶785d DETERMINATION OF DISABILITY UNDER QPP

An applicant must produce the following to establish a disability:

- (1) history of illness;

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- (2) documents and medical reports pertaining to his or her health; and
- (3) any other information or documents required (QPP, s. 95.1).

An applicant must provide written authorization for Retraite Québec to obtain documents or information regarding the applicant's physical or mental condition held by any health institution or health professional (*Regulation respecting benefits*, s. 19).

The claimant must attend any medical examination required by Retraite Québec to a physician it designates for the disability to be established (QPP, s. 95.1).

Once the claim is established, a beneficiary must attend any medical examination required by Retraite Québec by a physician it designates and within the time it fixes (QPP, s. 95.2). However, if the beneficiary objects to Retraite Québec's initial choice of physician for a reason Retraite Québec considers valid, Retraite Québec must designate another physician (QPP, s. 95.3).

If the beneficiary does not attend a medical examination without a valid reason he or she will be presumed to be able (QPP, s. 95.2).

Retraite Québec is not required to assess a contributor's disability if the person is receiving an indemnity under the *Act respecting industrial accidents and occupational diseases* or who does not meet the contribution conditions under QPP (QPP, s. 95.4).

¶786 AMOUNT OF DISABILITY PENSION UNDER CPP

A disability pension payable to a contributor is a basic amount, consisting of a flat-rate benefit plus 75% of the amount of the contributor's retirement pension (CPP, s. 56(1)). Thus, the basic amount of the disability pension has two components: one is the flat-rate benefit, and the other is the earnings-related component.

The maximum disability pension in 2019 is \$1,362.30. The flat-rate amount is \$496.36, while 75% of the amount of the contributor's retirement pension is \$865.94, i.e., 75% of the maximum retirement pension of \$1,362.30.

Under CPP, the monthly flat-rate benefit is calculated by multiplying the preceding year's flat-rate benefit by the ratio that the Pension Index for the year which benefits were first payable bears to the Pension Index for the preceding year (CPP, s. 56(2)(c)).

The earnings-related component of 75% of a person's retirement pension is a monthly amount equal to 25% of the person's average monthly pensionable earnings. The person's retirement pension is an amount calculated by dividing the person's total pensionable earnings by the total number of months in the contribu-

DISABILITY PENSION**¶786a**

tory period, or 48, whichever is greater (CPP, s. 56(4)). Beginning in 2019, as a result of the passage of Bill C-26, this calculation will include provisions for the calculation of the contributor's first additional monthly pensionable earnings and second additional pensionable earnings.

The person's contributory period:

- (1) commences January 1, 1966, or when the person reaches 18 years of age, whichever is later;
- (2) ends with the month in which a disability pension becomes payable, but excludes:
 - (a) any period for which a disability pension was previously payable;
 - (b) any month after December, 1977, in which a family allowance was payable for a child less than seven years old in a year in which the person's unadjusted pensionable earnings were less than the basic exemption for that year (CPP, s. 48(2), 48(4), 56(4), 56(5)).

¶786a AMOUNT OF DISABILITY PENSION UNDER QPP

A disability pension payable to a contributor is a basic amount, consisting of a flat-rate benefit plus 75% of the amount of the contributor's retirement pension (QPP, s. 123). Thus, the basic amount of the disability pension has two components: one is the flat-rate benefit, and the other is the earnings-related component.

The maximum disability payment in 2019 is \$1,362.27. The flat-rate amount is \$496.36, while 75% of the amount of the contributor's retirement pension is \$865.94, i.e., 75% of the maximum retirement pension of \$1,362.27.

The flat-rate benefit component is calculated by multiplying \$25 by the ratio that the Pension Index for the year in which the benefit commences to be payable bears to the Pension Index for year 1967 (QPP, s. 124).

The earnings-related component of 75% of a person's retirement pension is a monthly amount equal to 25% of the person's average monthly pensionable earnings. The average monthly pensionable earnings is an amount calculated by dividing the person's total pensionable earnings for each month in his or her contributory period by 24 months, or if the contributor's qualifying disability date is before July 1, 1993, 60 months (QPP, s. 116.2).

The base contributory period, first additional contributory period, and second additional contributory period of a person begins on his or her eighteenth birthday or on the following date, if he or she reached 18 years of age before that date:

- (1) January 1, 1966, for his or her base contributory period;
- (2) January 1, 2019, for his or her first additional contributory period; or

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- (3) January 1, 2024, for his or her second additional contributory period (QPP, s. 101).

The base contributory period does not include any month:

- (1) for which a disability pension is payable to the contributor under QPP or under a similar plan, or if the date of disability fixed in his or her respect under section 96 or under a similar plan is later than June 30, 1993, any month which falls between the month in which he or she became disabled, and the first month for which the pension is payable to him or her;
- (2) included in a period of indemnity of the contributor, if the same month is included in a year for which his or her base unadjusted pensionable earnings do not exceed his or her personal exemption; and
- (3) for which the contributor receives family benefits, if the same month is included in a year for which his or her base unadjusted pensionable earnings do not exceed his or her personal exemption (QPP, s. 101).

For the purpose of calculating a disability pension, a contributor's base contributory period, first additional contributory period, and second additional contributory period terminate at the end of the month in which he or she became disabled (QPP, s. 127).

**¶787 ADDITIONAL QPP AMOUNT FOR
DISABILITY FOR RETIREMENT PENSION
BENEFICIARIES AGE 60 TO 65**

QPP retirement pension beneficiaries age 60 to 65 could receive an additional amount for disability if they become disabled because they are incapable of regularly pursuing any substantially gainful occupation. This amount can be paid to a contributor who:

- (1) has been receiving his or her retirement pension under QPP;
- (2) can no longer cancel his or her application for a retirement pension in order to receive a disability pension, due to the fact that the cancellation time limit has expired; and
- (3) has contributed to QPP for at least four of the last six years in his or her contributory period, which ends in the month he or she is deemed to be disabled (QPP, s. 105, 105.0.1).

The additional amount for disability is a set monthly amount that is indexed annually in January of each year and added to the contributor's pension until he or she turns 65. In 2019, the additional amount for disability for retirement pension beneficiaries is \$496.33 per month.

DISABILITY PENSION

¶790

¶788 COMMENCEMENT OF DISABILITY PENSION

When payment of a disability pension is approved, the pension is payable for each month beginning with the fourth month following the month in which a person became disabled (CPP, s. 69; QPP, s. 165).

A CPP beneficiary who ceases to be disabled and then becomes disabled again within five years of the earlier disability has to wait only until the month following the month in which he or she became disabled to receive a disability pension (CPP, s. 69).

A QPP beneficiary who becomes disabled again for the same cause within five years of the earlier disability has to wait only until the month following the month in which he or she became disabled to receive a disability pension (QPP, s. 165).

The three-month waiting period under this provision allows time for a determination to be made as to the nature and extent of the disability, and whether it is permanent or temporary. The three-month period may be filled with sick leave, sickness insurance, and other short-term disability benefits that will provide the contributor with some income during this period.

CPP — A person cannot receive a retirement pension and a disability benefit under CPP at the same time by virtue of paragraph 44(1)(b) and subsection 70(3). Where the recipient of a retirement pension is less than 65 years old and has been determined by the Minister to be disabled prior to or in the month that the retirement pension became payable, he or she may use section 66.1 to cancel the retirement pension in favour of the disability benefit. Subsection 66.1(1.1), which came into force December 18, 1997, clarifies that such a request can only be brought for this purpose where the claimant was deemed to be disabled prior to the month in which the retirement first became payable, and must be made within 60 days of receiving the notice of the determination (CPP Reg., s. 46.2(2)).

QPP — A retirement pension beneficiary who subsequently makes an application for a disability pension within six months of receiving the first retirement pension payment may cancel his or her retirement benefits. The beneficiary will be given two months from the time of acceptance of the disability pension application or the date he or she is declared disabled for QPP or CPP purposes to cancel the retirement pension (QPP, s. 139.1).

¶790 CESSATION OF DISABILITY PENSION UNDER CPP

A CPP disability pension ceases to be payable with the payment for the month:

- (1) in which the beneficiary ceases to be disabled;
- (2) in which the beneficiary reaches 65 years of age;

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- (3) in which the beneficiary dies; or
- (4) preceding that in which a retirement pension becomes payable to the beneficiary (CPP, s. 70).

If a beneficiary returns to work, he or she must inform the Minister of this fact without delay (CPP Reg., s. 70.1).

Where the applicant is notified that his or her CPP disability pension is no longer payable, his or her application for a retirement pension made within 90 days (subject to extension) of the notification is deemed to be received in the latest of:

- (1) the month in which application for disability pension was made;
- (2) the last month in which disability pension was payable; or
- (3) the month before contributor turned 60 (CPP, s. 67(4)).

If, at age 65, the contributor is in receipt of a disability pension, the pension will automatically be converted to a retirement pension without application (CPP, s. 70(2)).

¶790a CESSATION OF DISABILITY PENSION UNDER QPP

A QPP disability pension ceases to be payable at the end of the month:

- (1) the beneficiary ceases to be disabled;
- (2) preceding which the beneficiary reaches 65 years of age;
- (3) the beneficiary dies;
- (4) preceding the month in which a retirement pension becomes payable to the beneficiary; or
- (5) preceding the month in which a replacement indemnity becomes payable to the beneficiary (QPP, s. 166).

A disability pension under QPP will no longer be payable to a contributor who becomes entitled to a full indemnity under the *Act respecting industrial accidents and occupational diseases* after December 31, 1985 (QPP, s. 96.1, 105.2).

The above restriction does not apply, or, in other words, a disability pension will be payable to contributors who:

- (1) became entitled to an income replacement indemnity under the *Act respecting industrial accidents and occupational diseases* before January 1, 1986;
- (2) became entitled to an income replacement indemnity under the *Act respecting industrial accidents and occupational diseases* when already

DISABILITY PENSION**¶790a**

entitled to a QPP disability pension before June 18, 1992; or

- (3) were entitled to both a disability pension and income replacement indemnity under the *Act respecting industrial accidents and occupational diseases* on December 31, 1993, from the month when the contributor ceases to be entitled to either benefit (S.Q. 1993, c. 15, s. 106).

These exempted contributors have different calculations for their contributory period and average monthly pensionable earnings. Their contributory period will include the number of months in a period of indemnity which fall in a year when the contributors' unadjusted pensionable earnings were not greater than the year's personal exemption (S.Q. 1993, c. 15, s. 106). Their average monthly pensionable earnings will include those months when the contributor received an income replacement indemnity under the *Act respecting industrial accidents and occupational diseases* (S.Q. 1993, c. 15, s. 106).

Chapter 8

Disabled Contributor's Child's Benefit and Orphan's Benefit

¶810 BENEFITS PAYABLE

A disabled contributor's child's benefit is to be paid to each child of a disabled contributor who has made contributions for not less than the minimum qualifying period (¶812).

An orphan's benefit is to be paid to each orphan of a deceased contributor who has made contributions for not less than the minimum qualifying period.

In the definitions of a disabled contributor's child and an orphan, both are classified as dependent children.

CPP — A child may receive up to two benefits if both parents were CPP or QPP contributors and are either deceased or disabled, and if all conditions of eligibility are met with respect to both benefits (CPP, s. 74(3)).

In the case of an orphan's benefit, the person who otherwise would have been entitled to receive the orphan's benefit as a result of the death of the contributor is not entitled to such benefit if the Minister is informed and satisfied that this person:

- (1) has been convicted of first- or second-degree murder or manslaughter of the contributor;
- (2) has received an adult sentence for that murder or manslaughter; and
- (3) is 18 years of age or older (CPP, s. 44.1(1)(c)).

QPP — If a QPP or CPP orphan's benefit or disabled contributor's child's benefit is payable to a beneficiary, a second benefit is not payable. However, if a beneficiary receiving a benefit would be entitled to an orphans' benefit on or after January 1, 2012, that beneficiary may apply to receive the higher of the two benefits (QPP, s. 173).

¶812 CONTRIBUTOR'S QUALIFYING PERIOD

In the case of a disabled contributor's child, the disabled contributor must have made contributions for the same minimum qualifying period as for a disability pension (see ¶782) (CPP, s. 44(2); QPP, s. 106).

For an orphan, the deceased contributor must have made contributions for the same minimum qualifying period as for certain other supplementary benefits, such

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as for a survivor's pension (see ¶762) (CPP, s. 44(3); QPP, s. 107).

¶814 AMOUNT OF BENEFIT

CPP — The amount of the benefit is calculated by multiplying the amount of the benefit payable in the immediately preceding year by the ratio that the Pension Index for the year in which the benefit commences to be payable bears to the Pension Index for the immediately preceding year (CPP, s. 59). Effective January 1, 2019, the amount is \$250.27 for each child.

QPP — The amount of the benefit is adjusted annually according to changes in the Quebec Pension Index (QPP, s. 138). In 2019, the orphan's benefit is \$250.27. However, the benefit for the child of a disabled contributor remains at a lower rate. In 2019, the monthly benefit for the child of a disabled contributor is \$79.46.

¶817 COMMENCEMENT OF PAYMENT

Where payment is approved, the benefit is payable monthly commencing with:

- (1) in the case of a disabled contributor's child, the later of the month in which a disability pension is payable, or the month next following the month in which the child was born or otherwise became a child of the contributor; and
- (2) in the case of an orphan, the later of the month following the month in which the contributor died or the month after the month the child was born (in this latter case, under QPP only, the child must have been born within 300 days following the contributor's death) (CPP, s. 74(2); QPP, s. 172).

However, a disabled contributor's child's or orphan's benefit cannot in any case be paid for more than 12 months before the month in which the application was received (CPP, s. 74(2); QPP, s. 172). However, under QPP, if the contributor has disappeared or is absent, the retroactive payment of an orphan's pension may exceed 12 months, provided the application for a pension is made before the end of the 12th month following the declaratory judgment of death, the attestation of death, or the identification of the deceased contributor. Unless warranted by exceptional circumstances in the opinion of Retraite Québec, retroactivity is limited to 36 months, including the month the application is submitted. In order for retroactivity to exceed 12 months, the application for a declaratory judgment of death must, in the opinion of Retraite Québec, have been made with due diligence under the circumstances (QPP, s. 172).

In setting the date on which an orphan's pension or a disabled contributor's child's pension becomes payable under QPP, Retraite Québec may, if circumstances justify it, use the date of the application for any benefit related to the death of the contributor or the date of the application for a disability pension. Unless warranted

DISABLED CONTRIBUTOR'S CHILD'S BENEFIT AND ORPHAN'S BENEFIT ¶820

by exceptional circumstances in the opinion of Retraite Québec, retroactivity is limited to 36 months, including the month the application for the orphan's pension or disabled contributor's child's pension is submitted (QPP, s. 172.1).

¶818 PAYMENT OF BENEFIT

CPP — Payment of a CPP disabled contributor's child's benefit or an orphan's benefit is made to the person or agency having custody or control of the child or orphan, if the child or orphan is under 18 years of age. In the case of a disabled contributor's child, the disabled contributor is presumed to be the person having custody and control, unless the child is living apart from the contributor. In the case of an orphan, the survivor is presumed to be the person having custody and control, unless the orphan is living apart from the survivor (CPP, s. 75).

QPP — Payment of a QPP disabled contributor's child's benefit or an orphan's benefit is made to the person who maintains the beneficiary. It is presumed that the contributor, or if he or she has died, the surviving spouse, will be the person maintaining the child wholly if the child resides with him or her (QPP, s. 175; Regulation respecting benefits, s. 16).

If the child or orphan is over age 18 and capable of managing his or her own affairs, the benefit may be paid to the child or orphan if the Minister or Retraite Québec so directs (CPP, s. 75; QPP, s. 175).

¶820 WHERE BENEFIT CEASES TO BE PAYABLE

CPP — A disabled contributor's child's benefit or an orphan's benefit ceases to be payable the month in which:

- (1) the child ceases to be a dependent child;
- (2) the child dies;
- (3) the contributor's disability benefit ceases to be payable;
- (4) the child is adopted legally or in fact by someone other than the disabled contributor or the disabled contributor's spouse or common-law partner and the disabled contributor does not maintain the child; or
- (5) the disabled contributor ceases to have custody and control of the child (CPP, s. 76).

In view of the fact that both a disabled contributor's child and an orphan are considered to be dependents, and a dependent is a child less than 18 or between 18 and 25 if in full-time attendance at a school or university, if the child stops full-time school attendance after 18 and before 25, the benefit ceases to be payable.

QPP — A disabled contributor's child's benefit or an orphan's benefit ceases to be payable:

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- (1) the end of the month before the child's 18th birthday;
- (2) the end of the month before the child dies;
- (3) the end of the month the contributor's disability benefit ceases to be payable;
- (4) the child ceases to be a child of the contributor; or
- (5) the disabled contributor ceases to have custody and control of the child (QPP, s. 174).

If a child becomes entitled to a disabled contributor's child's benefit or an orphan's benefit, as the dependent child of a contributor other than the child's father and mother, he or she ceases to be entitled to the pension at the end of the month in which the child goes back to live with either such parent (QPP, s. 174).

The adoption of a beneficiary of an orphan's pension by the surviving spouse, to the exclusion of every other person, does not terminate the pension (QPP, s. 174).

Chapter 9

Death Benefits

¶824 BENEFITS PAYABLE

A death benefit is to be paid to the estate of a deceased contributor who has made contributions for not less than the minimum qualifying period (CPP, s. 44(1)(c); QPP, s. 105(c)).

An individual who otherwise would have been entitled to receive a death benefit as a result of the death of the contributor will be disentitled to such benefit if the individual has been convicted of first- or second-degree murder or manslaughter of the contributor (CPP, s. 44.1(1)(b)).

¶826 QUALIFYING PERIOD

The deceased contributor must have contributed to CPP or QPP for:

- (1) at least one-third of the total number of calendar years included either wholly or partly within his or her contributory period but no less than three calendar years; or
- (2) for at least 10 calendar years (CPP, s. 44(3); QPP, s. 107).

CPP — A contributor is deemed to have made base contributions for not less than the minimum qualifying period only if the contributor has made base contributions during their contributory period for:

- (1) at least one-third of the total number of years included either wholly or partly within their contributory period, excluding from the calculation of that contributory period any month in a year after the year in which the contributor reaches 65 years of age and for which the contributor's base unadjusted pensionable earnings were equal to or less than the contributor's basic exemption for that year, but in no case for less than three years; or
- (2) at least ten years (CPP, s. 44(3)).

If an individual became 18 years of age in October and made contributions during November and December of that year, as well as for all of the next year, and for the first month of the following year and then died, contributions would be considered to have been made in respect of three years, and a death benefit would be payable to the estate.

QPP — For the purposes of death benefits, a contributor is not qualified unless he or she has made base contributions for at least one-third of the total number of years included either wholly or partly within his or her base contributory period,

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and, in any case, for at least three years. A contributor is also qualified for such purposes if he or she has made base contributions for at least 10 years (QPP, s. 107).

A contributor who has not paid contributions for the number of years required may nevertheless be considered qualified if:

- (1) he or she paid at least \$500 in contributions; and
- (2) no retirement pension or disability pension was payable to him or her under QPP or under a similar plan (QPP, s. 107).

¶828 AMOUNT OF DEATH BENEFIT

The CPP/QPP death benefit is a lump-sum payment equal to \$2,500, payable as long as the deceased contributor has met the minimum requirements regarding contributory period. (CPP, s. 57(1.1); QPP, s.128)).

Deceased contributors are considered to have made contributions for not less than the minimum qualifying period only if they have made contributions for at least one-third of the total number of calendar years included either wholly or partly within their contributory period and, in any case, for at least three calendar years. Deceased contributors are also considered to have made contributions for not less than the minimum qualifying period if they have made contributions for at least 10 calendar years. The contributory period starts January 1, 1966 or when contributors reach the age of 18, whichever comes later.

Under QPP, if the contributor did not contribute for the number of years required, the death benefit may still be paid if the deceased made at least \$500 in QPP contributions and was not receiving a retirement or disability pension. The amount of the death benefit is equal to the amount of the contributions, up to a maximum of \$2,500 (QPP, s. 107, 128).

The CPP death benefit is paid to the deceased contributor's estate.

The QPP death benefit is paid to the person or charity who paid the funeral expenses if an application including proof of payment is made within 60 days of the contributor's death. If after 60 days of the contributor's death no application has been filed along with proof of payment, the death benefit can be paid to the deceased's heirs.

¶830 CALCULATION OF CONTRIBUTOR'S RETIREMENT PENSION

The calculation of a contributor's retirement pension, for purposes of payment of a death benefit, depends upon whether the contributor was receiving a retirement pension. In the case of a contributor to whom a retirement pension was actually being paid, the monthly amount of the pension that was being paid to him or her is

DEATH BENEFITS

¶830

used. In the case of a contributor who died before a retirement pension became payable, the pension is based on 25% of his or her average monthly pensionable earnings.

Benefitsⁱⁿ *Action* 2



“How can learning about CPP drive better financial decisions today?”

Instructions

Visualization is an effective learning aid. Imagine you are a player in this business scenario, preparing for and involved in the various discussions as the HR and benefits manager and the communications officer. This exercise emphasizes another aspect of the Blue Sky Events financial literacy campaign—CPP.

1. Read the case narrative carefully, Study Guide Module 2, pages 109 to 115, to familiarize yourself with the project the HR and benefits manager and the communications officer have been assigned. As you assess the situation, consider the knowledge you bring to this conversation based on the advance reading you have done in preparation for this project.
2. Complete the “**Apply Your Knowledge**” exercise on Study Guide Module 2, page 116.
3. Complete the “**Test Your Knowledge**” exercise on Study Guide Module 2, pages 117 to 126.



“How can learning about CPP drive better financial decisions today?”

It was still early. Luther was the first to arrive, securing a table in the Sky Zone Cafe for his meeting with Kasia and Andie. He was enjoying this assignment. When Parnaa, founder and CEO, first asked him to work on the company’s financial literacy campaign, he was skeptical about its value. Today he felt quite different. He felt that he was doing important professional work, and it had been an eye-opening experience personally. Even if only a few of the concepts he and Kasia were exploring “landed,” they could influence small behaviour changes. Sustained over time, small changes could help Blue Sky employees make better financial decisions—whether they stayed with the company or moved on. He was already thinking twice about some of his *carpe diem* decisions and their impact on his “future self.” The idea of enjoying life now without concern for the future may not have been the wisest decision.

He quickly scanned the questions he had for Andie. Parnaa had stopped by his workstation the day after their last meeting and suggested he explore how to incorporate their compensation and benefits statements into this financial literacy project. She also indicated that BSE would consider an “over matching contribution” for employees who deposited \$100 within the next 2½ months into an emergency-only

Blue Sky Events (BSE)

- Wholly owned Canadian corporation. Provides large-scale event productions such as music festivals and sporting events internationally. Has 250 full-time employees called “Blue Skyers” who are largely Gen Y and Gen Z and over 30% new Canadians.
- Provides competitive compensation including a DC pension plan, profit-sharing program, EHC plan, dental plan and life insurance.

Parnaa, Founder and Chief Executive Officer

- Moved from Mumbai, India at age ten and views the world from her family’s experiences as “new Canadians.”
- Wants employees to have high level of financial literacy. Concerned about recent employee survey results.

Kasia, HR and Benefits Manager

- Joined Blue Sky two years ago. Holds the CEBS designation with previous experience as an HR associate supporting group retirement services for an insurance company.

Luther, Communications Officer

- Has a degree in digital media and five years’ experience in communications. Knows little about pension, benefits or financial literacy.

Andie, Payroll Administrator

- Experienced payroll administrator. Enjoys fast pace of BSE and interacting with a younger cohort.

TFSA and made regular contributions of \$20 per month for a 24-month period. Luther knew including the compensation and benefits statements would be a win-win for the employees and BSE. He knew that if employees had a clearer understanding of how they're being rewarded, they might be more likely to contribute at a higher level. They may also develop a stronger commitment to BSE, which in the longer term would prove beneficial to BSE. Win-win. The TFSA benefit was the "call to action" piece that this financial literacy project needed.

Luther was embarrassed to admit that he hadn't looked at his own statement for a long time. His expenses were autodebit; as long as his balance was positive when he withdrew cash, he didn't think much about what was going into or coming out of his account. He guessed that Andie, as payroll administrator responsible for employee and employer payroll deductions and remittances, would be a great resource to the team. She would help leverage the compensation and benefits statement with the latest topic on their radar, the Canada Pension Plan.

Kasia and Andie joined Luther. After enjoying the new recipe for breakfast burritos prepared by the Sky Zone Test Kitchen, Luther dove into the topic foremost in his thoughts. ***"Andie, thanks for joining us. If you had asked me last week if I was interested in CPP, you might have gotten a completely different response. I see now how important CPP is, and I'm hoping you can help answer some questions about CPP."***

Andie laughed. She knew that thinking about the level of income he would get 25 or more years from now must seem odd to him and likely to the majority of Blue Skyers. Andie learned about the significance and implications of Canada's social security system for employee pay and employer payroll costs when she was studying to become a certified payroll manager, a specialty she acquired after doing an undergraduate business degree with a major in accounting.

Luther pulled out his notes with his questions.

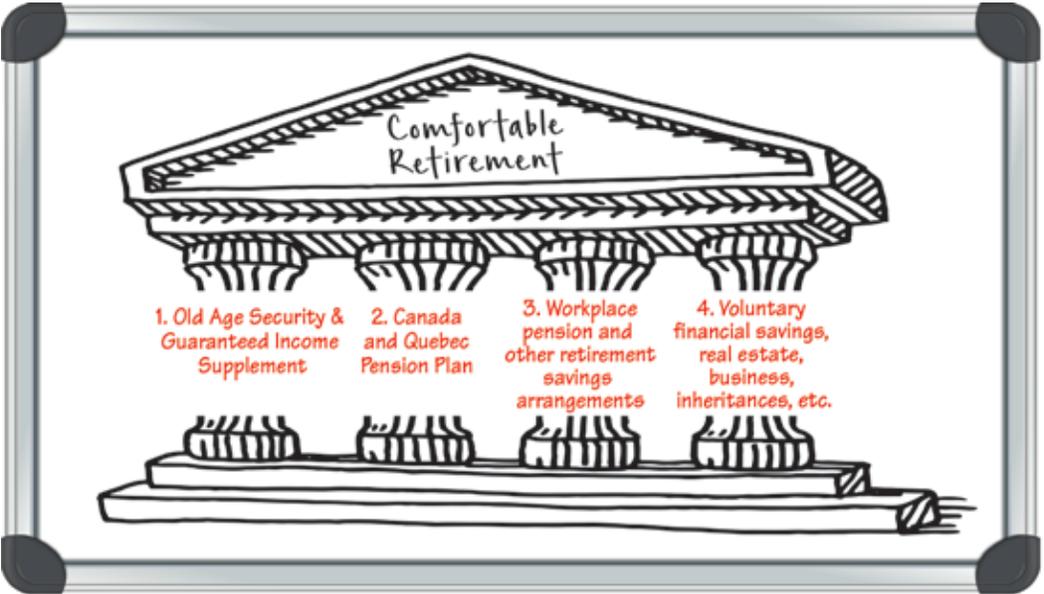
Knowledge you bring to the CPP education challenge:

- Canada Pension Plan role in retirement income security
- Contribution rates
- CPP contributor's pension
- Eligibility provisions
- Year's maximum pensionable earnings (YMPE)
- Year's basic exemption (YBE)
- CPP funding approach
- Tax deductions
- Pensionable employment
- Contributory period
- Pension index
- Death benefits
- Disability pension

- 1) A lot comes off my pay every month for CPP. How much comes out of my pay cheque over a year?
- 2) Where does all this CPP money "go"?
- 3) What income can I expect to get from CPP in return?
- 4) OAS pension starts at 65. Is CPP the same?
- 5) Is CPP pension indexed like OAS pension?
- 6) Is CPP pension taxed like OAS pension, and is there also a "clawback"?

Andie took a few moments to think through her responses. She wanted Luther to appreciate the value of the CPP program. ***"Your questions get right to the heart of some of the misconceptions and concerns that Canadians have about CPP,"*** Andie continued. ***"Blue Skyers aren't wondering about this stuff now, but people close to them likely are: parents who are trying to figure out when to apply for CPP or grandparents who are collecting CPP now. I bet if our employees asked them for their thoughts on the four pillars and the contribution of CPP, they would hear some interesting stories."*** Luther and Kasia could sense Andie's passion for this topic when she spoke.

"Let's take another look at the four pillars." Kasia reminded them of BSE's fourth pillar contribution. She pointed to the chart they had captured earlier on the whiteboard.



“You know our DC pension plan is pretty competitive. We also have the Group RRSP to encourage voluntary savings. If our employees stay here or move to another job with another employer, they will continue to build up that fourth pillar.” Andie noted the similar nature of the retirement plan deductions and the CPP deductions. *“Because we manage payroll deductions for these plans—that money goes into your account every month, just like CPP. Most people don’t miss it; they manage without that money.”*

“Not everyone knows or cares about what the company has to offer. I was one of them, up until last week! I am much more motivated to improve my financial acumen after working on this project for only a week.” Luther surprised himself at how comfortable he was talking about these financial concepts. *“Eventually, that should include the value of the company’s DC pension plan.”*

Andie’s smile was energetic and genuine. *“Let’s start by covering the CPP basics. We can use the compensation and benefits statement to look at the CPP deductions. That will answer your questions about what comes off your pay every year.”* She showed them the sample compensation and benefits statement she had brought at Luther’s request and pointed them both to the section on mandatory benefits. *“As you know, there are benefits in Canada that are mandatory. CPP is one of them—Employers must contribute on behalf of their employees and collect contributions from employees.”*

“Consider a new employee with a starting salary of \$40,000.” Andie passed sample comp statements to Luther and Kasia. *“BSE contributes toward CPP, EI and WC—all mandatory benefits. These programs are all part of our social security system. EI and WC are primarily focused on income replacement for situations other than retirement but play an important role in overall financial security in the event of job loss or loss of income due to workplace injury. But, let’s focus on CPP.”*

“Anyone 18 or older and employed MUST contribute to the CPP in all provinces and territories, except Quebec, which has its own plan called the Quebec Pension Plan or QPP. Their employer must also contribute to CPP on behalf of each employee.” Andie went on to say that the CPP contribution calculation was based on the employee’s gross income. *“The higher your income, the higher your contributions, until you hit the maximum annual contribution, which is based on a threshold called the year’s maximum pensionable earnings, or YMPE.”*

“These calculations are automated in our payroll system, but they are based on four factors—the employee’s gross salary, the YMPE we just discussed, the current CPP contribution rate for employers and employees, and something called year’s basic exemption, or YBE.” Andie did a quick calculation on the whiteboard to show how the monthly CPP deduction and total annual contribution were determined for a new hire earning \$40,000.

For a salary of \$40,000, the contribution amount is \$1,861.50.

Determined as follows:

- Employee's gross salary = \$40,000
- Compare to YMPE of \$57,400 and use lower amount, \$40,000
- Subtract the YBE of \$3,500 to get pensionable earnings of \$36,500.

The CPP contribution rate is 5.10% of pensionable earnings.

- Apply 5.10% against \$36,500. $5.10\% \times \$36,500 = \$1,861.50$

The employee and the employer will each have to contribute \$1,861.50.

Luther was quick to comment, thinking about his own \$45,000 salary and how hard he worked for it. *“There is a lot of money coming out of my pay cheque annually for CPP. I could use that money to make car payments or take a vacation every year. It seems a bit harsh that the contribution is mandatory. We don’t pay anything for OAS benefits!”*

Kasia could also see where Luther was going and offered her perspective. *“You are right—There is no deduction from your gross pay for OAS. Keep in mind though that OAS is ‘universal,’ reflecting its unique purpose in our social security system—We all pay for OAS indirectly through government’s general tax revenues. CPP has a different purpose—Only working Canadians qualify for CPP benefits. As a result, you and BSE pay directly into that plan.”*

Andie used one of Parnaa’s concepts to reinforce the value of Luther’s contributions and BSE’s contributions on his behalf. *“How much money have you tucked away for CPP for your future self?”* Luther did the mental arithmetic. It was a lot of money; he had been with BSE for almost five years now. It had to be in the range of \$20,000. *“Do you think you would have ‘saved’ that amount of money if deductions were not mandatory?”*

Thinking about his earlier comments about a car and vacation, Luther’s answer was a sheepish, *“No.”*

Kasia smiled at Luther; she knew how hard it was to establish a strong connection to her future self. *“Most of us have ‘immediate wants and needs,’ and it is hard to think about saving for a time in life that is years away.”* Kasia was thinking about what Parnaa had said about saving for retirement feeling like giving money to a stranger.

“Maybe we need to introduce the concept of ‘trade-off’ and ‘opportunity cost’ along with future self. Every decision for one thing—what to buy, where to go on a trip—involves giving up the next best alternative we could have had. We can’t have it all. If we paused to consider this fact before making decisions, the impact on our future selves could be dramatic,” Kasia explained.

What is an “opportunity cost”?

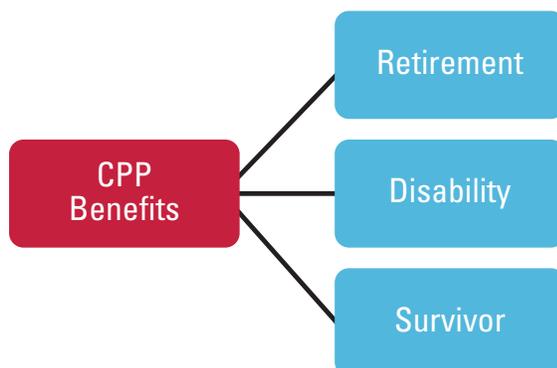
Opportunity cost refers to a benefit that a person could have received but gave up to take another course of action. Stated differently, an opportunity cost represents an alternative given up when a decision is made.

Andie saw her chance to make another connection. *“Saving takes willpower. Think about mandatory contributions throughout our ‘pensionable employment’ years as ‘forced’ savings. But the government also motivates savings behaviour by providing tax incentives to us personally and to BSE. Remember, those CPP contributions are a tax-deductible expense for you and for BSE.”* Andie was on a roll now, with her company hat on, *“And BSE is matching your CPP contributions out of revenue. This is, in fact, part of your total compensation.”*

Kasia brought up some points about additional benefits under CPP. *“Let’s remember that while CPP pension contributes to income protection, CPP also provides several other benefits. If I developed a severe and prolonged disability, I might be entitled to disability benefits. Or, if I died, my spouse qualifies for CPP death benefits.”*

Andie shared that she had been involved in designing the current benefits plan shortly after Parnaa launched BSE and it began to grow. *“Yes, and that LTD benefit on your comp statement is designed to integrate with CPP disability benefits. I am quite sure Parnaa had CPP retirement benefits in mind when she set up the DC plan as well. She was*

thinking about how to optimize the total value of the compensation package for employees by building on those the government-sponsored benefits.”



Luther now had a pretty good visual in his head of his money coming out of his pay and BSE’s going into his pay. That led him back to his question about where the money “goes.” *“So what happens to my CPP contributions if I leave BSE?”* asked Luther.

Kasia helped him with this one. ***“BSE sends all CPP contributions to the Canada Revenue Agency, which then directs them to the CPP Investment Board for investment. You and your next employer will continue to make CPP contributions, and your accumulated ‘pension credits,’ which is how the government terms the CPP contributions that you and your employers make, will grow as you continue working.”***

Kasia thought it was prudent to point out the differences between CPP investments and DC plan investment. ***“Unlike your DC plan, where you choose where to invest the funds in your account, everyone’s CPP contributions are invested by the Canada Pension Plan Investment Board, or CPPIB. That investment income, along with contributions, provides the funds to pay benefits as they come due.”***

Luther was sold. ***“Ok, I get it. My future self wants to know how much he will get when he retires! Maybe he can retire happy at age 60, although I have a feeling that isn’t the case, given that CPP is a social security program.”***

Kasia and Andie laughed. Luther was grasping the benefits and the limitations of OAS and CPP. Andie noted the time. ***“Wow, this has been fun, but I have a payroll deadline to meet. Can we continue this on Wednesday—same time? One more meeting and we should be able to identify what messages about CPP would reach our Blue Skyers.”*** The others checked their calendars, refilled their coffee cups at the Blue Sky Kitchen and went back to their workstations.



Apply Your Knowledge

Andie walked Luther through the basics of CPP. She thought this was an important first step in developing a communication campaign targeted at dialing up Blue Skyers' financial literacy. It is imperative that employees have a clear understanding of what is provided by Canada's retirement security system. Assume you are working on this assignment with Kasia and Luther. Put on your benefits advisor hat and respond to these questions:

- 1. In preparing for the meeting with Andie and Kasia, Luther wanted to make sure he researched CPP so that he had an understanding of the role of CPP in providing income security to BSE employees. Explain what he may have learned from this research.** (Learning Outcome 1.1, Study Guide Module 2, p. 8; Reading A, Canada Pension Plan/Quebec Pension Plan (CPP/QPP), Study Guide Module 2, pp. 29 and 31)

- 2. Andie answered Luther's specific questions but didn't cover the actual operation of CPP. Identify the various parties involved with the operation of CPP, and briefly outline their key responsibilities.** (Learning Outcome 2.1, Study Guide Module 2, p. 9; Reading A, Canada Pension Plan/Quebec Pension Plan (CPP/QPP), Study Guide Module 2, pp. 30-31)

- 3. Explain how Luther would respond to a Blue Skyer if asked when a CPP retirement contributory period starts and when it ends.** (Learning Outcome 4.1, Study Guide Module 2, p. 14; Reading B, Canadian Employment Benefits and Pension Guide, Special CEBS Edition, Study Guide Module 2, Paragraph 511, pp. 58-59)



Test Your Knowledge

Evaluate the discussion between Luther, Kasia, Andie and Maurice.

Luther had learned so much in a short period of time. His conversations with Parnaa, Kasia and Andie had piqued his personal interest in becoming more financially savvy with his money. He wanted to inspire Blue Skyers to care about saving for their future using all four pillars, not only OAS and CPP. Luther, Kasia and Andie continued their discussions about CPP. Maurice, a BSE employee who was close to retirement, joined their conversation. This helped Luther appreciate the perspective of someone closer to retirement age.

Check the box with the key terms covered in Luther, Kasia, Andie and Maurice’s conversation.

- Contribution rates
- CPP contributor’s pension
- Contributory period
- Year’s maximum pensionable earnings (YMPE)
- Year’s basic exemption (YBE)
- Eligibility provisions
- Pensionable employment
- “Normal” retirement age
- Pension credits

The group convened at their usual table in the Blue Sky cafe. Andie was smiling as she placed her coffee on the table and took a seat facing the window. Luther couldn't help but wonder why.

“It was the way you asked your last question the other day.” Andie paused trying to recall exactly what Luther said.

Luther remembered. He was still thinking about all those CPP contributions and curious what income they would eventually provide. He repeated his question. ***“My future self wants to know how much he will get when he retires. Maybe he can retire happy at age 60, although I have a feeling that isn't the purpose of CPP.”***

“Yes, it was the ‘retire happy’ part—It made me think about what ‘happy’ looked like for me. And your ‘at age 60’ suggests your future self would like to stop working earlier rather than later,” remarked Andie.

Kasia helped answer Luther's question about the amount of CPP retirement pension he could expect. ***“There are lots of small points about how CPP amounts are determined, and the plan is being enhanced. Up to now, in general, a 65-year-old person who (1) had a working career of at least 40 years and (2) whose earnings through their career were equal to or below each year's YMPE can expect their CPP pension to be 25% of the average of their income in the last five years before retirement. If that person's average earnings always exceeded the YMPE, the CPP pension would be 25% of the average YMPE in the five years before his or her retirement. This works out to \$1,154.58 per month this year. While the CPP is being enhanced, the new CPP target pension of 33% will only be available after 40 years of participation under the higher contribution rates starting in 2019.”***

Andie spoke more about the length of the contributory period. ***“Basically, your benefit amount depends on three key factors—how long you contribute, how much you contribute, and when you want to start getting your CPP pension. We are eligible to contribute from the age of 18 to age 65, which is 47 years in total. The pension you receive depends on how much you contributed every year, which in turn depends upon your earnings. Also, you can apply for CPP benefits as early as age 60 or as late as age 70. If you apply before age 65, your pension benefits are reduced. If you wait until age 70, your monthly amount will be 42% more than what you would have received had you taken it at age 65. And, it works the other way—36% less if you apply for it at age 60. Assuming the rates and eligibility requirements don't change in the meantime, of course.”***



Kasia continued with a key observation. *“Most of us Blue Skyers likely won’t be contributing for the full 47 years— We might have started working after 18, gone back to school, experienced a period of unemployment or left the workforce temporarily for family reasons. Fortunately, CPP includes a ‘drop-out’ provision that allows for periods like this, where we might have low or zero earnings. This provision affects 17% of your contributory period, allowing up to eight years of your lowest earnings to be dropped from your benefit calculation.”*

Luther interjected that these “small points” Kasia mentioned were beginning to sound like big ones to him.

Andie jumped in. *“Maybe it’s a good idea to do a little refresh of what we talked about in our last conversation. CPP uses a figure, set each year by the government, to determine the maximum amount on which to base contributions to CPP, called the year’s maximum pensionable earnings, or YMPE, and there is a basic exemption, or YBE, of \$3,500.”*

Andie went on *“Remember how the CPP contribution was calculated for the \$40,000 salary?”* She referred them back to the calculation she had shown them earlier. *“Both the employee and employer contributions are remitted monthly to the Canada Revenue Agency, or CRA. That is just one of the many comp-related tasks I do,”* said Andie.

“Just as a point of clarification,” Kasia added, *“if I remember correctly, the QPP contribution percentage is slightly higher than CPP’s.”* Andie gave a thumbs-up in agreement.

Luther interrupted. *“Wait a second. This all seems so easy for both of you, but I’m just learning about it now. Can you show me an example of how the contributions are determined for someone earning above the YMPE?”*

“Excellent point, Luther,” offered Andie. *“Let’s compare that \$40,000 salary to, say, a \$62,000 salary to illustrate the impact of the YMPE.”*

“Thanks, Andie. So even though this person earns more than the YMPE, his or her CPP contributions, and those of Blue Sky, are actually based on the YMPE. Should I assume that his or her pension amount will also relate to the YMPE instead of his or her actual earnings?” Luther asked.

“Yes!” Andie was really happy to see that Luther had picked up on the importance of the YMPE. *“You’ve got it. Remember we said that CPP contributions are referred to as ‘pension credits’? Pension credits are used to determine the ultimate amount of your CPP and, in years when earnings exceed the YMPE, your pension credits are also based on the YMPE. That’s how the \$1,154.78 Kasia described was determined. Let’s use the example of someone whose average earnings were below the YMPE—say, \$40,000. If that person starts their pension at age 65 after working for 40 years, his or her CPP will be 25% of those average earnings, or \$10,000 per year, \$833.33 per month. Keep in mind that the enhanced CPP will take some time to ‘phase in’ to the 33% level after the contribution rate changes started in January 1, 2019.”*

Luther adjusted his original question: ***“You also said I could start taking it at age 60. My 60-year-old future self is asking me—How do I decide whether to take it now or wait until age 65? Would you have an example? It would really help me visualize what all this means.”***

Andie laughed. She was impressed with Luther’s grasp of CPP. ***“There’s someone at BSE who could give you an answer in ‘real time.’ Maurice, our logistics expert, will be our first retiree. I asked him if he was willing to share his story with us. He said I could text him when we were ready for him.”*** Andie was texting as she spoke. ***“I am sure he has lots to share.”***

Luther liked that suggestion—the more “storytelling” they could bring to the communication, the better. He felt that Blue Skyers needed to see direct applications of how saving enough for retirement was so important. ***“So I am thinking . . . seems like a lot of people wouldn’t qualify for the maximum amount of CPP.”*** Luther looked to Kasia for confirmation.

Kasia confirmed his observation. ***“True, it isn’t easy to meet the two criteria—a continuous working career of 40 years or so and contributions based on earnings of at least the YMPE every year. I think the point here is that we should be aware of the criteria for getting the maximum from CPP and the implications of exiting for whatever reasons. The amount you receive really depends on how much you put into it.”***

Luther made a note to go online and check the balance in his CPP account. He also wanted to check with his parents the next time he saw them to see if they knew their expected benefit.

At this point, Andie held up the paper with Luther’s questions on it and mentally checked off the questions she’d already addressed. ***“You wanted to know about taxation of CPP benefits?”*** Luther nodded. ***“When a person receives CPP retirement, or disability payments for that matter, it is considered taxable income, just like OAS. When an employee contributes to CPP during their working lives, they receive a tax deduction for their contribution, the maximum being a percentage of their earnings up to the YMPE. The employer’s CPP contribution is considered a tax deduction for the company and is not taxable to the employee.”***

“What you’ve shared has been incredibly helpful.” Luther thanked Andie profusely and acknowledged Kasia’s ongoing contributions to his financial literacy education. ***“Kasia, I think we should add these key messages to the information we gathered for the communications campaign.”***

At this point, Maurice joined the group, with a coffee in his hand. Maurice knew Kasia and Andie quite well. Luther had seen Maurice before but had no idea he was anywhere close to retirement age. **“Hey, great to be included in this conversation. I’m happy to answer any questions.”** Maurice wanted Luther to feel comfortable and held out his hand to shake Luther’s.

“This is great of you. I appreciate your time.” Luther shook Maurice’s hand thankfully.

“Why not? If I can help you and others make better financial decisions, that’s pretty cool.” Maurice waited patiently for Luther to proceed.

“When did you start thinking about OAS and CPP?” Luther took a sip of his coffee and waited for Maurice’s reply.

Maurice sat back comfortably in his chair. **“I didn’t think about CPP at all until I turned 59. That’s when I started thinking that maybe my 60th birthday could be my exit goal. But there always seem to be stories in the news about CPP. I knew it was an option for me, but I honestly hadn’t spent any time investigating it. A few months ago I did some research on the Internet, and that led me to the government websites. I found OAS that way as well. Then I started asking Andie questions. She answered a few of the basic ones.”** He paused a minute to recall those conversations. **“Umm, okay, here’s what I wanted to know: How much would I get? And is CPP clawed back like OAS?”**

“Did you really want to know if CPP was clawed back?” Luther asked, sharing that he too had asked that question.

“Yup. I read something about OAS clawbacks and figured CPP might be income-tested as well. I was concerned my employer pension plan benefits might put me over some income threshold for qualifying for CPP. I was glad it wasn’t. Clawbacks only apply to OAS.”

“Andie also suggested I see a financial planner. That was great advice. She directed me to my Service Canada account. Have you talked about that? I found out that Service Canada tracks the amount of your pensionable earnings and contributions, regardless of your employer, and you can access this at any time by contacting Service Canada at their 1-800 number. They gave me a CPP Statement of Contributions that shows the year-by-year details of my CPP participation, including an estimate of what my pension would be. That was extremely helpful in my retirement planning. I brought a sample of some of the information from the website. Looking at it triggered the big question—when to apply.”

Estimated Monthly CPP Benefits

Government Gouvernement
of Canada du Canada

My Service Canada Account

Home > Estimated Benefits

Canada

Estimated Monthly CPP Benefits

Don't forget to

Log out

Your Full Name

Date of Birth: XXX XXXX

You are eligible for Canada Pension Plan (CPP) benefits because you have contributed to the CPP or to both the CPP and the Quebec Pension Plan. Your estimates are based on your CPP average earnings and contributions since January 1, 1966 or when you reached age 18, whichever is later. The amount of your benefits may increase or decrease depending on how much, and for how long, you have contributed to these Plans. To start receiving a CPP Benefit, you must apply.

The monthly estimates below are **estimates only** and are based on our records to date and what you would receive today. An accurate calculation of your benefit can only be made when we process your application.

Estimated Monthly CPP Benefits as of XX Jan XXXX.

Retirement pension

The maximum retirement pension monthly amount at age 65 for this year is: \$XXX.00

If you were 65 today,

- you could receive a monthly retirement pension of: **\$XXX.XX**

If you apply at the age of 60,

- you could receive a monthly retirement pension of: **\$XXX.XX**

If you apply at the age of 70,

- you could receive a monthly retirement pension of: **\$X,XXX.XX**

Disability benefits

If you were defined by CPP to have a severe and prolonged disability that prevents you from working,

- you could receive: \$X,XXX.XX
- each of your dependent children could receive: \$XXX

In the event of your death

- your survivor age 65 or older could receive a survivor pension of: **\$XXX.XX**
- your survivor age 45 to 65, or under 45 and disabled or has dependent children, could receive a

“This is great, Maurice. Thanks for sharing this. Another area I’d like more information about is when to apply for CPP. It seems like age 65 is the normal retirement age—You don’t get penalized and you don’t get rewarded.” Luther definitely wanted Maurice’s perspective.

“My financial planner walked me through various scenarios around taking CPP payments between the ages of 60 and 70 from two perspectives—financial and health and other considerations. She gave me a chart that showed maximum CPP amounts at different ages.” Maurice handed them copies of the chart. *“It helps in deciding when to start receiving the CPP pension. The decision to start CPP before age 65 results in a reduced CPP pension amount that lasts for our entire lifetime, not just until age 65. If we only knew how long we will live, the decision would be so easy! While there is an average mortality rate, I could go earlier like my dad or live to 100-plus. Oh, and I did learn from my financial planner that the mortality rate has been increasing each year for a while.”*

CPP Income Reduction Based on Age (2019)						
Age	60	61	62	63	64	65
Maximum Monthly Pension	\$738.93	\$822.06	\$905.19	\$988.22	\$1,071.45	\$1,154.58
Pension Reduction	\$415.10	\$332.52	\$249.39	\$166.26	\$83.13	\$0

“So waiting to receive CPP payments sort of means you just have to live longer—and hopefully healthier—to make up the lost income that you could have gained between age 60 and 65?” Luther wondered aloud.

“You can think of it that way,” Maurice replied and handed out one more table. *“Here is a summary of the ‘health and other’ factors my financial planner talked about.”*

Consider taking CPP between ages 60-64 if:	Consider taking CPP at normal retirement age (NRA) of 65 if:	Consider taking CPP after NRA of 65 if:
Sick and can't qualify for CPP disability benefit	Average health	Above average health
Average life expectancy is less than 75	Average life expectancy is 75-85	Average life expectancy is higher than 85
Low income or no other sources of income during retirement	Average income and adequate savings to bridge the retirement years before starting CPP	High income and lots of money saved for retirement
Laid-off and unable to find other employment	Unable or unwilling to work beyond 65	Continuing to work past NRA
Continuous employment history	Continuous employment history with some gaps	Employment history with considerable gaps
Not divorcing and not credit splitting		Divorced and lost some pension credits upon credit splitting

During the remainder of their meeting, Maurice shared some key observations at reaching this milestone in life. ***“Basically, it comes down to this—I’m lucky—My dad was a saver and taught me the value of a dollar at an early age. My retirement income target was 70% of my preretirement income. I focused primarily on maximizing my employer pension plan and my personal savings throughout my career—BSE is my fifth employer.”***

Luther looked at Maurice with a newfound respect and admiration as he continued. ***“I am healthy and hoping to live longer than my dad. He passed away at 60. I am shooting for my 90s at least. My OAS and CPP benefits just improve my financial position. If I manage carefully, I can afford to travel and do the things I want to do now—visit the Far East, hang out in a few monasteries in South Korea and stay at a meditation retreat in Thailand.”***

Maurice’s enthusiasm and confidence about his financial security was in stark contrast to the new hires at Blue Sky. **“Don’t get me wrong; I am so happy I have these social benefits. And it is really good to know how CPP works because the principles are so fundamental to financial security—The longer you save and the more you put aside, the better off you are. CPP will probably be there for you, but you may not qualify for the full benefit. In fact you likely won’t.”** Maurice took another a sip of his coffee before continuing. **“How hard it is to qualify for the full benefit was a surprise for me; the current CPP only provides approximately 25% of the YMPE. Even if you are making an above-average income over your career, unless you have other sources, that CPP target benefit won’t likely be enough to maintain the standards of living you have become used to. With OAS, and the fully enhanced CPP, you might reach 50%.”**

Maurice knew this was a lot of information at once, and he paused again to let Luther take it in. He didn’t want to lose the significance of his next point either, as personal saving habits could be the difference between getting by and having a great retirement with lots of options. **“In factoring in your retirement income, you have to consider all your sources. We have a great pension plan here—You can contribute to it and the company will match up to 5%. There is also a Group RRSP. It makes saving pretty painless. You don’t even need to think about it. Everything is all set up to be redirected from your pay. Also, I think if you are going to work after retirement, you should do it not because you have to but because you choose to—that you want to keep busy or create new social connections or just for fun. Life is sweet, and it should be filled without the stress of money worries, especially when you get older and really wish you could retire. I want everyone else to be as ready and prepared as I am. I’ve seen a lot, I’ve learned a lot and I’ve read a lot. Don’t ignore your future. It will catch up with you before you know it,”** Maurice said with a confidence that comes from living a full and observant life.

Luther stood as Maurice finished his thoughts. **“Thanks for your insights, Maurice. You’ve filled in a lot of gaps in my understanding. It’s always good to hear a personal perspective. I think what you’ve said is pretty amazing. How do you feel about sharing what you told me with all our Blue Skyers at a Town Hall meeting?”** Luther was hoping for a positive response.

Maurice responded. **“That sounds like it might be a good time. Hanging out, sharing ideas and helping the younger Blue Skyers get a glimpse of what they need to consider in order to have a comfortable retirement.”**

Luther told him more about the communication campaign he had been working on with Kasia. **“The Town Hall is one way we will introduce this initiative. The plan is to have you and Parnaa provide insights about your observations and experiences related to financial literacy. We’d like to start by emphasizing the importance of our social security system. I’m also planning to invite a financial planner. These are pieces of the campaign. It will evolve—It will take sustained and varied communications. Parnaa is really committed to this.”**

Luther, Andie and Kasia thanked Maurice again for his time and told him they would be in touch shortly to give him all the details about his participation in the upcoming Town Hall meeting.

“Well done, Luther,” Andie offered up after Maurice left. **“What do you think of the catch phrase—Care Now, Carefree Later—as the theme for our financial literacy communication?”**

“I really like it,” Kasia said.

“So do I,” Luther was quick to respond. **“We should run a summary of the key themes that have emerged to date by Parnaa to be sure she’s onboard.”** Kasia and Andie nodded in agreement. **“I know she wants us to build on the compensation and benefits statements as well. This new benefit is exciting too. I hope to have more details for our next meeting. Let’s reflect this benefit now by adding a call to action.”**

Luther shared his final summary with Kasia and Andie, glad he worked with such a great team and for a company that cared about the financial decisions that would affect their futures.

Care Now, Carefree Later

Goal: Build financial confidence in employees

Communication themes we can build a financial literacy campaign on:

- Meet your future self
- Learn what your future self hopes for in retirement
- Create a retirement vision
- Identify every potential source of income available to you
- Act Now . . .
(new benefit design work in process)

Optimizing Canada's Social Security System— Employment Insurance and Workers' Compensation

Canada Pension Plan/Quebec Pension Plan (CPP/QPP) and Old Age Security (OAS) provide income security for Canadians after they have stopped work due to retirement. Our social security system also includes programs that provide income security for working Canadians who lose their jobs or who are unable to work due to a work-related injury or disability. These two programs are Employment Insurance (EI) and Workers' Compensation (WC). Both programs operate as insurance programs that have some parallels with privately sponsored income replacement programs.

EI is a federal, income security, social insurance program funded by employer and employee premiums with mandatory coverage for most employees in Canada. The focus of the EI section of this module is on:

- Regular income benefits to insured employees who are temporarily unemployed through no fault of their own
- Special income benefits to employees who have an interruption of earnings due to events such as the birth or adoption of a child or serious medical condition within their family.

The WC system in Canada falls under provincial/territorial jurisdiction. It is a liability and disability insurance system designed to protect both employees and employers against the impact of work-related injuries. It is designed to:

- Provide employees with a no-fault guarantee of compensation, including income replacement for disabled employees, survivors' benefits if employees are killed, and payment of medical and rehabilitation expenses for work-related injuries or disease

- Protect employers from liability arising from accidents suffered by an employee during the course of employment
- Assist industry in the development and adoption of adequate safety precautions in the workplace.

The legislation that regulates the WC system varies by province and territory, but within the legislation of each jurisdiction, there are standard compensation principles that reflect the purpose of the system. For example, while the terminology used to describe the types of WC benefits paid by each province and territory varies, the general categories of benefits and intent of each benefit are similar.

This module looks at the structure and funding of the EI program and WC system, basic categories of benefits, the basis of compensation, and administration considerations and interfaces with group benefit plans. The focus of the material is on common situations. Candidates should refer to legislation should a specific application arise in the workplace.

Assigned Reading



Reading A

Employment Insurance (EI), Study Guide Module 3, Pages 27-43

Reading B

Workers' Compensation, Study Guide Module 3, Pages 45-64



Learning Outcomes

1. Outline the governance and financial structure of the Employment Insurance (EI) and Workers' Compensation (WC) programs.
2. Describe the factors that affect EI regular benefits payable to individuals who lose their jobs through no fault of their own.
3. Outline the special benefits available under the EI and Quebec Parental Insurance Plan (QPIP) programs.
4. Identify the privately sponsored programs that integrate with EI and the impact of those programs upon both employees and employers.
5. Describe the underlying principles of WC programs.
6. Outline the circumstances that would lead to an employee receiving WC benefits and the benefits that might be payable.
7. Outline the WC return-to-work (RTW) process.



Outline of Knowledge

- A. Oversight and administration of Employment Insurance (EI)
 1. Responsibilities of Canada Employment Insurance Commission (CEIC)
 2. Employment and Social Development Canada (ESDC)
 3. Funding of EI
- B. Eligibility for EI benefits
 1. Insurable employment
 2. Record of Employment (ROE)
 3. Regional rates of unemployment
 4. Special benefits
 5. Quebec Parental Insurance Plan (QPIP)

- C. Payment of EI benefits
 - 1. Waiting periods
 - 2. Duration of payment
 - 3. Benefit amounts
 - 4. Coordination with other income
 - 5. Supplemental Unemployment Benefit (SUB) plans
 - 6. Taxation of premiums and benefits
- D. Integration with group benefit plans
 - 1. EI-approved wage loss replacement plans
 - 2. Approved short-term disability (STD) plans
 - 3. Sharing premium reduction
- E. Principles of Workers' Compensation (WC) programs
 - 1. Legislative jurisdiction
 - 2. Meredith Report and other principles
 - 3. Types of injuries covered by WC
 - 4. "Quid pro quo"
- F. Participation requirements for WC
 - 1. Mandatory, with some exemptions
 - 2. Self-insurers
- G. Funding of WC programs
 - 1. Wage-related employer premiums
 - 2. Assessable earnings
 - 3. Industry classifications
 - 4. Experience rating
 - 5. Incentive safety prevention programs

H. WC benefits

1. Classifications of workers' disabilities
2. Benefit types, amounts and duration
3. Rehabilitation
4. Return to work
5. Tax treatment and indexation of benefits



Key Terms

- Canada Employment Insurance Commission (CEIC)
- Employment Insurance (EI) Operating Account
- Insurable employment
- Insurable earnings
- Second payer
- Record of Employment (ROE)
- Insurable employment
- Regional rate of unemployment
- Benefit duration
- Regular benefits
- Special benefits
- Quebec Parental Insurance Plan (QPIP)
- Approved wage loss replacement plans
- Supplemental Unemployment Benefit (SUB) plans
- Meredith Report
- No-fault compensation
- Collective liability
- Quid pro quo
- Maximum assessable earnings
- Self-insurers
- Assessment rates and premiums
- Industry classification, employee class and rate group
- Experience rating—prospective and retrospective
- Total temporary disability
- Partial temporary disability
- Concurrent condition
- Permanent disability
- Return to work
- Economic loss award vs. noneconomic loss award

1



Learning Outcome

Outline the governance and financial structure of the Employment Insurance (EI) and Workers' Compensation (WC) programs.

1.1 Explain who has jurisdiction over the EI program. (Reading A, Employment Insurance (EI), Study Guide Module 3, p. 28)

EI falls under federal jurisdiction and operates under the legislated authority of the Employment Insurance Act (the “EI Act”). The Canada Employment Insurance Commission (CEIC) is the body that provides much of the oversight of EI. Its mandate is to annually monitor and assess the EI program, while actual delivery of the EI program is handled by Employment and Social Development Canada (ESDC), through Service Canada.

1.2 Identify the responsibilities of WC Boards/Commissions. (Reading B, Workers' Compensation (WC), Study Guide Module 3, p. 46)

WC Boards/Commissions are responsible in their own jurisdiction for the administration of WC. They collect contributions from employers and pay benefits from the fund to injured workers. Some WC Boards/Commissions also have responsibility for the administration of the provincial occupational health and safety legislation.

Under WC legislation, WC Boards/Commissions have exclusive jurisdiction to deal with all matters pertaining to injuries that arise “out of or in the course of employment.” Generally, WC Boards/Commissions decide the level and nature of “adequate compensation” for all work-related injuries, determine whether workers or their dependents are entitled to compensation and rehabilitation, administer claims, adjudicate claims and disputes, and establish regulations and appeal procedures for operating the WC program, including the form and use of payrolls, records, reports, certificates, declarations and documents. They determine, review and approve operating and capital budgets and develop contribution and investment policies to ensure adequate funding of WC.

1.3 Describe how the EI program is funded and the factors that are used in determining premium rates. (Reading A, Employment Insurance (EI), Study Guide Module 3, pp. 29-30)

The EI program is funded by employer and employee premiums, with such premiums being directed to the EI Operating Account. The premium rate is expressed as a percentage of each \$100 employee insurable earnings, with employers paying higher premium rates than employees.

Each year CEIC receives an actuarial report from the EI Senior Actuary. The report is intended to provide the CEIC with actuarial forecasts and estimates to be used when setting the year's maximum insurable earnings (MIE) and EI premium rates. Factors that affect the setting of premium rates include:

- (a) Assumptions of future demographic and economic conditions
- (b) Premium rates are intended to be sufficient to cover expected EI benefit payouts.
- (c) The funded status of the EI Operating Account is considered, since the objective for the EI Operating Account is to operate on a break-even basis.

1.4 Explain how a WC assessment premium is generally calculated. (Reading B, Workers' Compensation (WC), Study Guide Module 3, p. 49)

Employer contributions to WC are generally wage-related, calculated as a rate per \$100 of assessable earnings. This rate per \$100 is called the assessment rate. Assessment rates vary by jurisdiction.

Assessable earnings generally include most types of income. All jurisdictions include regular salary or wages, overtime, gratuities, commissions, bonuses, advances of future earnings and vacation pay in determining assessable earnings. Many jurisdictions include earnings in the form of profit sharing, paid layoff, maternity or sabbatical leave, taxable benefits and the employer's contribution to employee benefits.

1.5 Identify factors that influence WC assessment rates. (Reading B, Workers' Compensation (WC), Study Guide Module 3, p. 51)

Several factors influence assessment rates, such as recent accident cost experience in each industry class, the financial position of the WC Board/Commission, prevailing economic and labour conditions, and current adjudication policies. Each WC Board/Commission has its own unique method of calculating the amount of premiums to be collected from employers to fund the program, reflecting its own situation.

Employers do not simply pay the average assessment rate, since the risk of injury and associated costs vary by industry. There is a significant range between lowest and highest assessment rates in each jurisdiction. Employers' actual assessment rates depend on:

- (a) The industry classification of the employer
- (b) Whether the WC Board/Commission applies experience rating to that employer
- (c) The existence of any safety-based program incentives in place in the jurisdiction.

1.6 Explain the impacts of industry classification, employee class and rate groups on setting WC assessment rates. (Reading B, Workers' Compensation (WC), Study Guide Module 3, pp. 51-52)

Industry classification is a determination of an employer's type of operation and industry designation. The inherent occupational danger for every industry/occupation varies. As occupational danger increases, so does the risk of employee injury. Within their mandate, WC Boards/Commissions have the power to group industries according to their hazard potential. The North American Industry Classification System (NAICS) Canada from Statistics Canada is used by some WC Boards/Commissions as the basic framework for classifying employers. Other WC Boards/Commissions have their own internally developed classification systems, which are based on the NAICS classifications.

Jurisdictions have their own processes to combine individual industrial classifications (i.e., classification units) into larger "rate groups." A rate group consists of multiple classification units (or a single large one) that are grouped for the purpose of setting assessment rates. A rate group typically includes industry codes that are similar in nature, but it often includes unrelated industries grouped on the basis of risk.

1.7 Describe experience rating as it applies to the WC system. (Reading B, Workers' Compensation (WC), Study Guide Module 3, p. 53)

“Experience rating” means that the assessment rate or premium is impacted by the dollar amount of claims and/or the number of claims made by a particular employer in previous year(s). Experience rating generally shifts a greater degree of the responsibility for paying for WC costs from an industry classification group as a whole to the particular employers within the group that are actually incurring the costs.

If a WC board/commission applies experience rating to assessment rate determination, an individual employer's assessment rate may increase or decrease based on how many work injuries/diseases (resulting in paid WC claims) have occurred at the employer's place of business. Experience rating may be either prospective or retrospective, depending on the jurisdiction.

Prospective experience rating systems consider an employer's past experience (number of claims and/or dollar amount of claims) relative to its rate group, leading to discounts or surcharges on future rates. If an employer's WC claims experience is positive, prospective experience rating provides an assessment rate discount. If an employer's WC claims experience is negative, prospective experience rating provides an assessment rate surcharge.

Retrospective experience rating systems assess an employer based on expected experience (number of claims and/or dollar amount of claims) and then, at year-end, compare expected rates with actual past experience and provide premium refund or surcharge billings based on actual results.

1.8 Explain the tax treatment of employee and employer contributions to EI and EI benefits paid. (Reading A, Employment Insurance (EI), Study Guide Module 3, p. 38)

Employer premium contributions are deductible from its taxable income. Employee premium contributions give rise to a tax credit. All EI benefits are subject to income tax.

1.9 Outline the tax treatment of WC benefits. (Reading B, Workers' Compensation (WC), Study Guide Module 3, p. 63)

WC benefits are not taxable, assignable or attachable, except in Québec where up to 50% of the income replacement benefit may be garnished to pay alimony.

2



Learning Outcome

Describe the factors that affect EI regular benefits payable to individuals who lose their jobs through no fault of their own.

2.1 Define “insurable employment” under the EI Act. (Reading A, Employment Insurance (EI), Study Guide Module 3, pp. 34-35)

Under the EI Act, insurable employment is:

- (a) Employment in Canada by one or more employers under any express or implied contract of service or apprenticeship, written or oral, whether the earnings of the employed person are received from the employer or some other person and whether the earnings are calculated by time or by the piece, or partly by time and partly by the piece, or otherwise
- (b) Employment in Canada as described in paragraph (a) by Her Majesty in right of Canada
- (c) Service in the Canadian Forces or in a police force
- (d) Employment included by regulations made under certain subsections of the EI Act
- (e) Employment in Canada of an individual as the sponsor or coordinator of an employment benefits project.

Types of employment that may be included in insurable employment are:

- (a) Employment outside or partly outside Canada that would be insurable employment if it were in Canada
- (b) The entire employment of a person who is engaged by one employer partly in insurable employment and partly in other employment
- (c) Employment that is not employment under a contract of service if it appears to CEIC that the terms and conditions of service and the nature of the work performed by persons employed in that employment are similar to the terms and conditions of service and the nature of the work performed by persons employed under a contract of service
- (d) Employment in Canada by the government of a country other than Canada or of any political subdivision of the other country if the employing government consents
- (e) Employment in Canada by an international organization if the organization consents.

Types of employment excluded as insurable employment under the EI Act are:

- (a) Employment of a casual nature other than for the purpose of the employer's trade or business
- (b) Employment of a person if such person controls more than 40% of the voting shares of the corporation
- (c) Employment in Canada under an exchange program if the employment is not remunerated by a Canadian employer
- (d) Employment that is an exchange of work or services
- (e) Employment excluded by regulations made under certain subsections of the EI Act
- (f) Employment if the employer and employee are not dealing with each other at arm's length.

2.2 Outline general eligibility criteria that must be met to be eligible to receive regular EI benefits. (Reading A, Employment Insurance (EI), Study Guide Module 3, p. 31)

To be eligible to receive regular EI benefits, individuals must meet these criteria:

- (a) Their employment qualifies under the EI definition of "insurable employment."
- (b) They have lost their job through no fault of their own.
- (c) They have paid in to the EI account.
- (d) They have been without work and without pay for at least seven consecutive days in the last 52 weeks or since the start of the last EI claim, whichever is shorter.
- (e) They have worked for the required number of insurable hours based on where they live and the unemployment rate in their area.
- (f) They are actively looking for work (including keeping a record of employers contacted and when they were contacted).
- (g) They are ready, willing and capable of working each day.

2.3 Describe how the amount and duration of EI regular benefits are determined.

(Reading A, Employment Insurance (EI), Study Guide Module 3, pp. 35-36)

The regular benefit rate is 55% of average insurable earnings, up to a maximum payment per week. Low income families may be eligible to receive the EI family supplement, which can increase the EI regular benefit rate to a maximum of 80% of the individual's average insurable earnings.

The benefits calculation considers:

- (a) Best weeks earnings in the qualifying period
- (b) Regional rate of unemployment for the applicant.

Duration of the benefit period for regular benefits is based upon the number of insurable hours worked—more insurable hours worked means more weeks of benefit eligibility. Duration also depends on the rate of unemployment in the region in which the claim is made.

2.4 Describe how earnings received by an individual receiving EI benefits affect the amount of his or her EI benefits. (Reading A, Employment Insurance (EI), Study Guide Module 3, p. 38)

Generally, two types of earnings made while a claimant is collecting EI benefits affect benefits amounts—money received from an employer when a claimant leaves his or her job (called “separation payments”) and money earned while collecting benefits from such sources as return-to-work and callback pay, retaining fees, self-employment earnings, money received as payment for wrongful dismissal and income from an employment pension, military or police pension, or a Canada Pension Plan/Quebec Pension Plan (CPP/QPP) pension. Separation payments such as severance pay and vacation pay that are known in advance delay the start date of benefits.

While collecting regular, parental, maternity, sickness, compassionate care or caregiving benefits, claimants can keep 50¢ of benefits for every dollar earned, up to 90% of the claimant's previous weekly earnings (roughly 4.5 days of work). Earnings above this threshold are deducted from EI benefits, dollar for dollar.

2.5 Outline circumstances under which an individual must repay EI benefits. (Reading A, Employment Insurance (EI), Study Guide Module 3, p. 38)

An individual whose annual net income for the taxation year (including EI benefits) exceeds 1.25 times the maximum yearly insurable earnings must repay some or all EI benefits received. The clawback amount is the lesser of either 30% of the EI benefits received or 30% of the amount of net income exceeding 1.25 times the maximum yearly insurable earnings.

Benefit repayment does not apply to:

- (a) Special benefits
- (b) Regular benefits paid to individuals who received less than one week of regular benefits in the previous ten years.

3



Learning Outcome

Outline the special benefits available under the EI and Quebec Parental Insurance Plan (QPIP) programs.

3.1 Describe the special benefits provided through the EI program and QPIP and their general eligibility requirements. (Reading A, Employment Insurance (EI), Study Guide Module 3, pp. 32-33)

Special benefits are for sickness, maternity leave, parental leave, compassionate care leave and leave for caregiving. Quebec residents are not eligible for EI maternity or parental benefits due to the existence of QPIP.

To be eligible for special benefits, a major attachment to the workforce is required. A “major attachment” is defined as a claimant who qualifies to receive benefits and has at least 600 hours of insurable employment in his or her qualifying period. Self-employed individuals who are Canadian citizens or permanent residents of Canada may register to be eligible for EI special benefits.

QPIP provides benefits to all eligible workers who take maternity, paternity, adoption or parental leave. To be eligible for QPIP benefits, the individual must:

- (a) Be a parent of a child, born or adopted
- (b) Have contributed to the plan as an employee or a self-employed worker during the reference period
- (c) Have experienced an interruption in earnings due to birth or adoption
- (d) Have insurable earnings of at least \$2,000 during the reference period
- (e) Be a resident of Quebec at the start of the benefit period
- (f) In the case of a self-employed worker, have resided in Quebec on December 31 of the year prior to the start of the benefit period.

3.2 Outline the duration period for EI special benefits and QPIP benefits. (Reading A, Employment Insurance (EI), Study Guide Module 3, p. 35)

Special benefit duration varies by benefit type:

- (a) Sickness benefits. Payable for a maximum of 15 weeks
- (b) Maternity benefits. EI benefits are payable for a maximum period of 15 weeks, QPIP basic maternity benefits are payable for a maximum period of 18 weeks, and paternity benefits are payable for a maximum of 5 weeks.
- (c) Parental benefits. There are two options for receiving parental benefits. Standard parental benefits are paid for a maximum of 35 weeks. Extended parental benefits are paid for a maximum of 61 weeks. QPIP parental benefits are payable for a maximum period of 32 weeks, and adoptive benefits are payable for a maximum of 37 weeks.
- (d) Compassionate care benefits. Payable for a maximum period of 26 weeks.
- (e) Caregiving benefits. Payable for a maximum of 35 weeks for caring for a child and a maximum of 15 weeks for caring for an adult.

4



Learning Outcome

Identify the privately sponsored programs that integrate with EI and the impact of those programs upon both employees and employers.

4.1 Explain the premise behind EI-approved wage loss replacement plans and the criteria required for approval. (Reading A, Employment Insurance (EI), Study Guide, Module 3, pp. 30 and 39)

EI is the second payer of benefits. That is, if an individual is a member of an employer-sponsored short-term disability (STD) plan that provides coverage for an illness or injury covered under EI, the private plan pays benefits first, and EI pays second, if necessary. If an employer sponsors an STD plan that provides coverage for an illness or injury covered under EI, the employer may qualify for a reduction in EI premiums. STD plans that qualify for premium reduction include weekly indemnity (WI) plans and cumulative paid sick leave plans.

Provisions that must be included in a WI plan in order for the employer to qualify for a reduction in EI premiums are:

- (a) Coverage must start no more than three months after the date of employment or, if on an hour bank system, after 400 hours of active employment.
- (b) Coverage must be provided on a 24-hour basis; that is, employees must be covered whether they are working or not, even if they are injured while working at a second job.
- (c) The waiting period for payment of benefits may not exceed seven days from the commencement of the illness or the injury. Some plans, established before 2017, can have longer waiting periods of up to 14 days; these plans must change to a seven-day waiting period no later than January 2, 2021.
- (d) Benefits must be paid in full, regardless of the amount of benefits payable under EI.
- (e) Benefits must be at least equal to the basic EI rate.
- (f) Employers must share the EI premium reduction with the employees.

4.2 A WI plan can contain limitations to the payment of benefits that will not prevent the employer from qualifying for an EI premium reduction. Identify situations where it is acceptable that benefits are not paid to an employee under a WI plan.

(Reading A, Employment Insurance (EI), Study Guide Module 3, p. 40)

Situations where it is acceptable that benefits are not paid to an employee under a WI plan include:

- (a) The employee is not under the care of a licensed physician.
- (b) The illness or injury is covered under WC or CPP/QPP.
- (c) The illness or injury is intentionally self-inflicted.
- (d) The illness or injury results from service in the armed forces.
- (e) The illness or injury results from war or participation in a riot or similar disturbance.
- (f) The illness or injury occurs while on leave of absence or on paid vacation.
- (g) The employee is receiving EI maternity, parental, compassionate care or caregiving benefits.
- (h) The illness or injury is a result of committing a criminal offence.
- (i) The employee is engaging in employment for a wage or profit while receiving disability benefits.
- (j) The employee is ill or injured while unemployed because of a labour dispute, provided the right to benefits is reinstated on return to work.
- (k) The employee is in prison.
- (l) The employee is outside Canada.
- (m) The illness results from the use of drugs or alcohol, and the individual is not receiving continuous treatment for use of these substances.
- (n) The illness or injury results from a motor vehicle accident covered under a provincial plan that does not take income benefits payable by EI into account when paying benefits.
- (o) The employee receives a retirement pension from the same employer.
- (p) The employee undergoes plastic surgery solely for cosmetic purposes unless the need for surgery is attributable to an illness or injury.
- (q) The employee receives benefits for a recurring injury under a long-term disability (LTD) plan that contains a reinstatement provision where the reinstatement provision does not exceed six months.

4.3 Describe cumulative paid sick leave plans and provisions required to qualify for a reduction in EI premiums. (Reading A, Employment Insurance (EI), Study Guide Module 3, pp. 39 and 41)

Cumulative paid sick leave plans provide coverage based on sick leave credits accumulated by the employee. Paid sick leave plans may also provide for maternity, parental, compassionate care and/or parents of critically ill children benefits. These plans must also contain the same provisions for WI plans:

- (a) Coverage must start no more than three months after the date of employment or, if on an hour bank system, after 400 hours of active employment.
- (b) Coverage must be provided on a 24-hour basis; that is, employees must be covered whether they are working or not, even if they are injured while working at a second job.
- (c) The waiting period for payment of benefits may not exceed seven days from the commencement of the illness or the injury. Some plans, established before 2017, can have longer waiting periods of up to 14 days; these plans must change to a seven-day waiting period no later than January 2, 2021.
- (d) Benefits must be paid in full regardless of the amount of benefits payable under EI.
- (e) Benefits must be at least equal to the basic EI rate.
- (f) Employers must share the EI premium reduction with the employees.

After the eligibility period, at least one paid sick leave day must be credited for each month of service. At least one day per month must be available only for sickness or injury or while at home because of pregnancy or parental benefits, as defined in the EI Act. Such plans must also contain these provisions:

- (a) The period of paid sick leave credit may be prorated in relation to the total period of employment in that month. Any sick leave credit may be precluded if there is not at least two weeks of work; the insured is allowed to use paid sick leave for pregnancy or for a period of caregiving, as described in the EI Act.
- (b) Eligibility to use paid sick leave may be deferred because the employment is temporary or there is a probationary period, but it may not be deferred for more than 12 months.
- (c) There may be a cap on the number of accumulated unused sick days, but it cannot be less than 75 days. Unused days must be accumulated.
- (d) The number of sick days must be at least 75, unless a shorter period applies as a result of an individual's termination of employment or retirement, or the individual's recovery from the illness or injury, or the exhaustion of all accumulated sick leave. Notice of intended termination of employment must have been given prior to the injury or illness.

4.4 Under the EI Act, a fraction of the amount of premium reduction allowed to an employer must be passed on to employees. Explain the premise behind this policy and how it is applied. (Reading A, Employment Insurance (EI), Study Guide Module 3, p. 42)

The EI Act requires that at least five-twelfths of the amount of the employer's premium reduction be passed on to employees covered by their employer's income replacement plan. The intention is to maintain the same ratio of employee cost where there is a premium reduction. The fraction represents the employee share of the total EI premium where there is no premium reduction. The employee share may be given to employees in cash or in providing new or increased benefits, including upgrading existing benefits or providing more holidays or time off of work.

4.5 Describe the purpose and rationale of a Supplemental Unemployment Benefit (SUB) plan? (Reading A, Employment Insurance (EI), Study Guide Module 3, p. 42)

The purpose of a SUB plan is to supplement EI benefits during temporary periods of unemployment without affecting the employee's level of EI benefits. The period of unemployment may be due to temporary work stoppage, illness, training, injury or quarantine, and a SUB plan may cover any one or combination of these causes of unemployment.

SUB plans can be registered by the employer with Service Canada in order to offer these advantages:

- (a) Employees' weekly earnings during periods of unemployment can be increased without resulting in a deduction from the employee's EI benefits.
- (b) Payments from a registered SUB plan are not considered insurable earnings, so EI premiums are not deducted. Payments from SUB plans are generally subject to CPP/QPP deductions as well as income tax.

5



Learning Outcome

Describe the underlying principles of WC programs.

5.1 Explain the key principles reflected in the design of the WC system. (Reading B, Workers' Compensation (WC), Study Guide, Module 3, pp. 47-48)

Five main principles that flowed from the Meredith Report are:

- (1) No-fault compensation. The worker and employer waive the right to sue. There is no argument over responsibility or liability for an injury. Fault becomes irrelevant; providing compensation is the focus.
- (2) Collective liability. The total cost of the compensation system is shared by all employers. All employers contribute to a common fund. Financial liability is their collective responsibility. Workers do not contribute to the fund.
- (3) Security of payment. A fund is established to guarantee that compensation monies are available.
- (4) Exclusive jurisdiction. All compensation claims are directed solely to the compensation board (or commission). The board is the decision maker and final authority for all claims. The board is not bound by legal precedent; it has the power and authority to judge each case on its individual merits.
- (5) Independent administration. The governing board is both autonomous and nonpolitical. The board is financially independent of government or any special interest group.

Besides these principles, five other key principles reflected in the design of the WC system are:

- (1) Immunity from lawsuits. Participating employers and their workers have immunity against lawsuits for work-related accidents by others who participate in the system.
- (2) Fair compensation and fair premiums. Compensation should be fair and take into account both the nature of the injury and impact on employment earnings. Employer contributions to the system should be fair and competitive and account for full funding of claims, reserves and the costs of administering the system.

- (3) Benefit of doubt to the worker. Claim adjudication decisions (i.e., whether a worker's claim meets legislation and policy requirements to qualify for WC benefits and/or services) are made in favour of the injured worker where all evidence for and against is equally balanced.
- (4) Comprehensive injury prevention and disability management. The system provides a comprehensive range of services to both prevent injuries and manage disabilities.
- (5) Long-term stability, financial security and cost-effectiveness. The system is structured and operated in ways that ensure its long-term stability and financial security as well as its overall cost-effectiveness.

5.2 Explain how the term “quid pro quo” applies to the WC system. (Reading B, Workers' Compensation (WC), Study Guide, Module 3, p. 48)

The term “quid pro quo” (something for something) has been used to describe the underlying foundation of WC legislation. Employers accepted collective liability and were no longer individually liable for work-related accidents and illnesses, whereas employees gave up the right to sue the employer and accepted compensation as provided for in the legislation through a system fully funded by employers. As a result, an employee has no right of action against an employer or another employee in an industry covered under WC for an injury that occurs while in the course of employment. The employer, likewise, has no cause of action.

5.3 Describe participation requirements in the WC system. (Reading B, Workers' Compensation (WC), Study Guide Module 3, p. 50)

Participation in WC is compulsory for most employers. With allowances for minor variance among jurisdictions, the definition of “employer” includes every person having in his or her service, under a contract of hire or apprenticeship, any person engaged in work in or about an industry. Such an employer must contribute to the WC fund, and its employees are eligible for benefits if injured. An employee's right to compensation is in place legally, regardless of whether an employer has registered as required.

The list of exempt industries and occupations varies by jurisdiction. Each jurisdiction's legislation should be consulted when determining employer participation requirements. In addition to exempt industries and occupations, some jurisdictions require a minimum number of employees for compulsory participation.

A WC Board/Commission may designate certain employers as being individually liable; they are called “self-insurers” or “deposit employers.” These employers are not part of the collective liability pool of employers and do not pay assessment rates. Generally, self-insured employers are limited to federal and provincial governments or public agencies, crown corporations and large public interprovincial transportation organizations (e.g., shipping, airlines and railways). WC Boards/Commissions generally administer the claims for self-insurers (e.g., federal government employees who are governed under the federal Government Employees Compensation Act). These employers reimburse the WC Board/Commission monthly for the cost of benefits provided to their insured employees and pay an administration fee for this service. They may also be asked to maintain a deposit or a guarantee with the WC Board/Commission to cover such costs and expenses.

Learning Outcome



6

Outline the circumstances that would lead to an employee receiving WC benefits and the benefits that might be payable.

6.1 What types of injuries are covered by WC? (Reading B, Workers' Compensation (WC), Study Guide Module 3, p. 48)

Injuries covered by WC are:

- (a) Traumatic injuries that happen suddenly, causing trauma to the body (e.g., broken bones, severe cuts and burns)
- (b) Injuries caused by repeated activities including strains or sprains caused by doing the same activity over and over again (e.g., tendonitis caused by word processing job duties)
- (c) Occupational diseases caused by some conditions at the worksite (e.g., respiratory problems caused by exposure to chemicals on the worksite)
- (d) Reinjury and difficulties with an old work-related injury.

6.2 Identify types of benefits provided by all WC jurisdictions. (Reading B, Workers' Compensation (WC), Study Guide Module 3, p. 55)

All jurisdictions offer temporary disability benefits, permanent disability benefits, rehabilitation benefits, fatal and dependent benefits, and medical aid/health care-related benefits.

6.3 Describe the two definitions of earnings used by WC Boards/Commissions in the calculation of wage loss benefits. (Reading B, Workers' Compensation (WC), Study Guide, Module 3, p. 55)

Jurisdictions use one of two alternative definitions of earnings in the calculation of wage loss benefits. Benefits may be calculated as a percentage of a worker's (1) net eligible earnings or (2) gross eligible earnings.

Most jurisdictions use net eligible earnings to calculate benefits. Net eligible earnings are gross earnings less EI contributions, CPP or QPP contributions, and probable income tax deductions based on appropriate tables from the current or preceding year. An employee's average earnings in the employment where the injury occurred are generally determined by reference to the past 12 months. Since a large number of individuals will not have worked for an employer for 12 months, other ways of establishing earnings are sanctioned.

6.4 Outline eligibility requirements for temporary disability benefits under WC. (Reading B, Workers' Compensation (WC), Study Guide Module 3, p. 56)

Generally, an employee is eligible for total temporary disability benefits when there is medical evidence that the work-related injury has resulted in temporary work restrictions that prevent the employee from resuming preaccident employment or other suitable employment.

Generally, an employee is eligible for partial temporary disability benefits when medical evidence indicates he or she has compensable temporary work restrictions but is physically and medically capable of returning to a modified version of the preaccident job or another suitable job.

6.5 Define "concurrent condition." (Reading B, Workers' Compensation (WC), Study Guide Module 3, p. 57)

A "concurrent condition" is a noncompensable condition that exists at the same time as a compensable disability. It includes underlying diseases like cancer (e.g., a noncompensable cancerous spinal tumor would likely affect the healing of a compensable spinal injury) and diabetes (e.g., diabetes typically lengthens the healing time for wounds), as well as conditions such as pregnancy (which may affect the healing time for a back injury).

6.6 Describe the two types of permanent disability benefits typically provided by WC.

(Reading B, Workers' Compensation (WC), Study Guide Module 3, p. 58)

Most jurisdictions provide two types of compensation for an individual who is considered to have a permanent disability: (1) economic loss awards (i.e., future loss of earnings) and (2) noneconomic loss awards (i.e., loss of enjoyment of life resulting from permanent impairment).

Noneconomic loss awards recognize permanent clinical impairment, typically through a one-time lump-sum payment. Clinical impairment is the loss of a body part or the loss of use of a body part, system or function. The degree of clinical impairment is measured by an independent doctor at the point of maximum medical recovery.

Economic loss awards recognize ongoing disability or the impact a work-related injury/illness may have on an employee's capacity to earn wages through monthly payments. "Disability" is a person's decreased capacity or loss of ability to meet the demands of the job. This is measured as a loss of earnings capacity resulting from the workplace injury.

6.7 Outline types of fatality and dependent benefits provided by WC. (Reading B, Workers' Compensation (WC), Study Guide Module 3, p. 63)

If an employee dies due to a work injury or disease, his or her dependents may be eligible to receive fatality and dependent benefits. These can include immediate lump-sum payments, monthly benefits and funeral costs. The surviving spouse (either by marriage or common-law) receives a monthly pension based on the spouse's age and the deceased employee's earnings and date of death. In most jurisdictions, the spouse also receives a lump-sum payment. Dependent children receive monthly benefits until the age of 18 (or later if they are attending an accredited educational institution). The variety of dependent benefits varies significantly, depending on the jurisdiction.

7



Learning Outcome

Outline the WC return-to-work (RTW) process.

7.1 Describe how WC Boards/Commissions assess whether an injured worker is able to return to work. (Reading B, Workers' Compensation (WC), Study Guide Module 3, p. 60)

An employee's doctor and other health care providers send progress reports to the adjudicator or case manager. The adjudicator or case manager uses these reports, and other information they may request, to determine when an employee is fit to work. The WC Board/Commission works with the employer to determine if there are other jobs the employee can do while recovering. This might mean working fewer hours or performing fewer or entirely different tasks. Depending on the type of work the employee returns to, the WC Board/Commission can reduce or stop benefits.

There may be situations where an independent medical examination (IME) is warranted. An IME answers specific medical questions about a work-related injury/illness. These might include:

- (a) Is the employee's condition permanent or temporary? The examiner will indicate whether he or she thinks the employee's condition will or will not change/improve over a reasonable period of time.
- (b) Is there any permanent disability (lasting effects) from the injury/illness?
- (c) Can the employee return to the same type of work he or she was doing before the injury/illness?
- (d) Is there anything else that should be done to confirm the diagnosis or further treatment that may be required?

The IME can occur at any time during the employee's recovery. It may take place soon after the injury/illness, after recovery or after the employee goes back to work. A medical examination to decide whether the employee has a permanent impairment is done after a period of treatment from the employee's doctor, when the injury/illness has stabilized and the employee has reached maximum medical recovery.

Reading

A

Employment Insurance (EI)¹

The primary role of the current EI program remains that of income replacement through social insurance. It is also expected to contribute to the achievement of goals such as the promotion of equity through income redistribution, to labour market adjustment, and to macroeconomic stabilization by injecting money into the economy during recessions or regional downturns.

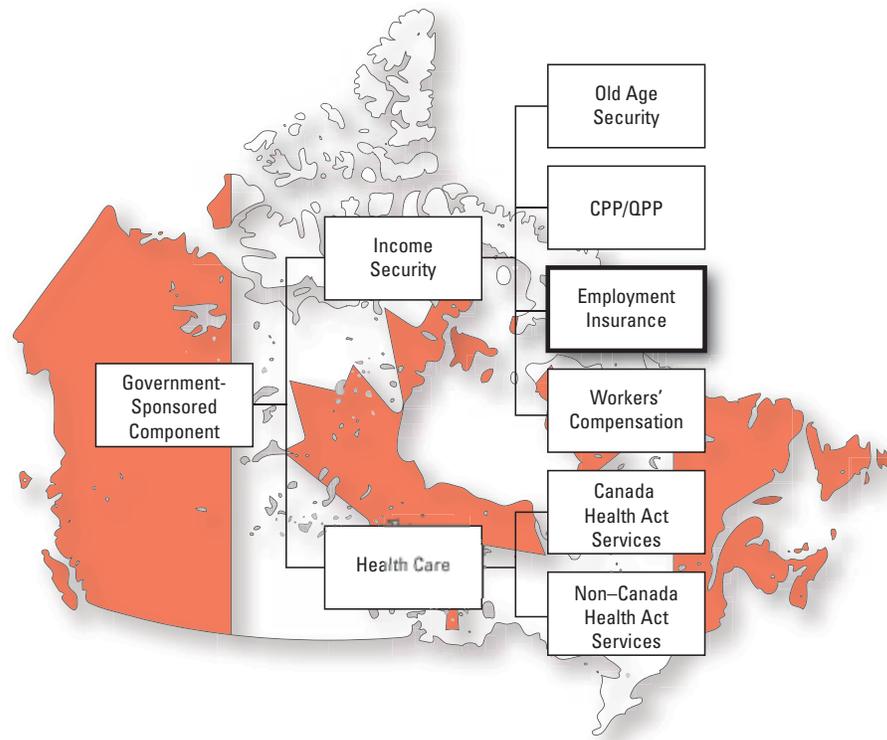
The key EI programs are:

- (a) Regular income benefits for insured employees who are temporarily unemployed through no fault of their own, including regionally extended benefits to individuals in economically depressed areas
- (b) Special income benefits for insured employees who have an interruption of earnings, including parental and maternity benefits, sickness benefits, compassionate care benefits and caregiving benefits.

EI provides maternity and parental leave in all provinces except Quebec. Quebec has its own plan for that purpose, the Quebec Parental Insurance Plan (QPIP) and, as a result, EI maternity and parental benefits are not payable to Quebec residents.

1. Developed by the Certified Employee Benefit Specialist program, Dalhousie University, 2019. Drawn from Service Canada websites and the Employment Insurance Act.

Exhibit I
Interface of Public and Private Programs in Social Security



EI falls under federal jurisdiction and operates under the legislated authority of the Employment Insurance Act (the “EI Act”). The fundamental goal of EI has been to provide income support for people who are temporarily without work through no fault of their own.

The Canada Employment Insurance Commission (CEIC) is the body that provides much of the oversight of EI. Its mandate is to annually monitor and assess the EI program, while actual delivery of the EI program is handled by Employment and Social Development Canada (ESDC), through Service Canada. CEIC has four members, who are mandated to represent and reflect the views of their respective constituencies. Members include the Commissioner for Workers, the Commissioner for Employers, the Deputy Minister and the Senior Associate Deputy Minister of ESDC.

Key responsibilities of CEIC are:

- (a) Reviewing and approving policies relating to EI program administration and delivery
- (b) Making regulations, with approval of the Governor in Council
- (c) Commissioning of an annual EI Premium Report from the Senior Actuary and providing that report and the CEIC summary report to the Canadian government for tabling in Parliament
- (d) Setting the annual EI premium rate and annual maximum insurance earnings
- (e) Determining whether EI appeal decisions will be submitted for judicial review.

Funding of EI

The EI program is funded by employer and employee premiums, with such premiums directed to the EI Operating Account. Each year CEIC receives an actuarial report from the EI Senior Actuary. The report is intended to provide CEIC with actuarial forecasts and estimates to be used when setting the year's maximum insurable earnings (MIE) and EI premium rates. The change in the MIE each year is based on the change in average weekly earnings measured by Statistics Canada. The actuary's report confirms the amount for the year in question. With respect to determining EI premium rates, the actuary's activities in preparing the report are somewhat like those used when actuaries prepare valuation reports for defined benefit (DB) pension plans, in that:

- (a) Calculations are based on certain assumptions of future demographic and economic conditions.
- (b) Funding levels (i.e., premium rates) are identified as the amounts sufficient to cover the expected EI benefit payouts.
- (c) The "funded status" of the EI Operating Account is considered when determining the required premium rates. The objective is for the EI Operating Account to operate on a "breakeven" basis, and premium rates are premised on maintaining the Operating Account on that basis. As a result, any preexisting surplus or deficit in the Operating Account is incorporated by the EI Senior Actuary in the calculation of premium rates.

Premium rates are applied against "insurable earnings," which generally include wages, salary, commissions, monetary employment benefits such as vacation or severance pay, other employment benefits such as housing and meals, and self-employment income.

Each dollar of insurable earnings, up to the maximum yearly insurable earnings, is subject to EI premiums. The premium rate is expressed as a percentage of each \$100 employee insurable earnings, with employers paying higher premium rates than employees. Note that EI premium rates are lower in Quebec than in other jurisdictions, reflecting the existence of QPIP, mentioned above.

EI is the “second payer” of income replacement programs in Canada. That is, if an individual is a member of an employer-sponsored income replacement program that provides coverage for an illness or injury covered under EI, the employer-sponsored plan pays benefits first, and EI pays second, if necessary. The existence of an employer-sponsored short-term disability (STD) plan that meets certain criteria will result in a reduced employer EI premium rate.

Employers remit EI premiums with the frequency determined by the level of each employer's average monthly EI premium withholdings. Penalties can be assessed should employers fail to comply. Employers are required to report EI insurable earnings and employee EI premiums on employee T4 slips each year.

Eligibility for Regular Benefits

EI eligibility is based on hours of paid work. Regardless of whether it is full-time, part-time, or on and off throughout the year, hours of paid work are accumulated toward eligibility for EI benefits. This approach applies to overtime, which is calculated hour for hour, regardless of rate of pay. Also, paid leave of any type is insured for the number of hours that normally would be worked in that period, regardless of rate of pay.

The Record of Employment (ROE) is the vehicle through which EI eligibility can be assessed. This form is provided by the employer. If the employer issues a paper ROE, it must be issued within five days after the later of the interruption of earnings or the date the employer becomes aware of an interruption of earnings. If the employer issues an electronic ROE, it must be issued within five days after the end of the pay period in which an employee experiences an interruption in earnings. However, if the employer's pay period is monthly, the employer has up to 15 days after the first day of an interruption in earnings.

The ROE indicates how long an individual has worked and how much he or she has earned from that employer. If there is more than one ROE (because the individual has worked for more than one employer within the last 52 weeks or since the last EI claim), all ROEs must be provided. An ROE must contain the following information, so employer records must be able to provide:

- (a) Employer's name and address, payroll reference number (optional) and Canada Revenue Agency (CRA) business number
- (b) Employee's name, address and social insurance number (SIN)
- (c) Pay period type
- (d) First day worked, last day for which paid and final pay period ending date
- (e) Total insurable hours and total insurable earnings
- (f) Reason for issuing the ROE
- (g) Payment of benefits other than regular pay, paid or in anticipation of the final pay period or payable at a later date, including vacation pay, statutory holiday pay, pension payments, severance benefits, retiring allowances, bonuses, wages in lieu of notice, retroactive wage increases, etc.

To be eligible to receive regular EI benefits,² individuals must meet these criteria:

- (a) Their employment qualifies under the EI definition of "insurable employment."
- (b) They have lost their job through no fault of their own.
- (c) They have paid in to the EI account.
- (d) They have been without work and without pay for at least seven consecutive days in the last 52 weeks or since the start of the last EI claim, whichever is shorter.
- (e) They have worked for the required number of insurable hours based on where they live and the unemployment rate in their area (see Table I below).
- (f) They are actively looking for work (including keeping a record of employers contacted and when they were contacted).
- (g) They are ready, willing and capable of working each day.

2. "Employment Insurance Regular Benefits—Eligibility," 2019, Service Canada, pages 1-2.

Table I
Eligibility for Regular Benefits³

Regional Rate of Unemployment	Required Number of Hours of Insurable Employment in the Last 52 Weeks
6% and under	700
More than 6% but not more than 7%	665
More than 7% but not more than 8%	630
More than 8% but not more than 9%	595
More than 9% but not more than 10%	560
More than 10% but not more than 11%	525
More than 11% but not more than 12%	490
More than 12% but not more than 13%	455
More than 13%	420

Eligibility for Special Benefits

Special benefits are for sickness, maternity leave, parental leave, compassionate care leave and leave for caregiving. Note that Quebec residents are not eligible for EI maternity or parental benefits due to the existence of QPIP. See the section below for details of that plan.

Sickness benefits are for people whose illness or injury prevents them from working. Maternity benefits are for birth mothers or surrogates. Parental benefits are for biological, adoptive or legally recognized parents. Two parents can share parental benefits. Compassionate care benefits are for people who must be away from work temporarily to provide care or support to a family member who is gravely ill and who has significant risk of death within 26 weeks. Caregiving benefits are for people who must be away from work temporarily to care for or support a family member who is critically ill or injured or in need of end-of-life care.

To be eligible for special benefits, a major attachment to the workforce is required. A “major attachment” claimant is defined as a claimant who qualifies to receive benefits and has at least 600 hours of insurable employment in his or her qualifying period. All others are called “minor attachment” claimants. Although self-employed individuals are normally not eligible to receive regular EI benefits, it is possible for these individuals, if they are either a Canadian citizen or a permanent resident of Canada, to register with CEIC in order to be eligible for EI special benefits.

3. “Employment Insurance Regular Benefits—Eligibility,” 2019, Service Canada, pages 4-5.

To be eligible for maternity, parental, sickness, compassionate care or caregiving benefits, individuals must demonstrate that:

- (a) They are employed in insurable employment.
- (b) They have paid EI premiums.
- (c) Their regular weekly earnings will decrease by more than 40%.
- (d) 600 insurable hours have been accumulated in the last 52 weeks or since the start of their last claim.

Table II
Number of Hours of Paid Work Required for Benefits

Regular benefits	From 420 to 700 hours of insurable employment depending on the regional unemployment rate
Special benefits—Maternity and parental benefits (in all jurisdictions except Quebec)	600 hours of insurable employment
Special benefits—Sickness, compassionate care and caregiving benefits	600 hours of insurable employment

Eligibility for QPIP

Quebec has its own parental benefits under QPIP. QPIP provides for payment of benefits to all eligible workers who take maternity, paternity, adoption or parental leave. To be eligible, the individual must be a parent of a child, have contributed to the plan as an employee or self-employed worker during the reference period, have experienced an interruption in earnings or reduction of earnings of at least 40% due to the birth or adoption, have insurable earnings of at least \$2,000 during the reference period, be a resident of Quebec at the start of the benefit period and, in the case of a self-employed worker, resided in Quebec on December 31 of the year prior to the start of the benefit period. Quebec has basic and optional plans, allowing eligible parents some choice in the combination of weeks of benefits and benefits rate.

Insurable Employment

“Insurable employment” is an important definition included in the EI Act, since it is used in determining eligibility for benefits. Insurable employment is:

- (a) Employment in Canada by one or more employers, under any express or implied contract of service or apprenticeship, written or oral, whether the earnings of the employed person are received from the employer or some other person, and whether the earnings are calculated by time or by the piece, or partly by time and partly by the piece, or otherwise
- (b) Employment in Canada as described in paragraph (a) by Her Majesty in right of Canada
- (c) Service in the Canadian Forces or in a police force
- (d) Employment included by regulations made under certain subsections of the EI Act
- (e) Employment in Canada of an individual as the sponsor or coordinator of an employment benefits project.

CEIC may, with the approval of the Governor in Council, make regulations for including in insurable employment other types of employment, such as:

- (a) Employment outside Canada or partly outside Canada that would be insurable employment if it were in Canada
- (b) The entire employment of a person who is engaged by one employer partly in insurable employment and partly in other employment
- (c) Employment that is not employment under a contract of service if it appears to CEIC that the terms and conditions of service and the nature of the work performed by persons employed in that employment are similar to the terms and conditions of service and the nature of the work performed by persons employed under a contract of service
- (d) Employment in Canada by the government of a country other than Canada or of any political subdivision of the other country if the employing government consents
- (e) Employment in Canada by an international organization if the organization consents.

Insurable employment does not include:

- (a) Employment of a casual nature other than for the purpose of the employer's trade or business
- (b) Employment of a person by a corporation if the person controls more than 40% of the voting shares of the corporation
- (c) Employment in Canada under an exchange program if the employment is not remunerated by a Canadian employer

- (d) Employment in Canada by Her Majesty in right of a province
- (e) Employment that is an exchange of work or services
- (f) Employment in Canada by the government of a country other than Canada
- (g) Employment excluded by regulations made under certain subsections of the EI Act
- (h) Employment if the employer and employee are not dealing with each other at arm's length.

Commencement and Cessation of EI Benefits

Individuals must apply for both regular and special benefits. When an individual claims regular and special benefits (except for maternal and parental benefits in Quebec), there is a one-week waiting period at the start of his or her claim. No benefits are paid during the waiting period. This practice is similar to a deductible for other kinds of insurance (e.g., house, car and health). There is no waiting period for benefits under QPIP.

Duration of the benefit period for regular benefits is based upon the number of insurable hours worked—more insurable hours worked means more weeks of benefit eligibility. It also depends on the rate of unemployment in the region in which the claim is made and the type of benefit. For example, within a 52-week period, regular benefit periods range from 14 weeks (at lowest numbers of hours of work and lowest unemployment rates) to a maximum of 45 weeks (at highest numbers of hours worked and highest unemployment rates).

Sickness benefits are payable for a maximum of 15 weeks. Maternity benefits (except Quebec) are also payable for a maximum of 15 weeks. There are two options for receiving parental benefits (except Quebec). Standard parental benefits are paid for a maximum of 35 weeks. The weekly benefit rate is 55% of the claimant's average weekly insurable earnings up to a maximum amount. Extended parental benefits are paid for a maximum of 61 weeks. The benefit rate is 33% of the claimant's average weekly insurable earnings up to a maximum amount. Compassionate care benefits are payable for a maximum of 26 weeks. Caregiving benefits are payable for a maximum of 35 weeks for caring for a child and a maximum of 15 weeks for caring for an adult.

QPIP provides basic maternity benefits for a maximum of 18 weeks, paternity benefits for a maximum of five weeks, parental benefits (which may be shared by the parents) for a maximum of 32 weeks and adoptive benefits payable for a maximum of 37 weeks. So in the situation where the mother receives all the parental benefits, they will be payable for a maximum of 50 weeks (18 plus 32 weeks). The optional QPIP "special plan" provides benefits for different durations.

Regular and Special Benefit Amounts

Regular Benefits

As noted earlier, EI is the second payer of benefits. That is, if an individual is a member of an employer-sponsored STD plan that provides coverage for an illness or injury covered under EI, the private plan pays benefits first, and EI pays second, if necessary.

The regular benefit rate is 55% of average insurable earnings, up to a maximum payment per week. For the purposes of calculating EI benefits, certain types of compensation received following loss of employment (e.g., some WC benefits and employer-sponsored income replacement) may be included as earnings.

The benefit calculation takes into consideration the regional rate of unemployment for the applicant. This is done by identifying the best weeks in the individual’s qualifying period and a factor related to the regional rate of unemployment. “Best weeks” are the weeks that the individual earned the most money.

To calculate the amount of benefit, 55% is multiplied by the best weeks insurable earnings divided by the number of best weeks. Number of best weeks depends upon the regional rate of employment and is taken from Table III.

Table III
Benefit Rate Calculation Period

Regional Rate of Unemployment	Divisor (Number of Best Weeks)
0% to 6%	22
6.1% to 7%	21
7.1% to 8%	20
8.1% to 9%	19
9.1% to 10%	18
10.1% to 11%	17
11.1% to 12%	16
12.1% to 13%	15
13.1% or more	14

Example A—Regular Benefits

Julie applies for EI regular benefits after working full-time for a full year (52 weeks) in a region where the unemployment rate is 13.1%. Her number of best weeks will then be 14. Her total earnings over those 14 weeks were \$10,400.

To calculate her EI regular benefit, determine her weekly average insurable earnings by dividing \$10,400 by 14. The result, \$743, is then multiplied by 55%. Julie's EI regular benefit will be \$409.

Example B—Regular Benefits

Mark applies for EI regular benefits after working 18 weeks during the previous 52 weeks in a region where the unemployment rate is 6.1%. His number of best weeks will then be 21 (even though this is longer than his period of work). His total earnings over his period of work were \$9,000.

To calculate his EI regular benefit, determine weekly average insurable earnings by dividing \$9,000 by 21. The result, \$429, is then multiplied by 55%. Mark's EI regular benefit will be \$236.

Family Supplement

Low-income families may be eligible to receive the EI family supplement. To qualify, the family income must be less than a predefined level, and the unemployed person's spouse must receive the Canada Child Benefit. The amount of the supplement is dependent on the number of children in the family and their ages. At most, the family supplement may increase the EI regular benefit rate to 80% of the individual's average insurable earnings.

Special Benefits

The amount of EI special benefits (sickness, maternity, parental, compassionate care and caregiving) are determined using the same formula as for EI regular benefits.

Under QPIP, the basic plan provides maternity benefits equal to 70% of average weekly earnings. It also provides parental and adoptive benefits of 70% of average weekly earnings for the first period of parental leave and 55% of the last 25 weeks of parental or adoptive leave. Benefits under the QPIP "special plan" are different amounts.

Deductions From Benefits

Any earnings made during the one-week waiting period are deducted dollar for dollar from benefits payable in the first three weeks of payable benefits. Generally, two types of earnings made while a claimant is collecting benefits affect benefits amounts—money received from an employer when a claimant leaves his or her job (called “separation payments”) and money earned from such sources as return-to-work and callback pay, self-employment earnings, money received as payment for wrongful dismissal, and income from an employment pension, military or police pension, or a Canada Pension Plan/Quebec Pension Plan (CPP/QPP) pension. Separation payments such as severance pay and vacation pay that are known in advance delay the start date of benefits. (For example, receipt of 12 weeks of severance pay, received in a lump sum or weekly, delays the start of regular benefits for 12 weeks.) While collecting regular, parental, maternity, sickness, compassionate care or caregiving benefits, claimants can keep 50¢ of benefits for every dollar earned, up to 90% of the claimant's weekly earnings (roughly 4.5 days of work). Earnings above this threshold are deducted from EI benefits, dollar for dollar.

Taxation of Premiums and Benefits

All EI benefits are subject to income tax. Employer premium contributions are deductible from its taxable income. Employee premium contributions give rise to a tax credit.

An individual whose annual net income for the taxation year (including EI benefits) exceeds 1.25 times the maximum yearly insurable earnings must repay some or all EI benefits received. This “clawback” amount is the lesser of 30% of benefits received or 30% of income exceeding 1.25 times the maximum yearly insurable earnings. Repayment is made at income tax time as part of the claimant's tax filing.

Benefit repayment does not apply to:

- (a) Special benefits
- (b) Regular benefits paid to individuals who received less than one week of regular benefits in the previous ten years.

Integration With Group Benefit Plans

EI-Approved Wage Loss Replacement Plans

If an employer sponsors an STD plan that provides coverage for an illness or injury covered under EI, it may qualify for a reduction in EI premiums for the employer. EI uses the term “STD plan” as a generic category for both weekly indemnity (WI) and cumulative sick leave plans and makes a distinction between the two types of plans. Both of those types of STD plans qualify as wage loss replacement plans.

Employers must provide a formal written commitment to employees to provide WI or paid sick leave benefits, which must meet certain criteria in order to be recognized as approved wage loss replacement plans by EI and for the EI employer premium reduction to apply.

WI Plans

WI plans provide benefits in cases of illness or injury through an arrangement set up by an employer (self-insured) or a plan underwritten by an insurance carrier. To qualify for an EI premium reduction, WI plans must include these provisions:

- (a) Coverage must start no more than three months after a new employee becomes eligible under the plan or, if on an hour bank system, after 400 hours of active employment. An “hour bank system” is a method of banking or crediting the hours worked to a person’s account and then drawing out the required hours at each determination date in order to establish or maintain the person’s eligibility for benefits.
- (b) Coverage must be provided on a 24-hour basis; that is, employees must be covered whether they are working or not, even if they are injured while working at a second job.
- (c) The waiting period for payment of benefits may not exceed seven days after commencement of the illness or injury. Some plans, established before 2017, can have longer waiting periods of up to 14 days; these plans must change to a seven-day waiting period no later than January 2, 2021.
- (d) Benefits must be paid in full, regardless of the amount of benefits payable under EI.
- (e) Benefits must be at least equal to the basic EI rate.
- (f) Employers must share the EI premium reduction with employees.

A WI plan can contain limitations to the payment of benefits that will not prevent the employer from qualifying for an EI premium reduction. It is acceptable that WI benefits are not paid to an employee:

- (a) Who is not under the care of a licensed physician
- (b) Whose illness or injury is covered under WC or CPP/QPP
- (c) Whose illness or injury is intentionally self-inflicted
- (d) Whose illness or injury results from service in the armed forces
- (e) Whose illness or injury results from war or participation in a riot or similar disturbance
- (f) Whose illness or injury occurs while on leave of absence or on paid vacation
- (g) Who is receiving EI maternity, parental, compassionate care or caregiving benefits
- (h) Whose illness or injury is a result of committing a criminal offence
- (i) Who is engaging in employment for a wage or profit while receiving disability benefits
- (j) Who is ill or injured while unemployed because of a labour dispute, provided the right to benefits is reinstated on return to work
- (k) Who is in prison
- (l) Who is outside Canada
- (m) Whose illness results from the use of drugs or alcohol, and who is not receiving continuous treatment for use of these substances
- (n) Whose illness or injury results from a motor vehicle accident covered under a provincial plan that does not take income benefits payable by EI into account when paying benefits
- (o) Who receives a retirement pension from the same employer
- (p) Who has plastic surgery solely for cosmetic purposes, unless the need for surgery is attributable to an illness or injury
- (q) Who receives benefits for a recurring illness or injury under a long-term disability (LTD) plan that contains a reinstatement provision where the reinstatement period does not exceed six months.

Cumulative Paid Sick Leave Plans

Since cumulative paid sick leave plans provide benefits that may overlap with or duplicate sickness benefits, they may qualify for partial premium reduction. The qualifying conditions for a cumulative paid sick leave plan are the same as for a WI plan except for the reinstatement of benefits, the benefit period, and the qualifying condition for continuation of benefits after layoff or termination of employment.

Cumulative paid sick leave plans provide coverage based on sick leave credits accumulated by the employee. Paid sick leave plans may also provide for maternity, parental, compassionate care and/or caregiving benefits. These plans must contain the same provisions as WI plans. After the eligibility period, at least one paid sick leave day must be credited for each month of service. At least one day per month must be available only for sickness or injury or while at home because of pregnancy or parental benefits, as defined in the EI Act. They must also contain these provisions:

- (a) The period of paid sick leave credit may be prorated in relation to the total period of employment in that month. Any sick leave credit may be precluded if there is not at least two weeks of work. The insured is allowed to use paid sick leave for pregnancy or for a period of caregiving as described in the EI Act.
- (b) Eligibility to use paid sick leave may be deferred because the employment is temporary or there is a probationary period, but it may not be deferred for more than 12 months.
- (c) There may be a cap on the number of accumulated unused sick days, but it cannot be less than 75 days. Unused days must be accumulated.
- (d) The number of sick days must be at least 75, unless a shorter period applies as a result of the individual's termination of employment or retirement, the individual's recovery from the illness or injury, or exhaustion of all accumulated sick leave. Notice of intended termination of employment must have been given prior to the injury or illness.

Obtaining EI Premium Reduction

An employer sponsoring a private wage loss replacement plan must apply to ESDC, providing certain documentation. Part of the documentation must be evidence that the employees to whom the premium reduction applies will benefit from the premium reduction in an amount equal to at least five-twelfths of the savings.

If the premium application is made on or before the 15th day of a month, the reduction begins on the first day of the following month, otherwise the reduction begins the first day of the second month following the month of application.

An employer must notify ESDC within 30 days of any changes to its approved income replacement plan. If an employer has changed its plan, it can be determined whether the plan still qualifies for premium reduction.

If the plan is accepted as qualifying for premium reduction, the reduction is given by instructing the employer to use a multiplier lower than the standard 1.4 times employees' EI premiums. The actual multiplier is dependent upon the category of the employer's plan.

Sharing the Premium Reduction

As noted above, to obtain the employer premium reduction, at least five-twelfths of the amount of an employer's premium reduction must be passed on (in some form) to the employees covered by their employer's income replacement plan. (The five-twelfths represents the employee share of the total EI premium where there is no premium reduction.) The intention is to maintain the same ratio of employee cost where there is a premium reduction.

Sharing five-twelfths of the savings with employees can be achieved by providing:

- (a) A cash rebate equal to five-twelfths of the savings, divided among the employees. This is treated as employment income, subject to source deductions.
- (b) New or increased benefits, including upgrading existing benefits or providing more holidays or time off of work.

Employees or their representatives may negotiate or bargain for a method of sharing and include the terms in a written agreement.

Supplemental Unemployment Benefit (SUB) Plans

The purpose of a SUB plan is to supplement EI benefits during temporary periods of unemployment without affecting the employee's level of EI benefits. The period of unemployment may be due to temporary work stoppage, illness, training, injury or quarantine, and a SUB plan may cover any one or combination of these causes of unemployment. The employer chooses which types of unemployment it wishes to supplement and, once that is determined, the plan is used exclusively for that purpose.

SUB plans can be registered by the employer with Service Canada in order to offer these advantages:

- (a) Employees' weekly earnings during periods of unemployment can be increased without resulting in a deduction from the employee's EI benefits.
- (b) Payments from a registered SUB plan are not considered insurable earnings, so EI premiums are not deducted. Payments from SUB plans are generally subject to CPP/QPP deductions as well as income tax.

Initial SUB plan registration requires the submission of prescribed documents to Service Canada. To qualify for registration, the SUB plan must meet certain requirements, including stipulated plan provisions and methods of funding. With regard to plan provisions, documents that formalize the SUB plan must:

- (a) State the classes of employees covered and the eligibility requirements
- (b) Indicate the types of unemployment covered
- (c) Indicate that the employee must apply for and be in receipt of EI benefits. Note that the plan may provide SUB payments when an employee is not in receipt of EI benefits, provided the employee is serving the one-week EI waiting period, has insufficient hours to qualify for EI benefits or has exhausted EI benefit entitlement. The employer decides if any of these situations will be covered.
- (d) Indicate a start and end date. The plan's duration must be at least one year.
- (e) State how benefit amounts are determined (either as a percentage of the employee's normal weekly earnings or a fixed amount). Weekly SUB payments plus the weekly EI benefit rate applicable to the employee must not exceed 95% of the employee's normal weekly earnings.
- (f) Show the maximum number of weeks that SUB plan benefits will be paid. EI regulations do not set a minimum or maximum benefit duration period; however, it must be stated.
- (g) Indicate that the employee has no vested right to SUB payments, except during periods of unemployment specified in the plan.

Funding of a SUB plan must be the sole responsibility of the employer and must be done in one of three ways:

1. By making payments from general revenues
2. By making deposits into a trust fund established to provide SUB payments or through an insurance contract. If a trust fund, it must have the calendar year as its fiscal year and there must be a reasonable maximum funding level. The trust is not subject to income tax. If a trust, plan documentation must indicate that, upon plan termination, all plan assets will revert to the employer, be used for ongoing payments under the plan or be used for administration costs of the plan. The plan must indicate that employees have no vested right to SUB payments except during periods of unemployment specified in the plan.
3. If through an insurance contract, by paying 100% of the insurance premiums required to finance the SUB payments.

Reading

B

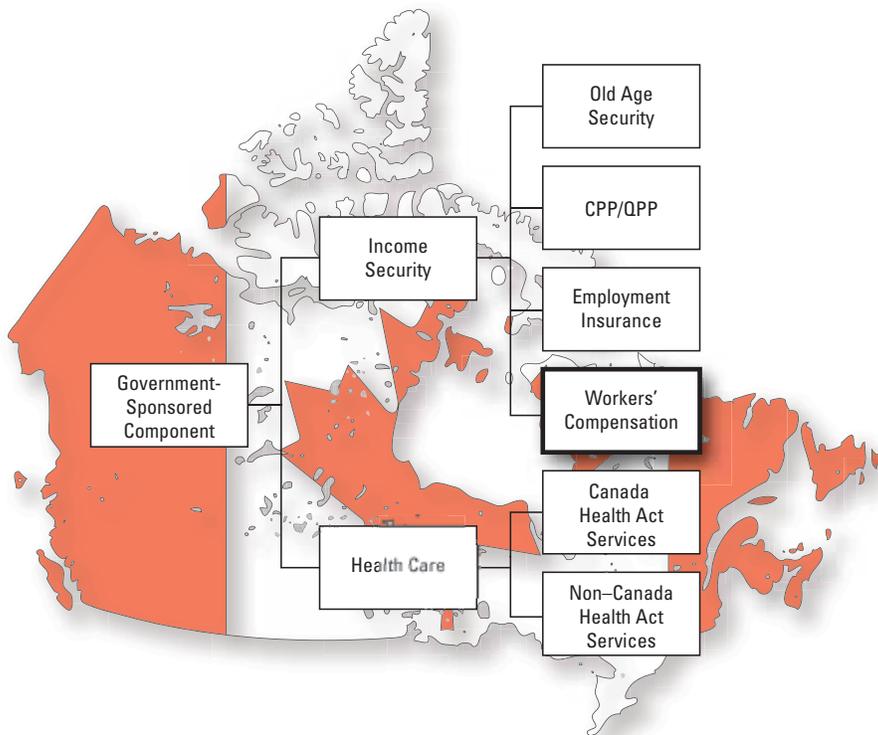
Workers’ Compensation (WC)¹

WC is a liability and disability insurance system designed to protect both workers and employers against the impact of work-related injuries. WC programs provide:

- Wage loss and other disability benefits to workers injured on the job who are unable to work due to a work injury
- Medical aid and rehabilitation to workers injured on the job
- Fatality benefits for survivors of workers killed in the course of their work.

Exhibit I

Interface of Public and Private Programs in Social Security



1. Developed by the Certified Employee Benefit Specialist® program, Dalhousie University, 2019. Drawn from Association of Workers’ Compensation Boards of Canada (AWCBC) website.

Structure of the WC System

In keeping with the principles of exclusive jurisdiction and independent boards, each province and territory in Canada (except for the Northwest Territories and Nunavut, which has combined WC Boards/Commissions) has its own entity or corporation created by their respective act—generally the Occupational Health and Safety (OH&S) Act. Note that some industries (e.g., transportation between provinces) are governed by federal legislation, the Canada Labour Code. No WC Board/Commission administers federally regulated OH&S.

WC Boards/Commissions are responsible in their own jurisdiction for the administration of WC. They collect contributions from employers and pay benefits from the fund to injured workers. They operate on a nonprofit basis. Some WC Boards/Commissions also have responsibility for the administration of the provincial occupational health and safety legislation.

Under WC legislation, boards/commissions have exclusive jurisdiction to deal with all matters pertaining to injuries that arise “out of or in the course of employment.” Generally, WC Boards/Commissions decide the level and nature of “adequate compensation” for all work-related injuries, determine whether workers or their dependents are entitled to compensation and rehabilitation, administer claims, adjudicate claims and disputes, and establish regulations and appeal procedures for operating the WC program, including the form and use of payrolls, records, reports, certificates, declarations and documents. They determine, review and approve operating and capital budgets and develop contribution and investment policies to ensure adequate funding of WC. Their authority to decide questions of fact regarding benefit claims may include weighing opposing medical or other expert opinions.

The fact of provincial jurisdiction for WC legislation means that, unlike Canada Pension Plan (CPP), Old Age Security (OAS) and Employment Insurance (EI), across Canada there is variance among WC programs in almost every aspect of their operation. Each jurisdiction sets its own benefits payable, benefit amounts (including minimums and maximums), waiting periods for benefits, and premium rates.

All WC Boards/Commissions must report annually to their respective Lieutenant Governor or Minister. While reporting requirements vary by jurisdiction, annual reports address such items as fund assets, actuarial reviews of the assessment rates and liabilities of the fund, and financial and management practices, plans and policies.

As with workers and employers, there is no right of action against the WC Boards/ Commissions or their employees responsible for WC programs.

WC in Canada had its beginnings in the province of Ontario. In 1910, Justice William Meredith was appointed to a Royal Commission to study WC. His final report, known as the Meredith Report, was produced in 1913. The Meredith Report outlined a trade-off in which workers relinquished their right to sue in exchange for compensation benefits provided through an employer-funded system. Meredith advocated for no-fault insurance, collective liability, independent administration and exclusive jurisdiction. The system exists at arm's length from the government and is shielded from political influence, allowing only limited powers to the Minister responsible.

There were five basic cornerstones to the original WC laws—cornerstones that have survived, to a greater or lesser extent, as follows:²

1. No-fault compensation. Workplace injuries are compensated regardless of fault. The worker and employer waive the right to sue. There is no argument over responsibility or liability for an injury. Fault becomes irrelevant; providing compensation is the focus.
2. Collective liability. The total cost of the compensation system is shared by all employers. All employers contribute to a common fund. Financial liability is their collective responsibility. Workers do not contribute to the fund.
3. Security of payment. A fund is established to guarantee that compensation monies are available.
4. Exclusive jurisdiction. All compensation claims are directed solely to the compensation board (or commission). The board is the decision maker and final authority for all claims. The board is not bound by legal precedent; it has the power and authority to judge each case on its individual merits.
5. Independent administration. The governing board is both autonomous and nonpolitical. The board is financially independent of government.

These principles are evident in the governing structure, funding and administration of WC benefits. Other principles reflected in the design of the system include:

- (a) Immunity from lawsuits. Participating employers and their workers have immunity against lawsuits for work-related accidents by others who participate in the system.
- (b) Fair compensation and fair premiums. Compensation should be fair and take into account both the nature of the injury and impact on employment earnings. Employer contributions to the system should be fair and competitive and account for full funding of claims, reserves and the costs of administering the system.

2. http://www.awcbc.org/?page_id=57.

- (c) Benefit of doubt to the worker. Claim adjudication decisions (i.e., whether a worker's claim meets legislation and policy requirements to qualify for WC benefits and/or services) are made in favour of the injured worker where all evidence for and against is equally balanced.
- (d) Comprehensive injury prevention and disability management. The system provides a comprehensive range of services to both prevent injuries and manage disabilities.
- (e) Long-term stability, financial security and cost-effectiveness. The system is structured and operated in ways that ensure its long-term stability and financial security as well as its overall cost-effectiveness.

Injuries covered under WC include:

- (a) Traumatic injuries that happen suddenly, causing trauma to the body (e.g., broken bones, severe cuts and burns)
- (b) Injuries caused by repeated activities, including strains or sprains caused by doing the same activity over and over again (e.g., tendonitis caused by word processing job duties)
- (c) Occupational diseases caused by some conditions at the worksite (e.g., respiratory problems caused by exposure to chemicals at the worksite)
- (d) Reinjury and difficulties with an old work-related injury.

Quid Pro Quo

The term “quid pro quo” (something for something) has been used to describe the underlying foundation of WC legislation. Employers accepted collective liability and were no longer individually liable for work-related accidents and illnesses, whereas employees gave up the right to sue the employer and accepted compensation as provided for in the legislation through a system fully funded by employers. As a result, an employee has no right of action against an employer or another employee in an industry covered under WC for an injury that occurs while in the course of employment. The employer, likewise, has no cause of action. Note that this arrangement is often referred to as the historic compromise—Employees give up the right to sue in exchange for employers agreeing to fund the system.

Funding of WC

WC Boards/Commissions are funded directly by contributions made by employers covered under the WC plan, not by government.

Employer contributions to WC are generally wage-related, calculated as a rate per \$100 of assessable earnings. This rate per \$100 is called the “assessment rate.” Assessment rates vary by jurisdiction (e.g., the rate for a given year may be \$1.68 per \$100 of assessable earnings in Jurisdiction A and \$2.50 per \$100 in Jurisdiction B). Many factors are used in determining the assessment rates, and these are described later in this reading.

Assessable earnings generally include most types of income. All jurisdictions include regular salary or wages, overtime, gratuities, commissions, bonuses, advances of future earnings and vacation pay in determining assessable earnings. Many jurisdictions include earnings in the form of profit sharing, paid layoff, maternity or sabbatical leave, taxable benefits and the employer's contribution to employee benefits.

All jurisdictions set their own maximum assessable earnings (i.e., the amount of earnings a WC Board/Commission will insure). Maximum assessable earnings limit the payroll amount reported by employers for the purpose of calculating WC premiums as well as limiting earnings loss benefits for injured employees in most jurisdictions. For example, assume maximum assessable earnings in Jurisdiction A are \$65,000. If a Jurisdiction A individual has \$85,000 in earnings, the employer reports \$65,000. In Jurisdiction B, maximum assessable earnings are \$55,000 for computing WC premiums. If a Jurisdiction B individual makes \$85,000, the employer reports \$55,000 for computing WC premiums. Many jurisdictions also set their own minimum annual assessment (a dollar amount).

Employer contributions are collected in a general fund used to pay the benefits to injured or disabled employees and to cover the general administration costs of the WC Board/Commission and the costs of associated agencies such as OH&S administration, appeals tribunals and advocacy groups. In addition, some jurisdictions maintain separate funds (i.e., separate from the general fund) for specific purposes such as a second injury fund or a disaster fund.

Eligibility for WC Benefits

Participation in WC is compulsory for many employers. With allowances for minor variance among jurisdictions, the definition of “employer” includes every person having in his or her service, under a contract of hire or apprenticeship, any person engaged in work in or about an industry. Such an employer must contribute to the WC fund, and its employees are eligible for benefits if injured. An employee's right to compensation is in place legally regardless of whether an employer has registered as required.

Each jurisdiction exempts certain industries and occupations from WC participation, and since these vary by jurisdiction, each jurisdiction's legislation should be consulted when determining employer participation requirements. Employers in most exempt industries or occupations may voluntarily apply to have employees covered.

In addition to exempt industries and occupations, some jurisdictions require a minimum number of employees for compulsory participation. Persons who are self-employed or involved in a partnership may apply for optional personal coverage as an individual under special application rules, which include selecting a desired level of coverage.

Self-Insurers

A WC Board/Commission may designate certain employers as being individually liable; these are called “self-insurers” or “deposit employers.” These employers are not part of the collective liability pool of employers and do not pay assessment rates. Generally, self-insured employers are limited to federal and provincial governments or public agencies, crown corporations and large public interprovincial transportation organizations (e.g., shipping, airlines and railways). WC Boards/Commissions generally administer the claims for self-insurers (e.g., federal government employees who are governed under the federal Government Employees Compensation Act). These employers reimburse the WC Board/Commission monthly for the cost of benefits provided to their insured employees and pay an administration fee for this service. They may also be asked to maintain a deposit or a guarantee with the WC Board/Commission to cover such costs and expenses.

Determination of Assessment Rates

Each WC Board/Commission sets its own assessment rates to be applied to the payrolls of participating employers. All jurisdictions estimate an average assessment rate for the coming year. Several factors can influence rates, such as recent accident cost experience in each industry class, the financial position of the WC Board/Commission, prevailing economic and labour conditions, and current adjudication policies. Each WC Board/Commission has its own unique method of calculating the amount of premiums to be collected from employers to fund the program that reflects its own situation. Assessment rates cannot be compared from one jurisdiction to another; however, each year's assessment rates must generate enough funds to contribute toward any funding deficiencies from previous years' assessments; all current costs; reserves for compensation payable in future years, so as not to unduly or unfairly burden employers in the future; some or all of the expenditures for safety prevention; and all administrative requirements for the WC Board/Commission and related organizations such as appeal tribunals and advocacy groups.

Employers do not simply pay the average assessment rate, since the risk of injury and associated costs vary by industry. There is a significant range between the highest and lowest assessment rate in each jurisdiction. Employers' actual assessment rates depend on:

- (a) The industry classification of each employer
- (b) Whether the WC Board/Commission applies experience rating to that employer
- (c) The existence of any safety-based program incentives in place in the jurisdiction.

Industry Classification

Industry classification is a determination of an employer's type of operation and industry designation. The inherent occupational danger for every industry/occupation varies. As occupational danger increases, so does the risk of employee injury. Within their mandates, WC Boards/Commissions have the power to group industries according to their hazard potential.

The North American Industry Classification System (NAICS) Canada from Statistics Canada is used by some WC Boards/Commissions as the basic framework for classifying employers. NAICS divides the economy into 20 sectors. Industries within these sectors are grouped according to production criterion, and then each sector is broken down into subsectors (e.g. agriculture, forestry, fishing and hunting is made up of five subsectors and 19 industry groups, and health and social assistance is made up of four subsectors and 18 industry groups).

Table I
North American Industry Classification System (NAICS) Canada

Agriculture, forestry, fishing and hunting	Wholesale trade	Real estate and rental and leasing	Health care and social assistance
Mining, quarrying, and oil and gas exploration	Retail trade	Professional, scientific and technical services	Arts, entertainment and recreation
Utilities	Transportation and warehousing	Management of companies and enterprises	Accommodation and food services
Construction	Information and cultural industries	Administrative and support, waste management and remediation services	Public administration
Manufacturing	Finance and insurance	Educational services	Other services (except public administration)

Other WC Boards/Commissions have their own internally developed classification systems, which are based on the NAICS classifications. Normally those jurisdictions simply “map” their own information over to the NAICS framework. They then also have processes to combine individual industrial classifications (i.e., classification units) into larger rate groups. A “rate group” consists of multiple classification units (or a single large one) that are grouped for the purpose of setting assessment rates. A rate group typically includes industry codes that are similar in nature, but it often includes unrelated industries grouped on the basis of risk.

For example, Prince Edward Island uses six sectors/classes, and within those six sectors/classes, there are 19 rate groups. Saskatchewan uses 10 sectors/classes, and within those 10 sectors/classes, they have 50 rate groups.

Practices vary across jurisdictions with regard to use of categories and grouping of employers within industry classes. For example, premium rates are high in Ontario for residential construction, and premium rates are low for insurance brokers in British Columbia.

Experience Rating

A key factor in determining individual employer’s WC premiums is whether a WC Board/Commission applies experience rating to that employer. Experience rating by WC Boards/Commissions is similar to the approach taken by insurers when establishing premium rates for privately sponsored group disability and health programs.

“Experience rating” means that the assessment rate or premium is impacted by the dollar amount of claims and/or the number of claims made by that particular employer in previous year(s). Experience rating generally shifts a greater degree of the responsibility for paying for WC costs from an industry classification group as a whole to the particular employers within the group that are actually incurring the costs. Almost all jurisdictions have experience rating programs, which may take into account an employer’s actual WC claims experience in relation to that of the projected costs or in relation to performance of other companies in its industry classification.

If a WC Board/Commission applies experience rating to assessment rate determination, an individual employer’s assessment rate may increase or decrease based on how many work injuries/diseases (resulting in paid WC claims) have occurred at the employer’s place of business. Experience rating may be either prospective or retrospective depending on the jurisdiction.

Prospective experience rating systems consider an employer’s past experience (i.e., number of claims and/or dollar amounts of claims) relative to its rate group, leading to discounts or surcharges on future rates. Retrospective experience rating systems provisionally assess an employer based on expected experience and then, at year-end, compare expected with actual past experience and provide premium rebates or surcharge billings based on actual results.

Table II

If an employer’s WC claims experience was:	Prospective experience rating provides an:	Retrospective experience rating provides an:
Positive—i.e., claims and/or costs were less than expected or less than those of other employers in its industry classification	Assessment rate discount	Assessment premium refund at year-end
Negative—i.e., claims and/or costs were greater than expected or more than those of other employers in its industry classification	Assessment rate surcharge	Assessment premium surcharge at year-end

Incentive Safety Prevention Programs

Some WC Boards/Commissions offer incentive programs that help employers meet their prevention responsibilities and build healthy and safe workplaces. For example, in Quebec, the Commission des normes, de l'équité, de la santé et de la sécurité du travail (CNESST) is responsible for administering the WC system. CNESST offers an insurance product, which is targeted to small- and medium-sized employers in Quebec. This product is known as a prevention mutual group (PMG). A PMG is a regrouping of employers for the common purpose of preventing occupational injury and encouraging the rehabilitation and return to work of employees who have suffered an accident. By forming a PMG, the employers are collectively assured of a personalized rate that takes their occupational safety and health performance into consideration. Like an insurance pool, grouping also makes it possible to generate first-level savings. The larger the mutual (total payroll), the better it can maximize the financial benefits of grouping.

With the creation of PMGs, the CNESST is pursuing a dual goal. On the one hand, it is encouraging small- and medium-sized employers to take concrete measures to improve the health and safety of their employees. In addition, it is guaranteeing that for each year of participation in a PMG, the employers pay an insurance premium that corresponds to their performance. This makes it possible for them to reduce their WC assessments significantly.

As another example, in Ontario, the Workplace Safety and Insurance Board (WSIB) offers three incentive programs to help employers meet their prevention responsibilities and build a healthy and safe workplace, while receiving financial and other rewards for doing so. These three programs include:

1. Small business and health and safety programs, such as the Building Your Health and Safety Program (formerly known as the Safe Communities Incentive Program)
2. Safety Groups Program, which offers peer networking, best practices, knowledge sharing and financial incentives
3. Workwell, which targets employers with higher frequency lost-time injuries and longer duration claims. This program was initiated by WSIB and results in an assessment of the employer's safety practices and the development of an implementation plan to assist with improvements.

WC Benefits

Monies paid or services available to injured employees or their dependents by WC Boards/Commissions in relation to a compensable injury or condition are generally known as WC benefits.

Terminology used to describe benefits, benefit amounts and terms of payment vary; however, general categories of benefits and the basis of compensation determination are basically the same across jurisdictions:

- (a) All jurisdictions offer temporary disability benefits, permanent disability benefits, rehabilitation benefits, fatal and dependent benefits, rehabilitation benefits and medical aid/health care–related benefits.
- (b) Jurisdictions use one of two alternative definitions of earnings in the calculation of wage loss benefits. Benefits may be calculated as a percentage of an employee's (1) net eligible earnings or (2) gross eligible earnings. Most jurisdictions use net eligible earnings to calculate benefits. Net eligible earnings are gross earnings less EI contributions, CPP or Quebec Pension Plan (QPP) contributions, and probable income tax deductions based on appropriate tables from the current or preceding year. An employee's average earnings in the employment where the injury occurred are generally determined by reference to the past 12 months. Since a large number of individuals will not have worked for an employer for 12 months, other ways of establishing earnings are sanctioned.
- (c) Each jurisdiction sets its own waiting period before benefits are paid and determines whether the employer is required to pay the employee for the day of injury and/or the period after injury.

In most jurisdictions, there is no waiting period, and employers are not required to pay for the period after injury. About half of jurisdictions do not require the employer to pay the employee for the day of injury.

Temporary Disability Benefits

All jurisdictions provide wage loss benefits for temporary disability. The disability may be assessed as either total temporary or partial temporary.

Eligibility

Generally, an employee is eligible for total temporary disability benefits when there is medical evidence that the work-related injury has resulted in temporary work restrictions that prevent the employee from resuming preaccident employment or other suitable employment.

Generally, an employee is eligible for partial temporary disability benefits when medical evidence indicates he or she has compensable temporary work restrictions but is physically and medically capable of returning to a modified version of the preaccident job or another suitable job.

Amount of Total Temporary Disability Benefits

Total temporary disability benefits are based on a percentage of gross earnings or of net earnings, depending on the jurisdiction. Partial temporary disability benefits are calculated as a proportionate part of an employee's net or gross earnings, depending on the jurisdiction, based on the difference between the employee's preaccident and postaccident earnings. In many cases, employers pay employees their full salary if they return to temporary modified duties, in order to minimize the WC benefits paid and mitigate the impact on their experience rating.

Duration of Temporary Disability Benefits

Total temporary disability benefits are payable for as long as the compensable total temporary disability lasts, generally until:

- (a) Medical evidence indicates the employee is considered fit to return to suitable employment.
- (b) The employee's remaining disability is considered to be permanent.
- (c) The employee dies.

Exceptions would typically be made if the period of an employee's disablement is prolonged through no fault of the employee, due to factors like the unavailability of a hospital bed or other treatment facility, the unavailability of suitable modified work or the existence of a concurrent condition.

A “concurrent condition” is a noncompensable condition that exists at the same time as a compensable disability. It includes underlying diseases like cancer (e.g., a noncompensable cancerous spinal tumor would likely affect the healing of a compensable spinal injury) and diabetes (e.g., diabetes typically lengthens the healing time for wounds), as well as conditions such as pregnancy (which may affect the healing time for a back injury). Its onset can either be before or after the compensable accident. A concurrent condition may or may not have an impact on the employee's recovery from the compensable disability. When a concurrent condition prolongs or prevents healing, the WC Board/Commission generally continues paying temporary benefits until healing of the compensable condition or death. Typically, if death occurs from the concurrent condition before healing of the compensable disability, no fatality benefits are paid unless the compensable accident caused or contributed to the cause of death. If, based on medical evidence, the concurrent condition clearly does not affect the employee's recovery from the compensable disability (e.g., noncompensable lung cancer and a compensable broken leg), it is not a factor in determining temporary disability benefits. In all cases, total temporary disability benefits are payable for as long as the compensable disability lasts.

Compensation for partial temporary disability is generally payable until:

- (a) The employee is fit to work at a level of earnings equal to or greater than the preaccident earnings.
- (b) The employee's medical condition stabilizes, and he or she is assessed for long-term/permanent disability benefits.
- (c) The employee's medical condition deteriorates and results in a further period of temporary total disability.
- (d) The employee dies.

Permanent Disability Benefits

Should an employee's disability be considered permanent, most jurisdictions provide two types of compensation intended to fairly compensate injured workers: (1) economic loss awards (i.e., future loss of earnings) and (2) noneconomic loss awards (i.e., loss of enjoyment of life resulting from permanent impairment). Benefit terminology, practice and amounts of awards vary by jurisdiction, but the intent of the two types of awards is the same.

Economic loss awards recognize ongoing disability or the impact a work-related injury/illness may have on an employee's capacity to earn wages through monthly payments. "Disability" is a person's decreased capacity or loss of ability to meet the demands of the job. This is measured as a loss of earnings capacity resulting from the workplace injury.

For example, Jim had a knee injury that resulted in a permanent restriction in the range of movement in his knee. Through an independent medical examination (IME), it was determined that Jim had a clinical impairment. He was compensated through a one-time noneconomic loss award (discussed above). The knee injury prevented Jim from doing the same work he did before the accident; the WC Board/Commission considers him to have a permanent work restriction. The work restriction prohibits Jim from earning the same wages he earned at the time of his accident, and Jim will receive a monthly economic loss payment to make up for the difference between his earning potential when he was injured and his earning potential after his injury. Employees who have not returned to any employment often have deemed earnings used in the calculation of permanent benefits. Depending on the jurisdiction, his economic loss payment may vary due to indexing using the cost-of-living adjustment (COLA).

Noneconomic loss awards recognize permanent clinical impairment, typically through a one-time lump-sum payment. "Clinical impairment" is the loss of a body part or the loss of use of a body part, system or function. The degree of clinical impairment is measured by an independent doctor at the point of maximum medical recovery.

For example, Sarah sustained a back injury on the job that required surgery, and this resulted in a permanent restriction in her range of back movement. The impairment was assessed at 10% of full body function. This 10% clinical assessment resulted in a one-time cash payment of 10% of the maximum noneconomic loss award legislated in her WC jurisdiction.

Rehabilitation Benefits

WC Boards/Commissions provide rehabilitation services and programs to employees injured on the job to return them to their preinjury health and to get injured employees back to work. Most boards/commissions take a broad view of rehabilitation and are able to take whatever measures are considered necessary to get an injured employee to return to the same, similar or suitable work and to lessen or eliminate any handicap resulting from the accident. They include reimbursement of costs and expenses of a vocational or rehabilitation program designed to reestablish, as much as possible, an employee’s preaccident earnings profile or maximum earnings potential and, if applicable, physical, social and psychological services.

Table III

Types of Vocational Rehabilitation Services Provided			
Work assessment	Tuition, books and supplies	Ergonomic services	Formal and academic training assistance
Work hardening	Placement services/ job search assistance	Tools and equipment for a new job	Worksite or workstation modifications
Training on the job	Subsidize employer	Transportation	
Types of Additional Services Provided			
Relocation assistance	Self-employment	Residence adaptation/ modification	Vehicle adaptation/ modification
Psychological/social counselling	Child care services	Home-care services	Legal services
Financial counselling	Home maintenance	Personal care allowance	

Return-to-Work (RTW) Process

An employee's doctor and other health care providers send progress reports to the adjudicator or case manager. The adjudicator or case manager uses these reports, and other information they may request, to determine when an employee is fit to work. The WC Board/Commission works with the employer to determine if there are other jobs the employee can do while recovering. This might mean working fewer hours or performing fewer or entirely different tasks. Depending on the type of work the employee returns to, the WC Board/Commission can reduce or stop benefits.

There may be situations where an independent medical examination (IME) is warranted. An IME answers specific medical questions about a work-related injury/illness. These might include:

- (a) Is the employee's condition permanent or temporary? The examiner will indicate whether he or she thinks the employee's condition will or will not change/improve over a reasonable period of time.
- (b) Is there any permanent disability (lasting effects) from the injury/illness?
- (c) Can the employee return to the same type of work he or she was doing before the injury/illness?
- (d) Is there anything else that should be done to confirm the diagnosis or further treatment that may be required?

The IME can occur at any time during the employee's recovery. It may take place soon after the injury/illness, after recovery or after the employee goes back to work. A medical examination to decide whether the employee has a permanent impairment is done after a period of treatment from the employee's doctor, when the injury/illness has stabilized and the employee has reached maximum medical recovery.

Either a general practitioner or a specialist conducts the examination. The physician is selected based on expertise in the type of injury/illness experienced by the employee. The physician performing the exam reviews the history of the employee's injury/illness, examines him or her, and reports to the employee's general practitioner and the WC Board/Commission. The examiner will not treat the employee; treatment suggestions are shared with a family doctor who may review them with the employee.

A neuropsychological assessment is arranged when a head injury or other neurological injuries are identified. This interview includes tasks and questions that examine memory, intelligence, problem-solving skills, attention and concentration, and personality. A psychologist who specializes in neuropsychological testing usually conducts the assessment. Following the assessment, treatment recommendations may be made.

Work assessment centres provide a detailed evaluation of the medical and rehabilitation treatment required to successfully return to work. Assessment at these centres can take up to two days. Based on an employee's needs, he or she may be seen by a physician, an occupational therapist, a physical therapist and/or a psychologist. Based on the results of the employee's assessment, recommendations regarding the rehabilitation services required are communicated to the family physician and case manager.

The adjudicator or case manager will contact the employee to set a date for return to some type of work. When the adjudicator or case manager finds the employee medically fit to return to work, he or she is expected to try to find and return to a suitable job. If the employee decides he or she is not going to return to work, the WC Board/Commission can reduce or stop benefits. If the employee cannot return to work because of a poor job market or another reason not related to his or her injury, WC benefits may not cover him or her. In this situation, the employee may need to apply for EI benefits.

If medical information suggests the employee will likely return to his or her preaccident occupation, vocational services may not be considered. However, if the employee has temporary restrictions, the case manager will discuss the possibility of modified work with the employer. Modified work promotes an early and gradual return to preaccident employment.

If medical information suggests the employee is unlikely to return to the preaccident occupation, the case manager will help the employee assess his or her job future with the employer. Following the assessment, the case manager may also discuss a change of occupation with a new employer.

Responsibilities for employers, employees, the WC case manager and health care providers during the RTW process are as follows:

1. Employers

- (a) Provide immediate and appropriate transportation for an injured employee to obtain health care at the time of injury.
- (b) Notify WC of an injury that requires medical attention and provide information as requested within a set time (varies by jurisdiction) of becoming aware of the injury.
- (c) Maintain contact with the injured employee.
- (d) Offer meaningful transitional duties or other suitable work if an employee is unable to return to his or her original job.
- (e) Communicate and collaborate with all RTW partners.

2. Employees

- (a) Notify employer immediately if injured on the job.
- (b) Provide WC with complete, accurate and timely information.
- (c) Take all reasonable steps to reduce or eliminate any permanent impairment or loss of earnings resulting from an injury.
- (d) Participate in any medical aid or health care treatment to promote recovery.
- (e) Notify WC immediately of any change that may affect a claim, including return to work.
- (f) Undergo a health care assessment or medical examination, if requested by the employee or WC.
- (g) Actively participate and cooperate in the RTW program.

3. WC case manager

- (a) Objectively and fairly weigh evidence, and make claim decisions in a timely manner.
- (b) Administer health care and earnings replacement benefits.
- (c) Assist in the development and management of RTW plans.
- (d) Coordinate and monitor the success of required health care and rehabilitation services.
- (e) Communicate and collaborate with all parties involved in the RTW planning process.
- (f) Manage employee and employer expectations.

4. Health care service providers

- (a) Provide services to injured employees to assist with their recovery and help them safely return to work in a timely manner.
- (b) Identify issues and barriers influencing RTW plans, and make recommendations to address these issues.
- (c) Manage the injured employee's recovery expectations.

Medical Aid/Health Care–Related Benefits

Most WC acts contain a definition of “medical aid” (called “health care” in some jurisdictions) that outlines what will be paid for under this benefit category. Common medical benefits include medical and other services provided by licensed practitioners (e.g., physicians, dentists, physiotherapists, chiropractors and optometrists), drugless practitioners, hospitalization, drugs and dressings, x-rays, artificial appliances and ambulance transportation. All boards/commissions have the authority to pay for items or treatment not specifically mentioned in their definitions. Definitions of need, type and amount of treatment as well as the fee for all medical aid provided rests with the WC Board/Commission. All medical aid costs associated with workplace injuries and illnesses under a WC Board/Commission's jurisdiction are paid through employer assessment premiums, not through general government revenues like non-work-related medical expenses.

Fatality and Dependent Benefits

If an employee dies due to a work injury/disease, his or her dependents may be eligible to receive fatality and dependent's benefits. These can include immediate lump-sum payments, monthly benefits and funeral costs. The surviving spouse (either by marriage or common-law) receives a monthly pension based on the spouse's age and the deceased employee's earnings and date of death. In most jurisdictions, the spouse also receives a lump-sum payment. Dependent children receive monthly benefits until the age of 18 (or later if they are attending an accredited educational facility). The variety of dependent benefits varies significantly, depending on the jurisdiction.

Tax Treatment of Benefits

Benefits are not taxable, assignable or attachable, except in Quebec, where up to 50% of the income replacement benefit may be garnished to pay alimony. Employer contributions are deductible from income tax.

Indexation of Benefits

All jurisdictions adjust some or all benefits periodically, some on the basis of Consumer Price Index (CPI) and others with legislated improvements.

Privacy of Information

The WC Act gives the WC Board/Commission authority to collect relevant personal information from a claimant and other sources. This information is placed in a claimant's file to help the WC Board/Commission determine benefits and services. An applicant's personal information is protected under the various WC Acts and the Freedom of Information and Protection of Privacy Act. It cannot be released without the applicant's consent. However, the WC Board/Commission is allowed to share some general personal information with other government departments or agencies such as EI or Community Services. Both the applicant and employer have an interest in an injured employee's claim with similar rights to receive fair and equal treatment. An applicant and the employer can access information in the applicant's claim file. The employer does not have to receive an applicant's consent to view the file or obtain a copy, though some personal information, such as medical reports, may not be provided to an employer.

Optimizing Canada's Social Security System—Health Care

Module 4

This module looks at government-sponsored health care. There are three main categories of government-sponsored health care:

1. Services defined under the Canada Health Act (CHA) as insured health care services that must meet all nine requirements of CHA (i.e., the five criteria, two conditions and two provisions)
2. Services defined under CHA as extended health care services that must meet only the two conditions of CHA, which in essence means that they are provided at provincial/territorial discretion, on terms and conditions that vary from one province and territory to another
3. Services outside the scope of CHA that are provided at provincial/territorial discretion, on terms and conditions that vary from one province and territory to another.

The federal government's role in the provision of health care services primarily involves the transfer of funds to provinces and territories and ensuring that the requirements of CHA are met. The administration (i.e., management and delivery) of all three categories of health care services is the responsibility of each individual province and territory.

To qualify for federal funding, all provinces and territories provide the insured health care services as defined under CHA, in adherence with the nine CHA requirements. For political, social, economic and budgetary reasons, the range, terms and conditions of extended health care services defined under CHA must only meet the two CHA conditions, and supplementary services (entirely outside CHA) vary significantly by jurisdiction. Coverage is not necessarily at full cost; provincial/territorial health care plans supplement private health care insurance and private payment. Coverage for most of these services is limited to certain segments of the population—usually seniors, children or social assistance recipients.

This module provides an overview of government-sponsored health care, as well as details of services, administration and payment for services. The focus is on common situations. Candidates should refer to the related legislation as specific applications arise in the workplace.

Assigned Reading



Reading A

Canada's Government-Sponsored Health Care System, Study Guide
Module 4, Pages 29-55



Professional Enrichment Resources

Canadian Benefits Guide

Aon, section on Public Health Insurance Plans. The most current copy can be accessed at http://www.aon.com/canada/attachments/thought-leadership/HB_CanadianBenefitsGuide-en.pdf.

Professional enrichment resources are not tested on the national examination.

Why Read This?

This guide provides a summary of the funding methods used by some provinces to supplement general tax revenues. It also provides a snapshot of types of paramedical professional health care services offered and paid by provinces and territories on a discretionary basis.



Learning Outcomes

1. Describe the constitutional basis underlying the Canadian health care system and the roles of various jurisdictions within that system.
2. Explain in general terms the types of health care available in Canada.
3. Outline the requirements of the Canada Health Act (CHA) and the impact of those requirements upon the design of the overall health care system.
4. Describe the compliance measures included in CHA and the extent to which these measures are utilized.
5. Describe the types of health care covered, and not covered, by Canada's public health care system.
6. Outline different types of Canadian health care providers and how they are reimbursed for their services.
7. Identify the system of financing that is in place in Canada for various types of health care.



Outline of Knowledge

- A. Constitutional arrangements for Canadian health care
 - 1. National principles of Canada Health Act (CHA)
 - 2. Provincial/territorial design and delivery
 - 3. Cost sharing between jurisdictions
 - 4. Single payer
- B. Levels of available health care
 - 1. Primary health care services
 - 2. Secondary health care services
 - 3. Supplementary health care services
- C. CHA requirements
 - 1. Program criteria
 - 2. Definitions of insured services and persons
 - 3. Treatment of jurisdictions allowing extra billing and user charges
 - 4. Penalty provisions
- D. CHA administration and compliance
 - 1. Clarification of federal interpretation of CHA
 - 2. Canada Health Act Division (CHAD) activities
 - 3. Compliance approach
- E. Federal government responsibilities
 - 1. CHA responsibilities
 - 2. Direct delivery
 - 3. Health protection, regulation, promotion

F. Provincial/territorial government responsibilities

1. Medically necessary services
2. Registration and coverage of individuals
3. Types of insured services
4. Extended health care services

G. Funding of health care

1. Taxation
2. Health care premiums
3. Payments to providers
4. Private sources including out-of-pocket payments

H. Reimbursement of service providers

1. Hospitals
2. Physicians
3. Types of providers



Key Terms

- Canada Health Transfer (CHT)
- Canada Health Act (CHA)
- Medically necessary
- Primary, secondary and supplementary health care services
- Out-of-pocket payments
- Insured health services
- Insured persons
- Excluded persons
- Extended health care services
- Insured hospital services
- Insured physician services
- Insured surgical-dental services
- Excluded health care services
- Public administration
- Comprehensiveness
- Universality
- Portability
- Accessibility
- “Where and as available” rule
- Extra billing
- User charge
- Noninsured health services
- Acute care
- Chronic care
- Participating practitioner
- Nonparticipating practitioner
- Opted-out practitioner

Learning Outcome



1

Describe the constitutional basis underlying the Canadian health care system and the roles of various jurisdictions within that system.

1.1 Describe how national health care responsibilities are divided among the various Canadian legislative jurisdictions. (Reading A, Canada's Government-Sponsored Health Care System, Study Guide Module 4, pp. 30-31)

The structure of the Canadian public health system results from the constitutional assignment of jurisdiction over most aspects of health care to the provincial order of government. The system is referred to as a “national” health insurance system in that all provincial/territorial hospital and medical insurance plans are linked through adherence to national principles set at the federal level through the Canada Health Act (CHA). The plans are designed and delivered by the provinces and territories, with the exceptions of health care for certain groups where responsibility lies with the federal government. The overall system is jointly funded by the federal and provincial/territorial governments.

1.2 Compare the federal government's role in health care with the provincial/territorial governments' role. (Reading A, Canada's Government-Sponsored Health Care System, Study Guide Module 4, pp. 30-31 and 43-44)

The federal government's role in health care involves:

- (a) Setting and administering national principles or standards for the health care system through CHA
- (b) Assisting in the financing of provincial/territorial health care services through fiscal transfers known as the Canada Health Transfer (CHT)
- (c) Ensuring that the requirements of CHA are met
- (d) Delivering primary and supplementary services to certain groups of people. These groups include First Nations people living on reserves, Inuit, serving members of the Canadian Forces, eligible veterans, inmates in federal penitentiaries and some groups of refugee claimants.
- (e) Protecting and regulating health (e.g., regulation of pharmaceuticals, food and medical devices), consumer safety, disease surveillance and prevention, and support for health promotion and health research.

The federal government also provides certain health-related tax measures, including tax credits for medical expenses, disability, caregivers and infirm dependents; tax rebates to public institutions for health services; and deductions for private health insurance premiums for the self-employed.

The provinces and territories administer and deliver most of Canada's health care services. They each establish their own hospital and medical plans, making decisions about how much money they will spend on their health care plan, where their hospitals will be located, how many physicians they will need, etc. In order to receive the full CHT from the federal government, their health insurance plans are expected to meet national principles set out under CHA. Each jurisdiction establishes its own method of financing the portion of overall costs not covered by federal funding.

Provincial/territorial jurisdictions' administration responsibilities include:

- (a) Determining benefits eligible for coverage
- (b) Planning and paying for hospital and physician care in hospitals and public health facilities and negotiating fee schedules for health professionals
- (c) Registering those eligible for benefits (e.g., through a health insurance card)
- (d) Registering diagnostic facilities
- (e) Enrolling health care practitioners
- (f) Processing and paying practitioners' bills for services rendered
- (g) Auditing benefit claims for payment and auditing patterns of practice or billings submitted, etc.

1.3 Outline the functions of the Canada Health Act Division (CHAD). (Reading A, Canada's Government-Sponsored Health Care System, Study Guide Module 4, p. 41)

CHAD is part of Health Canada and is responsible for administering CHA by:

- (a) Monitoring and analyzing provincial/territorial health care insurance plans for compliance with the criteria, conditions, and extra billing and user charge provisions of CHA
- (b) Working in partnership with the provinces and territories to investigate and resolve compliance issues and pursue activities that encourage compliance with CHA
- (c) Informing the minister of possible noncompliance and recommending appropriate action to resolve issues
- (d) Developing and maintaining formal and informal relationships with health officials in provincial/territorial governments to share information
- (e) Disseminating information on CHA
- (f) Responding to information requests relating to CHA received by telephone, mail and the Internet from the public, members of Parliament, government departments, stakeholder organizations and the media
- (g) Conducting issue analysis and policy research to provide policy advice
- (h) Collaborating with provincial/territorial health department representatives through the Interprovincial Health Insurance Agreements Coordinating Committee
- (i) Working with Health Canada Legal Services and the Department of Justice on litigation issues that implicate CHA.

1.4 Identify the first steps that an individual must take in order to access public health care services in Canada. (Reading A, Canada's Government-Sponsored Health Care System, Study Guide Module 4, p. 45)

Registration for health care with the applicable jurisdiction is the first step for an individual to take regarding accessing health care. Registration and possession of a valid health insurance card are required in order to access insured services. New residents are advised to apply for coverage as soon as possible upon arrival in any given province or territory. It is the parents' responsibility to register a newborn or adopted child.

1.5 Describe the general approach taken by provincial/territorial jurisdictions for determining when coverage under their public health plan becomes effective. (Reading A, Canada's Government-Sponsored Health Care System, Study Guide Module 4, p. 45)

Effective dates of coverage for registered individuals vary by jurisdiction. Generally:

- (a) Newborn children are entitled to coverage upon birth.
- (b) Insured residents moving from one province or territory to another are generally entitled to coverage as of the first day of the third month following the month of arrival. (In a couple of provinces, it is the first day of the third month following residency.) For example, a person who moved from Prince Edward Island to British Columbia on September 15 would be entitled to coverage in Prince Edward Island for September, October and November. On December 1, that person would be entitled to coverage in British Columbia.
- (c) Persons arriving from outside Canada to reestablish residence in Canada are entitled to coverage as of the day of arrival (provided they are Canadian citizens or hold permanent resident status).
- (d) For new Canadians or immigrants, the waiting period is not greater than three months (as required by CHA), and it begins the day of arrival and/or day of legal entitlement.
- (e) Discharged members of the Canadian Forces and released inmates of federal penitentiaries are entitled to coverage as of the day of discharge or release.

Learning Outcome

Explain in general terms the types of health care available in Canada.



2

2.1 Define “primary health care services,” and identify the providers of such services.

(Reading A, Canada's Government-Sponsored Health Care System, Study Guide Module 4, pp. 31-32)

Services provided at the first point of contact within the health care system are known as “primary health care services,” and they form the foundation of the health care system. Generally, primary health care serves the dual functions of:

- (a) Providing a first point of contact for patients
- (b) Coordinating patient health care services to ensure continuity of care and ease of movement across the health care system when more specialized services are needed (e.g., to specialists or hospitals).

When Canadians need health care, they generally contact a primary health care professional—a family doctor, nurse, nurse practitioner, pharmacist, etc., often working in a team of health care professionals. Primary health care services may include prevention and treatment of common diseases and injuries, which includes basic emergency services, referrals to and coordination with other levels of care such as hospital and specialist care, primary mental health care, palliative and end-of-life care, health promotion, healthy child development, primary maternity care and rehabilitation services.

A number of other health care professionals are involved in primary health care—for example, dentists, nurses, pharmacists and other allied health care personnel.

2.2 Identify secondary health care services available in Canada. (Reading A, Canada's Government-Sponsored Health Care System, Study Guide Module 4, p. 32)

Secondary health care services include specialized care at a hospital or services provided in the home or community (generally for short-term care) or in long-term care facilities (generally for long-term and chronic care). Needs are assessed and services are coordinated to provide continuity of care and comprehensive care. Care is provided by a range of formal, informal (often family) and volunteer caregivers. Referrals for secondary health services can be made by doctors, hospitals, community agencies, families and patients themselves.

Short-term secondary services can include specialized nursing care, homemaker services and adult day care, and they are often provided to individuals who are partially or totally incapacitated. Long-term secondary health care services include services for chronic care provided in a long-term facility.

2.3 Describe services that are considered supplementary health care services in Canada. (Reading A, Canada's Government-Sponsored Health Care System, Study Guide Module 4, p. 32)

Supplementary health care services include prescription drugs outside of the hospital, dental care, vision care, medical equipment and appliances (prostheses, wheelchairs, etc.), and the services of other health professionals outside of the hospital, such as physiotherapists.

Learning Outcome



3

Outline the requirements of the Canada Health Act (CHA) and the impact of those requirements upon the design of the overall health care system.

3.1 Briefly describe the five program criteria applicable only to insured health services that provincial/territorial health care insurance plans must meet to be eligible for the full federal CHT cash contribution. (Reading A, Canada's Government-Sponsored Health Care System, Study Guide Module 4, pp. 36-37)

The five criteria that provincial/territorial health care insurance plans must meet to be eligible for the full federal CHT cash contribution are:

- (1) **Public administration.** The intent of the public administration criterion is to ensure that provincial/territorial health care insurance plans are administered and operated on a nonprofit basis by a public authority. This authority is accountable to the provincial/territorial government for decision making on benefit levels and services, and its records and accounts are publicly audited.
- (2) **Comprehensiveness.** The comprehensiveness criterion requires that provincial/territorial health care insurance plans cover all insured health services provided by hospitals, physicians or dentists (i.e., surgical-dental services that require a hospital setting).
- (3) **Universality.** Under the universality criterion, all insured residents of a province or territory must be entitled to the insured health services provided by the provincial/territorial health care insurance plan on uniform terms and conditions.
- (4) **Portability.** Residents moving from one province or territory to another must continue to be covered for insured health care services by the home jurisdiction during any waiting period imposed by the new province or territory of residence.
- (5) **Accessibility.** The intent of the accessibility criterion is to ensure that insured residents in a province or territory have reasonable access to insured hospital, medical and surgical-dental services on uniform terms and conditions, unprecluded or unimpeded, either directly or indirectly, by charges (e.g., user charges or extra billing) or other means (e.g., discrimination on the basis of age, health status or financial circumstances).

3.2 Outline two additional requirements of CHA as it relates to payments by provincial/territorial health care insurance plans to providers of insured services. (Reading A, Canada's Government-Sponsored Health Care System, Study Guide Module 4, p. 37)

Provincial/territorial health care insurance plans must provide:

- (a) Reasonable compensation to physicians and dentists for all the insured health care services they provide
- (b) Payment to hospitals to cover the cost of insured health care services.

3.3 Define "insured persons" and "excluded persons" under CHA. (Reading A, Canada's Government-Sponsored Health Care System, Study Guide Module 4, p. 35)

"Insured persons" under CHA are eligible residents of a province or territory. A resident of a province or territory is a person lawfully entitled to be or to remain in Canada who makes his or her home and is ordinarily present in the province or territory, but the term does not include a tourist, a transient or a visitor to the province or territory. A person is considered to be "ordinarily present" if the person:

- (a) Makes his or her permanent home in the province or territory
- (b) Is physically present in the province or territory for at least 183 days in any calendar year (short-term absences under 30 days, within Canada, are not monitored)
- (c) Is a Canadian citizen, permanent resident or landed immigrant (as defined by Citizenship and Immigration Canada).

Certain residents are "excluded persons"—serving members of the Canadian Forces or inmates of a federal penitentiary.

3.4 Describe the process used to implement the portability provisions of CHA.

(Reading A, Canada's Government-Sponsored Health Care System, Study Guide Module 4, pp. 42 and 46)

The within-Canada portability provisions of CHA are implemented through a series of bilateral reciprocal billing agreements between provinces and territories for hospital and physician services. All provinces and territories participate in reciprocal hospital agreements and all, with the exception of Quebec, participate in reciprocal physician agreements. This generally means that a patient's health card will be accepted, in lieu of payment, when the patient receives hospital or physician services in another province or territory. The province or territory providing the service will directly bill the patient's home province. If insured persons are temporarily absent in another province or territory, the portability criterion requires that insured services be paid at the host province's rate. In Quebec, the cost for physician services received in another province or territory is reimbursed at the amount actually paid or the rate that would have been paid by the Régie de l'assurance maladie du Québec, whichever is less.

3.5 Identify the effective date of health care coverage for insured health services under CHA for an individual moving from one province or territory to another and for an individual returning from outside Canada to reestablish residence in Canada.

(Reading A, Canada's Government-Sponsored Health Care System, Study Guide Module 4, p. 45)

Insured residents moving from one province or territory to another are generally entitled to coverage as of the first day of the third month following the month of arrival. Persons arriving from outside Canada to reestablish residence in Canada are generally entitled to coverage as of the day of arrival (provided they are Canadian citizens or hold permanent resident status).

3.6 Describe how the costs of supplementary insured health care services are reimbursed by provincial/territorial health care insurance plans if the services are received outside an individual's province or territory of residence. (Reading A, Canada's Government-Sponsored Health Care System, Study Guide Module 4, p. 54)

For most supplementary health care services, there is no coverage if the service is rendered outside the province or territory of residence, or coverage is limited to the amounts payable in the home province or territory.

3.7 Define “extra billing” and “user charges” under CHA, and outline the mandatory penalty provisions should these practices occur for insured health care services.

(Reading A, Canada's Government-Sponsored Health Care System, Study Guide Module 4, pp. 37-38)

“Extra billing” is the billing for an insured health care service rendered to an insured person by a medical practitioner or a surgical-dentist providing insured health services in a hospital setting for an amount in addition to any amount paid or to be paid for that service by the provincial/ territorial health care insurance plan. For example, if a physician were to charge patients any amount for an office visit that is insured by the provincial/territorial health insurance plan, the amount charged constitutes extra billing.

“User charges” are any charges for an insured health service other than extra billing that are permitted by a provincial/territorial health care insurance plan and are not payable by the plan. For example, if patients were charged a facility fee for receiving an insured service at a hospital or clinic, that fee is considered a user charge. Under CHA, provinces and territories that allow extra billing and user charges are subject to mandatory dollar-for-dollar deductions from the federal transfer payments under CHT.

3.8 Outline the circumstances under which provinces and territories are permitted to charge a user fee for insured hospital services. (Reading A, Canada's Government-Sponsored Health Care System, Study Guide Module 4, p. 52)

Provinces and territories are allowed to charge a user fee if hospitalization is for chronic care (in the opinion of the attending physician), and the patient is more or less permanently resident in the health care facility.

3.9 Define “chronic care,” and identify the types of services provided in a chronic care facility. (Reading A, Canada's Government-Sponsored Health Care System, Study Guide Module 4, p. 52)

In the context of CHA, “chronic care” is care required by a person who is chronically ill or has a functional disability (physical or mental), whose acute phase of illness is over, whose vital processes may or may not be stable, and who requires a range of services and medical management that can only be provided by a hospital. A chronic care facility is a facility providing ongoing, long-term, inpatient medical services. Chronic care facilities do not include nursing homes.

3.10 Describe how the CHA defines “insured hospital services,” “insured physician services,” “insured surgical-dental services” and “extended health care services.”

(Reading A, Canada's Government-Sponsored Health Care System, Study Guide Module 4, p. 35)

“Insured hospital services” are defined under CHA as medically necessary inpatient and outpatient services.

“Insured physician services” are defined under CHA as medically required services rendered by medical practitioners. Medically required physician services are generally determined by provincial/territorial health care insurance plans in conjunction with the medical profession.

“Insured surgical-dental services” are defined under CHA as services provided by a dentist in a hospital, where a hospital setting is required to properly perform the procedure.

“Extended health care services” are defined under CHA as certain aspects of long-term residential care (e.g., nursing home intermediate care and adult residential care services) and the health aspects of home care and ambulatory care services.

3.11 Outline the types of practitioners who can provide insured physician services under CHA and the services that they provide that are considered by CHA to be “insured services.” (Reading A, Canada's Government-Sponsored Health Care System, Study Guide Module 4, p. 48)

Persons who can provide insured physician services include:

- (a) General practitioners, who are persons who engage in the general practice of medicine
- (b) Physicians who are not specialists within the meaning of the clause
- (c) Specialists, who are physicians and are recognized as specialists by the appropriate licensing body of the jurisdiction in which they practice.

Insured physician services under CHA are medically necessary services (i.e., necessary to diagnose, treat, rehabilitate or otherwise alter a disease pattern) covered by provincial/territorial health care insurance plans and rendered by a medical practitioner. Categories of insured physician services generally include:

- (a) Diagnosis and treatment of illnesses and injuries
- (b) Surgical services
- (c) Maternity services
- (d) Anesthesia services
- (e) X-ray, laboratory and other diagnostic procedures.

3.12 Describe the categories of insured surgical-dental services identified by CHA.

(Reading A, Canada's Government-Sponsored Health Care System, Study Guide Module 4, p. 49)

CHA defines “surgical-dental services” as any service performed by a dentist in a hospital, where a hospital is required to properly perform the procedure. Categories of insured services generally include:

- (a) Oral and maxillary facial surgery
- (b) Routine extraction services provided for cardiac patients, transplant patients, immune-compromised patients and radiation patients, when these patients are undergoing active treatment in a hospital setting and the attendant medical procedure requires the removal of teeth
- (c) All precancerous or cancerous dental surgical biopsies.

3.13 Identify the types of health care programs and services that fall outside the scope of CHA. (Reading A, Canada's Government-Sponsored Health Care System, Study Guide Module 4, pp. 39, 48 and 52-53)

Noninsured health services are not considered medically necessary and are not insured under provincial/territorial health insurance legislation. They include:

- (a) Noninsured hospital services for which patients may be charged, including preferred hospital accommodation unless prescribed by a physician or when standard ward level accommodation is unavailable, private duty nursing services, and the provision of telephones and televisions
- (b) Noninsured physician services for which patients may be charged, including telephone advice; the provision of medical certificates required for work, school, insurance purposes and fitness clubs; testimony in court; and cosmetic services.

In addition, all provincial/territorial jurisdictions have discretion to provide a range of health care services that fall outside the scope of CHA. These supplementary health care services are provided under terms and conditions set by each jurisdiction and vary considerably across jurisdictions. They include prescription drugs, eye examinations, dental care, aids to independent living and paramedical services.

Learning Outcome



4

Describe the compliance measures included in CHA and the extent to which these measures are utilized.

4.1 Describe Health Canada's approach to resolving possible CHA compliance issues with provinces/territories. (Reading A, Canada's Government-Sponsored Health Care System, Study Guide Module 4, p. 42)

Part of the federal government's responsibilities in the health care system is to ensure that the provincial/territorial health care insurance plans comply with CHA. Provinces and territories must comply with the criteria, conditions and provisions of CHA to receive the full amount of the CHT cash contribution.

Health Canada's approach to resolving possible compliance issues emphasizes transparency, consultation and dialogue with provincial/territorial health ministry officials. In most instances, issues are successfully resolved through consultation and discussion based on a thorough examination of the facts. Deductions have only been applied when all options to resolve the issue have been exhausted.

4.2 Describe the primary sources of clarification of the terms of CHA that have been issued by the federal government. (Reading A, Canada's Government-Sponsored Health Care System, Study Guide Module 4, pp. 40-41)

There have been three clarifications issued by the federal government that relate to its position on CHA. They are:

- (1) The Epp letter. This was a 1985 letter from then-federal Minister of Health and Welfare Jake Epp. His letter provided the federal government's interpretation of CHA criteria, conditions and regulatory provisions. These clarifications have been used by the federal government in assessing and interpreting compliance with CHA. The Epp letter remains an important reference for interpreting CHA.
- (2) The Marleau letter. This focused on the federal policy on private clinics. In 1994, a series of federal/provincial/territorial meetings that dealt with private clinics took place. The growth of private clinics providing medically necessary services funded partially by the public system and partially by patients was at issue, as was its impact on Canada's universal, publicly funded health care system. At a 1994 federal/provincial/territorial meeting of health ministers, all ministers present, with the exception of Alberta, agreed to "take whatever steps required to regulate the development of private clinics in Canada." In 1995, Diane Marleau, the federal minister of health at the time, wrote to all provincial/territorial ministers of health to announce the new Federal Policy on Private Clinics. The minister's letter provided the federal interpretation of CHA as it relates to the issue of facility fees charged directly to patients receiving medically necessary services at private clinics. The letter stated that the definition of "hospital" contained in CHA includes any public facility that provides acute, rehabilitative or chronic care. Thus, when a provincial/territorial health care insurance plan pays the physician fee for a medically necessary service delivered at a private clinic, it must also pay the facility fee or face a deduction in federal transfer payments.
- (3) A letter issued in 2002 by the federal minister of health to the provincial/territorial counterparts, which outlined a Canada Health Act Dispute Avoidance and Resolution process. The process was agreed to by all provinces and territories, except Quebec. The process includes the dispute avoidance activities of government-to-government information exchange, discussions and clarification of issues as they arise, active participation of governments in ad hoc federal/provincial/territorial committees on CHA-related issues, and CHA advance assessments, upon request. Where dispute avoidance activities prove unsuccessful, dispute resolution activities may be initiated, beginning with government-to-government fact finding and negotiations. If these are unsuccessful, either minister of health involved may refer the issues to a third-party panel to undertake fact finding and provide advice and recommendations. The federal minister of health has the final authority to interpret and enforce CHA. In deciding whether to invoke the noncompliance provisions of CHA, the minister takes the panel's report into consideration.

Learning Outcome

Describe the types of health care covered, and not covered, by Canada's public health care system.



5

5.1 Describe how the provincial/territorial jurisdictions determine the health care services to cover under their respective health care plans. (Reading A, Canada's Government-Sponsored Health Care System, Study Guide Module 4, pp. 31 and 44)

The provinces and territories each establish their own hospital and medical plans, making decisions about how much money they will spend on their health care plans, where their hospitals will be located, how many physicians they will need, etc.

CHA does not define “medically necessary services” but does require that if a service is medically necessary, the full cost of the service must be covered by the public health care insurance plan. The provinces and territories, in consultation with the respective physician colleges or groups, determine which services are medically necessary for health insurance purposes.

If a service is not considered to be medically required, the province or territory does not need to cover it through its health care insurance plan. As a result, compliance with CHA requirements means that all provincial/territorial health care insurance plans share certain common features and basic standards of insured health care coverage (with slight differences).

5.2 Identify the general categories of insured hospital services provided under provincial/territorial health plans. (Reading A, Canada's Government-Sponsored Health Care System, Study Guide Module 4, pp. 47-48)

All provinces and territories cover treatment provided in acute care facilities for the entire period of time during which such services are medically required. Acute care includes health services provided to individuals suffering from serious and sudden health conditions that require ongoing professional nursing care and observation. Categories of insured hospital services under CHA generally include:

- (a) Accommodation and meals at the standard or public ward rate and preferred accommodation if medically required
- (b) Necessary nursing services
- (c) Laboratory, radiological (x-ray) and other diagnostic procedures
- (d) Drugs when administered in a hospital
- (e) Use of operating room, case room and anesthetic facilities
- (f) Use of radiotherapy and physiotherapy facilities
- (g) Medical and surgical equipment and supplies
- (h) Outpatient services. (An outpatient is a patient admitted to a hospital, clinic or other health care facility for treatment that does not require an overnight stay.)

5.3 Describe how long-term secondary health services are provided in the public health care system. (Reading A, Canada's Government-Sponsored Health Care System, Study Guide Module 4, p. 32)

All provinces and territories provide and pay for certain secondary services such as home and continuing care services, but many secondary services are not covered by CHA. Regulation and the range of covered services vary across jurisdictions.

Long-term secondary health care services are, for the most part, paid for by provincial/territorial governments, but the costs of room and board are the responsibility of the individual receiving care. (Sometimes costs of room and board are subsidized by provincial/territorial governments.)

5.4 Outline the extent to which long-term care services are funded through the public health care system. (Reading A, Canada's Government-Sponsored Health Care System, Study Guide Module 4, pp. 50-51)

The provincial/territorial health care insurance plans cover the majority of nursing home costs for those who are without means by providing “ward” rates in a shared room. In all provinces and territories, most clients/residents pay a portion of the cost of nursing home care. Residents pay for semiprivate and private accommodation in most institutions. Health aspects of home care (provided in a long-term care context), at least to the level of public health nursing, are covered by provincial/territorial plans.

5.5 Describe the general extent of supplementary health care services provided by provincial/territorial health care insurance plans. (Reading A, Canada's Government-Sponsored Health Care System, Study Guide Module 4, p. 53)

There is considerable variation among provincial/territorial plans in terms of who is covered for what drugs and what user fees apply. Provincial/territorial health care insurance plans subsidize the costs for some residents, particularly low-income individuals and seniors.

Plans vary between those that cover a wider range of prescription drugs for a targeted group of people (e.g., seniors and low-income individuals) and those that provide benefits for a larger range of people but have a narrower range of drugs and higher copayments and deductibles in order to limit utilization.

Most provinces and territories cover eye examinations for seniors and/or children.

Most provinces and territories provide limited, nonhospitalized dental care coverage for children. The maximum eligible age varies in each jurisdiction. The emphasis is on basic services.

Some provinces cover a portion of the cost of some aids to independent living such as hearing aids, wheelchairs and medical appliances.

Some provinces and territories cover physiotherapy services outside of a hospital in an approved facility, provided certain conditions are met. Some provinces provide chiropractor services.

6



Learning Outcome

Outline different types of Canadian health care providers and how they are reimbursed for their services.

6.1 Outline how hospitals and physicians are reimbursed by the provincial/territorial health care plan for insured services. (Reading A, Canada's Government-Sponsored Health Care System, Study Guide Module 4, pp. 33 and 51)

Hospital operating costs are paid out of an annual budget that has been negotiated between the hospital and the provincial/territorial ministry of health or regional authority.

Doctors in private practice are generally paid through fee-for-service (FFS) schedules negotiated between each provincial/territorial government and the medical associations in its respective jurisdiction. Those in other practice settings, such as clinics, community health centres and group practices, are more likely to be paid through an alternative payment method such as salaries or a blended system, for example, FFS plus incentives.

6.2 Describe the method of reimbursement for insured services provided by provincial/territorial health care insurance plans to medical providers who are “participating” practitioners. (Reading A, Canada's Government-Sponsored Health Care System, Study Guide Module 4, p. 51)

For “participating” practitioners, the public health care administrator reimburses the health care provider directly *at the rate defined by the jurisdiction's fee schedule*. This is regardless of whether the practitioner's services have been provided inside, or outside, of a hospital. If the jurisdiction imposes specific dollar limits on the amount that the public plan will reimburse, the insured person is responsible for paying any charges over that limit to the practitioner or health care facility.

6.3 Describe the method of reimbursement for insured services provided by provincial/territorial health care insurance plans to medical providers who are “opted-out” practitioners and the information such practitioners must provide to receive that reimbursement. (Reading A, Canada's Government-Sponsored Health Care System, Study Guide Module 4, p. 51)

For “opted-out” practitioners, the health care provider bills his or her patient directly *at the rate set by the particular jurisdiction*, and the patient then seeks reimbursement from the public health care administrator. In order for the patient to receive reimbursement from the public plan, that individual must obtain sufficient billing information from the practitioner to satisfy the public plan administrator.

6.4 Describe what makes medical providers “nonparticipating” practitioners and how they are paid for the health care services they provide. (Reading A, Canada's Government-Sponsored Health Care System, Study Guide Module 4, p. 51)

When the health care provider does not participate in the public plan, and as a result bills the patient directly *at a fee level established by the provider*, the practitioner is considered a “nonparticipating” practitioner. The practitioner must advise patients in advance that he or she does not participate in the public health care plan, and neither the practitioner nor the patient is eligible for any payments from the jurisdiction's public health care plan.

7



Learning Outcome

Identify the system of financing that is in place in Canada for various types of health care.

7.1 Describe how publicly funded health care is financed and why it is referred to as a “single payer” system. (Reading A, Canada's Government-Sponsored Health Care System, Study Guide Module 4, p. 33)

Publicly funded health care is financed with general revenue raised through federal and provincial/territorial taxation such as personal and corporate taxes, sales taxes, payroll taxes and other revenue. Some provinces charge health care premiums, but nonpayment of a premium does not limit access to medically necessary services. Approximately 70% of financing for health care comes from the public sector.

The Canadian public health care system is described as a “single payer” system. Canadians do not pay directly for services provided under public health plans, nor are they required to fill out forms at the time of receiving those services. When Canadians need medical care, in most instances, they go to the physician or clinic of their choice and present the health insurance card issued to all eligible residents of a province or territory. There are no deductibles, copayments or dollar limits on coverage for insured services.

7.2 Distinguish between the financing of primary, secondary and supplementary health care services. (Reading A, Canada's Government-Sponsored Health Care System, Study Guide Module 4, pp. 31-32)

Most but not all primary health care services are financed through public health care plans. Not all services provided by dentists, nurses, pharmacists and other allied health care personnel are covered by these plans.

Supplementary health care services are not generally covered under the publicly funded health care system. Persons who need these services pay for them in some manner—perhaps through private health insurance plans (often employer-sponsored health insurance programs) or directly through out-of-pocket payments.

The provinces and territories provide coverage for some of the supplementary services noted above to certain groups of people (i.e., seniors, children and low-income residents). The level of coverage varies considerably across Canada.

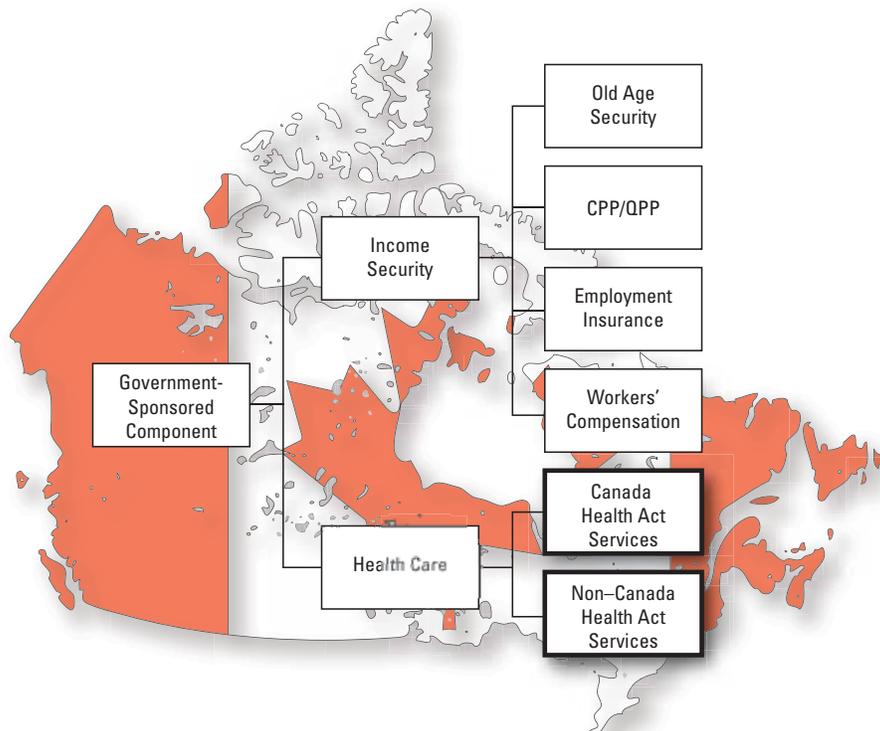
Reading



Canada’s Government-Sponsored Health Care System¹

Canada has a predominantly publicly financed, privately delivered health care system that is best described as a set of 13 interlocking provincial/territorial health insurance plans. Known to Canadians as “medicare,” the system provides reasonable access and coverage for medically necessary hospital, physician and surgical-dental services. In this context, “coverage” has the same meaning as when used to refer to insurance, i.e., something that is “covered” is paid for by the public plan. This module focuses on government-sponsored health care programs and services.

Exhibit I
Interface of Public and Private Programs in Social Security



1. Developed by the Certified Employee Benefit Specialist® program, Dalhousie University, 2019. Drawn from the Canada Health Act and Health Canada websites.

Introduction

The structure of the Canadian public health system results from the constitutional assignment of jurisdiction over most aspects of health care to the provincial order of government. Although the territories do not have formal constitutional authority because Parliament has exclusive jurisdiction to pass laws dealing with the Yukon, Northwest Territories and Nunavut, legislation has been enacted that grants to territorial governments the power to legislate on property and civil rights. As a result, the territories and provinces have virtually the same legislative powers over health care.

The system is referred to as a “national” health insurance system in that all provincial/territorial hospital and medical insurance plans are linked through adherence to national principles set at the federal level through the Canada Health Act (CHA). The plans are designed and delivered by the provinces and territories with the exceptions of health care for certain groups, where responsibility lies with the federal government. The overall system is jointly funded by the federal and provincial/territorial governments.

The federal government's role in health care involves:

- (a) Setting and administering national principles or standards for the health care system through CHA
- (b) Assisting in the financing of provincial/territorial health care services through fiscal transfers known as the Canada Health Transfer (CHT)
- (c) Ensuring that the requirements of CHA are met
- (d) Fulfilling functions for which the federal government is constitutionally responsible
- (e) Health protection, disease prevention and health promotion.

The primary objective of CHA is to ensure that all eligible residents of Canada have reasonable access to medically necessary insured services without direct charges at the point of service. CHA national standards and criteria related to insured health care services and insured extended health care services must be met by the provinces and territories in order for them to receive the full federal cash contribution to health care, the CHT.

Although health care is ultimately the responsibility of the provinces and territories, the impact of CHA upon the overall system is significant and key to understanding the activities of both the federal and provincial/territorial jurisdictions within that system. Details of CHA requirements and the resulting structure of the system are provided within this module.

The provinces and territories each establish their own hospital and medical plans, making decisions about how much money they will spend on their health care plan, where their hospitals will be located, how many physicians they will need, etc. Provincial/territorial hospital and medical plans that meet the CHA criteria are partially financed by the federal government transfers through CHT. Each jurisdiction establishes its own method of financing the portion of overall costs not covered by federal funding.

The Canadian system is not “socialized medicine,” with doctors employed by the government. Most doctors are private practitioners who work in independent or group practices. Most Canadian hospitals are operated as private nonprofit entities run by community boards of trustees, voluntary organizations or municipalities. Hospitals have control of the day-to-day allocation of resources, provided they stay within the operating budgets established by the regional or provincial health authorities. There is a for-profit hospital sector comprising mostly long-term care facilities or specialized services, such as addiction centres.

General Structure of the Canadian Health Care System

What Happens First—Primary Health Care Services

Services provided at the first point of contact with the health care system are known as primary health care services, and they form the foundation of the health care system. Generally, primary health care serves the dual functions of:

- (a) Providing a first point of contact for patients
- (b) Coordinating patient health care services to ensure continuity of care and ease of movement across the health care system when more specialized services are needed (e.g., to specialists or hospitals).

When Canadians need health care, they generally contact a primary health care professional—a family doctor, nurse, nurse practitioner, pharmacist, etc., often working in a team of health care professionals. General practitioners, who account for over 50% of all active physicians in Canada, control access to most physician specialists, nurse practitioners, allied providers (health care professionals other than physicians and nurses), hospital admissions, diagnostic testing and prescription drug therapy.

Primary health care services may include prevention and treatment of common diseases and injuries; basic emergency services; referrals to and coordination with other levels of care, such as hospital and specialist care, primary mental health care, palliative and end-of-life care; health promotion; healthy child development; primary maternity care; and rehabilitation services. Most, but not all, primary care health services are covered by public health plans.

A number of other health care professionals are involved in primary health care—for example, dentists, nurses, pharmacists and other allied health care personnel. Only some of the primary health care services that they provide are part of government-sponsored health care—dental care provided in a hospital setting, many but not all nursing services, and pharmacist services that relate to prescription drugs within a hospital or covered under certain limited publicly funded drug programs.

The Next Step—Secondary Services

All provinces and territories provide and pay for certain secondary services, such as home and continuing care services, but many secondary services are not covered by CHA. Regulation and the range of covered services vary across jurisdictions.

Referrals for secondary health services can be made by doctors, hospitals, community agencies, families and patients themselves. The services may be specialized care at a hospital or services provided in the home or community (generally for short-term care) or in long-term care facilities (generally for long-term and chronic care). Needs are assessed and services are coordinated to provide continuity of care and comprehensive care. Care is provided by a range of formal, informal (often family) and volunteer caregivers.

Short-term secondary services can include specialized nursing care, homemaker services and adult day care, and they are often provided to individuals who are partially or totally incapacitated. Long-term secondary health care services (e.g., for chronic care and provided in a long-term facility) are, for the most part, paid for by provincial/territorial governments, but the costs of room and board are the responsibility of the individual receiving care. Sometimes costs of room and board are subsidized by provincial/territorial governments.

Supplementary Health Care Services

Supplementary health care services are services not generally covered under the publicly funded health care system. They include prescription drugs outside of the hospital, dental care, vision care, medical equipment and appliances (prostheses, wheelchairs, etc.), and the services of other health professionals outside of the hospital, such as physiotherapists.

Persons who need these services pay for them in some manner—perhaps through private health insurance plans (often employer-sponsored health insurance programs) or directly through out-of-pocket payments. Services covered under private health insurance plans vary according to the plan.

The provinces and territories provide coverage for some of the supplementary services noted above to certain groups of people (i.e., seniors, children and low-income residents). The level of coverage varies considerably across Canada and is discussed further on in the reading.

Funding

Canadians do not pay directly for services provided under public health care plans, nor are they required to fill out forms at the time of receiving those services. When Canadians need medical care, in most instances, they go to the physician or clinic of their choice and present the health insurance card issued to all eligible residents of a province or territory. There are no deductibles, copayments or dollar limits on coverage for insured services. This is why the term “single payer” is used to describe the funding approach for insured services covered under the scope of CHA.

Publicly funded health care is financed with general revenue raised through federal and provincial/territorial taxation, such as personal and corporate taxes, sales taxes, payroll taxes and other revenue. Some provinces charge health care premiums, but nonpayment of a premium does not limit access to medically necessary services. In some provinces, the cost of public health care is supported by a payroll tax.

Doctors in private practice are generally paid through fee-for-service (FFS) schedules negotiated between each provincial/territorial government and the medical associations in its respective jurisdiction. Those in other practice settings, such as clinics, community health centres and group practices, are more likely to be paid through an alternative payment method, such as salaries or a blended system, for example, FFS plus incentives. Nurses and other health professionals are generally paid salaries that are negotiated between their unions and their employers.

About 70% of Canada's total health care spending is represented by the publicly sponsored health care system; the balance of 30% is paid for by private sources. The private sector pays for non-publicly insured services such as drugs, dental care and vision care, often through employer-sponsored group insurance programs, and by out-of-pocket payments paid directly by the user of the health care service.

Out-of-pocket payments include all costs directly paid by users of the health service. This includes:

- (a) Direct payments for goods and services that are not covered by any public funding or insurance program. This includes noninsured hospital and physician services such as private hospital rooms, private duty nursing services, physician checkups mandated by employers or insurance companies, and cosmetic services.

When a private insurance program exists (e.g., an employer-sponsored plan), the individual may be responsible for some or all of the insurance premium. Depending upon the degree of the private insurance coverage, out-of-pocket spending may be required for certain types of care, certain levels of dental care, prescription drugs, vision care, and the costs associated with nursing homes and other institutions. When no insurance coverage exists, the costs of drugs, dental care, vision care and other medical services will require out-of-pocket payments by the individual.

- (b) Cost sharing (also referred to as copayments), where the individual pays part of the cost of the care received. The user may pay a fixed fee, a proportion of a fee for an item or service, or some combination of the two. For example, for some paramedical practitioners such as chiropractors, the provincial/territorial health care insurance plan pays a portion of the cost for the visit, and the patient pays the balance. Cost sharing can also exist within employer-sponsored group insurance programs that include copayments and user fees.

Impact of CHA

As noted earlier, the federal government is responsible for setting and administering national principles for the Canadian health care system. CHA is the legislative authority that identifies those principles. In addition, the federal government is responsible for ensuring that the requirements of CHA are being met. The level of fiscal transfers made to the provinces/territories by the federal government to finance public health care in Canada depends upon each jurisdiction's compliance with CHA. To understand the Canadian public health care system, then, it is imperative to understand CHA.

Requirements of CHA

CHA contains nine requirements that provinces and territories must fulfill in order to qualify for the full amount of the CHT cash contribution. They are:

- (a) Five *program criteria* that apply only to insured health services
- (b) Two *conditions* that apply to insured health services and extended health care services
- (c) *Extra billing* and *user charges* provisions that apply only to insured health services.

These definitions are used by the CHA in describing its requirements.

- (a) *Insured health services*—medically necessary hospital, physician and surgical-dental services provided to insured persons
- (b) *Insured persons*—eligible residents of a province or territory. A “resident of a province or territory” is defined in CHA as a person lawfully entitled to be or to remain in Canada who makes his or her home and is ordinarily present in the province or territory, but the definition does not include a tourist, a transient or a visitor to the province or territory. A person is considered to be “ordinarily present” if the person:
 - Makes his or her permanent home in the province or territory
 - Is physically present in the province or territory for at least 183 days in any calendar year (short-term absences under 30 days, within Canada, are not monitored)
 - Is a Canadian citizen, permanent resident or landed immigrant (as defined by Citizenship and Immigration Canada).
- (c) *Excluded persons*—serving members of the Canadian Forces or inmates of a federal penitentiary. The government of Canada provides coverage to these residents through separate federal programs.
- (d) *Extended health care services*—certain aspects of long-term residential care (e.g., nursing home intermediate care and adult residential care services) and the health aspects of home care and ambulatory care services
- (e) *Insured hospital services*—medically necessary inpatient and outpatient services such as accommodation and meals at the standard or public ward level and preferred accommodation if medically required; nursing services; laboratory, radiological and other diagnostic procedures, together with the necessary interpretations; drugs, biologicals and related preparations when administered in a hospital; use of operating room, case room and anesthetic facilities, including necessary equipment and supplies; medical and surgical equipment and supplies; use of radiotherapy facilities; use of physiotherapy facilities; and services provided by persons who receive remuneration from a hospital
- (f) *Insured physician services*—medically required services rendered by medical practitioners. Medically required physician services are generally determined by provincial/territorial health care insurance plans, in conjunction with the medical profession.
- (g) *Insured surgical-dental services*—services provided by a dentist in a hospital, where a hospital setting is required to properly perform the procedure.

CHA Program Criteria

The five CHA program criteria are:

1. *Public administration.* The intent of the public administration criterion is to ensure that provincial/territorial health care insurance plans are administered and operated on a nonprofit basis by a public authority. This authority is accountable to the provincial/territorial government for decision making on benefit levels and services, and its records and accounts are publicly audited.
2. *Comprehensiveness.* The comprehensiveness criterion requires that provincial/territorial health care insurance plans cover all insured health services provided by hospitals, physicians or dentists (i.e., surgical-dental services that require a hospital setting).
3. *Universality.* Under the universality criterion, all insured residents of a province or territory must be entitled to the insured health services provided by the provincial/territorial health care insurance plan on uniform terms and conditions.
4. *Portability.* Residents moving from one province or territory to another must continue to be covered for insured health care services by the home jurisdiction during any waiting period imposed by the new province or territory of residence.

Residents who are temporarily absent from their home province or territory or from Canada must continue to be covered for insured health care services during their absence. This allows individuals to travel or be absent from their home province or territory, within a prescribed duration, while retaining their health insurance coverage.

The portability criterion does not entitle a person to seek services in another province, territory or country but is intended to permit a person to receive necessary services in relation to an urgent or emergent need when absent on a temporary basis, such as on business or vacation.

If insured persons are temporarily absent in another province or territory, the portability criterion requires that insured health care services be paid at the host province's or territory's rate. If insured persons are temporarily out of the country, insured services are paid at the home province's or territory's rate.

Prior approval by the health care insurance plan in a person's home province or territory may be required before coverage is extended for elective (nonemergency) services to a resident while temporarily absent from his or her province or territory.

5. *Accessibility.* The intent of the accessibility criterion is to ensure that insured residents in a province or territory have reasonable access to insured hospital, medical and surgical-dental services on uniform terms and conditions, unprecluded or unimpeded, either directly or indirectly, by charges (e.g., user charges or extra billing) or other means (e.g., discrimination on the basis of age, health status or financial circumstances).

Reasonable access in terms of physical availability of medically necessary health services is interpreted under CHA using the “where and as available” rule. Residents of a province or territory are entitled to have access on uniform terms and conditions to insured health services at the setting where the services are provided and as the services are available in that setting.

In addition to these five criteria, the provincial/territorial health care insurance plans must provide:

- (a) Reasonable compensation to physicians and dentists for all the insured health care services they provide
- (b) Payment to hospitals to cover the cost of insured health care services.

CHA Conditions

The two CHA conditions are:

1. *Information.* Provincial/territorial governments are required to provide information to the minister of health relating to insured health and extended health care services, as prescribed by regulations under CHA.
2. *Recognition.* Provincial/territorial governments are required to recognize the federal financial contributions toward both insured and extended health care services.

CHA Extra Billing and User Charge Provisions

CHA requires a deduction from the federal cash transfer provided to provinces/territories in the event that either extra billing or user charges exist in a province or territory. These activities are:

- (a) *Extra billing.* CHA defines “extra billing” as the billing for an insured health service rendered to an insured person by a medical practitioner or a dentist (i.e., a surgical dentist providing insured health services in a hospital setting) in an amount in addition to any amount paid or to be paid for that service by the provincial/territorial health care insurance plan. For example, if a physician charges patients \$25.00 for an office visit that is insured by the provincial/territorial health care insurance plan, the \$25.00 constitutes extra billing. Extra billing is seen as a barrier or impediment for people seeking medical care and is therefore contrary to the accessibility criterion.

- (b) *User charges.* CHA defines “user charges” as any charges for an insured health care service other than extra billing that are permitted by a provincial/territorial health care insurance plan and are not payable by the plan. For example, if patients are charged a facility fee for receiving an insured service at a hospital or clinic, that fee is considered a user charge. User charges are not permitted under CHA because they constitute a barrier or impediment to access.

Provinces/territories are required under CHA regulations to report annually the amounts of extra billing and user charges that have been levied, and this information is used by the federal minister of health to determine the amount of any deduction.

CHA Regulations

CHA enables the federal government to make regulations for administering CHA in certain areas:

- (a) Defining the services included in the CHA definition of “extended health care services” (i.e., nursing home care or home care)
- (b) Prescribing which services to exclude from hospital services
- (c) Prescribing the types of information that the federal minister of health may reasonably require and the times and manner in which that information may be provided
- (d) Prescribing how provinces and territories are required to recognize CHT in their documents, advertising or promotional materials.

Despite the ability to establish regulations relating to these matters, none have been put in force by the federal government.

Penalty Provisions of CHA

Mandatory Penalty Provisions

Under CHA, provinces and territories that allow extra billing and user charges are subject to mandatory dollar-for-dollar deductions from the federal transfer payments under CHT. In plain terms, when it has been determined that a province or territory has allowed \$500,000 in extra billing by physicians, the federal cash contribution to that province or territory is reduced by that same amount.

Discretionary Penalty Provisions

Noncompliance with one of the five criteria or two conditions of CHA is subject to a discretionary penalty. The amount of any deduction from federal transfer payments under CHT is based on the magnitude of the noncompliance. CHA sets out a consultation process that must be undertaken with the province or territory before discretionary penalties can be levied.

Noninsured Health Services

Although CHA requires that insured health services be provided to insured persons in a manner that is consistent with the criteria and conditions set out in CHA, not all health services fall under the scope of CHA. These “noninsured health services” are services that are not considered medically necessary and are not insured under provincial/territorial health insurance legislation. They may relate to either hospital or physician services.

Noninsured hospital services for which patients may be charged include preferred hospital accommodation unless prescribed by a physician or when standard ward level accommodation is unavailable, private duty nursing services, and the provision of telephones and televisions.

Noninsured physician services for which patients may be charged include telephone advice; the provision of medical certificates required for work, school, insurance purposes and fitness clubs; testimony in court; and cosmetic services.

CHA Administration and Compliance

Policy Interpretation Letters

Since passage of CHA, there have been instances when the federal government issued clarification of its interpretation of CHA and approach to compliance. The clarification was provided via ministerial letters from federal ministers of health to their provincial/territorial counterparts.

Epp Letter—Interpretation and Implementation of CHA

In June 1985, approximately one year following the passage of CHA in Parliament, then-federal Minister of Health and Welfare Jake Epp wrote to his provincial/territorial counterparts to set out and confirm the federal position on the interpretation and implementation of CHA. Minister Epp's letter followed several months of consultation with his provincial/territorial counterparts. The letter provided the federal government's interpretation of CHA criteria, conditions and regulatory provisions. These clarifications have been used by the federal government in assessing and interpreting compliance with CHA. The Epp letter remains an important reference for interpreting CHA.

Marleau Letter—Federal Policy on Private Clinics

In 1994, a series of federal/provincial/territorial meetings dealing wholly or in part with private clinics took place. The growth of private clinics providing medically necessary services funded partially by the public system and partially by patients was at issue, as was its impact on Canada's universal, publicly funded health care system. At the September 1994 meeting, all ministers present, with the exception of Alberta's health minister, agreed to "take whatever steps are required to regulate the development of private clinics in Canada."

Diane Marleau, the federal minister of health at the time, wrote to all provincial/territorial ministers of health on January 6, 1995 to announce the new Federal Policy on Private Clinics. The minister's letter provided the federal interpretation of CHA as it relates to the issue of facility fees charged directly to patients receiving medically necessary services at private clinics. The letter stated that the definition of "hospital" contained in CHA includes any public facility that provides acute, rehabilitative or chronic care. Thus, when a provincial/territorial health care insurance plan pays the physician fee for a medically necessary service delivered at a private clinic, it must also pay the facility fee or face a deduction in federal transfer payments.

Dispute Avoidance and Resolution Process

In April 2002, then-federal Minister of Health A. Anne McLellan outlined in a letter to her provincial/territorial counterparts a Canada Health Act Dispute Avoidance and Resolution process. It was agreed to by all provinces and territories, except Quebec. The process met federal and provincial/territorial interests of avoiding disputes related to the interpretation of the principles of CHA and, when this is not possible, resolving disputes in a fair, transparent and timely manner.

The process includes the dispute avoidance activities of government-to-government information exchange, discussions and clarification of issues as they arise, active participation of governments in ad hoc federal/provincial/territorial committees on CHA-related issues, and CHA advance assessments, upon request.

Where dispute avoidance activities prove unsuccessful, dispute resolution activities may be initiated, beginning with government-to-government fact finding and negotiations. If these are unsuccessful, either minister of health involved may refer the issues to a third-party panel to undertake fact finding and provide advice and recommendations. The federal minister of health has the final authority to interpret and enforce CHA. In deciding whether to invoke the noncompliance provisions of CHA, the minister takes the panel's report into consideration.

Administration

The Canada Health Act Division (CHAD) of Health Canada is responsible for administering CHA. This includes:

- (a) Monitoring and analyzing provincial/territorial health care insurance plans for compliance with the criteria, conditions, and extra billing and user charge provisions of CHA
- (b) Working in partnership with the provinces and territories to investigate and provide information and clarification when possible compliance issues arise and, when necessary, recommending corrective action to them, in order to ensure the criteria and conditions of CHA are met
- (c) Working in partnership with the provinces and territories to encourage compliance with CHA
- (d) Informing the minister of possible noncompliance and recommending appropriate action to resolve issues
- (e) Developing and maintaining formal and informal relationships with health officials in provincial/territorial governments to share information
- (f) Disseminating information on CHA
- (g) Responding to information requests relating to CHA received by telephone, mail and the Internet from the public, members of Parliament, government departments, stakeholder organizations and the media
- (h) Conducting issue analysis and policy research to provide strategic advice.
- (i) Collaborating with provincial/territorial health department representatives through the Interprovincial Health Insurance Agreements Coordinating Committee (IHIACC)
- (j) Working with Health Canada Legal Services and the Department of Justice on litigation issues that implicate CHA.

CHAD chairs IHIACC and provides a secretariat for the committee. The committee addresses issues that affect the interprovincial billing of hospital and physician services as well as issues related to registration and eligibility for health care insurance coverage. It oversees the application of interprovincial health insurance agreements in accordance with CHA.

The within-Canada portability provisions of CHA are generally implemented through a series of bilateral reciprocal billing agreements between provinces and territories for hospital and physician services. This generally means that a patient's health card will be accepted, in lieu of payment, when the patient receives hospital or physician services in another province or territory. The province or territory providing the service will then directly bill the patient's home province. All provinces and territories participate in reciprocal hospital agreements and all, with the exception of Quebec, participate in reciprocal medical agreements. The intent of these agreements is to ensure that Canadian residents do not face point-of-service charges for medically required hospital and physician services when they travel in Canada. However, these agreements are interprovincial and interterritorial, and signing them is not a requirement of CHA.

Compliance

Part of the federal government's responsibilities in the health care system is to ensure that the provincial/territorial health care insurance plans comply with CHA. The provinces and territories must comply with the criteria, conditions and provisions of CHA to receive the full amount of CHT cash contribution.

Health Canada's approach to resolving possible compliance issues emphasizes transparency, consultation and dialogue with provincial/territorial health ministry officials. In most instances, issues are successfully resolved through consultation and discussion based on a thorough examination of the facts. Deductions have only been applied when all options to resolve the issue have been exhausted.

CHAD monitors the operations of provincial/territorial health care insurance plans in order to provide advice to the minister on possible noncompliance with CHA. Sources for this information include provincial/territorial government officials and publications, media reports, and correspondence received from the public and other nongovernment organizations. Staff in the CHAD Compliance and Interpretation Unit assesses issues of concern and complaints on a case-by-case basis. The assessment process involves compiling all facts and information related to the issue and taking appropriate action. Verifying the facts with provincial/territorial health officials may reveal issues that are not directly related to CHA, while others may pertain to CHA but are a result of misunderstanding or miscommunication and are resolved quickly with provincial/territorial assistance. In instances where a CHA issue has been identified and has not been resolved, CHAD officials ask the jurisdiction in question to investigate the matter and report back. CHAD staff then discusses the issue and its possible resolution with

provincial/territorial officials. Only if the issue is not resolved to the satisfaction of CHAD after following the steps mentioned above is it brought to the attention of the federal minister of health.

Additional Roles of the Federal Government

In addition to its responsibilities relating to CHA, the federal government holds additional responsibilities within the Canadian health care system, including:

- (a) Direct delivery of primary and supplementary services to certain groups of people. These groups include First Nations people living on reserves, Inuit, serving members of the Canadian Forces, eligible veterans, inmates in federal penitentiaries and some groups of refugee claimants.

Direct delivery of services to First Nations people and Inuit includes primary care and emergency services on remote and isolated reserves where no provincial/territorial services are readily available, community-based health programs both on reserves and in Inuit communities, and a noninsured health benefits program (drug, dental and ancillary health services) for First Nations people and Inuit no matter where they live in Canada. Generally, these services are provided at nursing stations, health centres and inpatient treatment centres and through community health promotion programs. Increasingly, both levels of government are working together to integrate the delivery of these services within provincial/territorial systems.

- (b) Health protection and regulation (e.g., regulation of pharmaceuticals, food and medical devices), consumer safety, disease surveillance and prevention, and support for health promotion and health research.

The federal government also provides certain health-related tax measures, including tax credits for medical expenses, disability, caregivers and infirm dependents; tax rebates to public institutions for health services; and deductions for private health insurance premiums for the self-employed.

Role of Provincial/Territorial Governments

The provinces and territories administer and deliver most of Canada's health care services. In order to receive the full CHT from the federal government, their health insurance plans are expected to meet national principles set out under CHA.

CHA does not define “medically necessary services” but does require that if a service is medically necessary, the full cost of the service must be covered by the public health care insurance plan. The provinces and territories, in consultation with the respective physician colleges or groups, determine which services are medically necessary for health insurance purposes.

If a service is not considered to be medically required, the province or territory does not need to cover it through its health care insurance plan. As a result, compliance with CHA requirements means that all provincial/territorial health care insurance plans share certain common features and basic standards of insured health care coverage (with slight differences).

All provinces/territories have enacted legislation governing the provision of CHA insured services. In some provinces and territories, the operations of the hospital and medical service plans are governed under separate legislation. In others, the two plans are combined for purposes of legislation and regulations.

The role of provincial/territorial governments in health care includes administering their health care insurance plans. This includes planning; paying for hospital care and other health facilities, physician care and the care provided by other health professionals; and negotiating fee schedules for health professionals. As noted earlier, most provincial/territorial governments offer supplementary benefits (e.g., drugs prescribed outside hospitals, ambulance costs, and hearing, vision and dental care not covered under CHA) for certain groups of people (e.g., low-income residents and seniors). Supplementary health services are largely privately financed.

Provincial/territorial jurisdictions' administration responsibilities include:

- (a) Determining benefits eligible for coverage
- (b) Planning and paying for hospital and physician care in hospitals and public health facilities and negotiating fee schedules for health professionals
- (c) Registering those eligible for benefits (e.g., through a health insurance card)
- (d) Registering diagnostic facilities
- (e) Enrolling health care practitioners
- (f) Processing and paying practitioners' bills for services rendered
- (g) Auditing benefit claims for payment and auditing patterns of practice or billings submitted, etc.

Registration Requirements

Registration for health care with the applicable jurisdiction is the first step for an individual to take regarding his or her health care. Registration and possession of a valid health insurance card are required in order to access insured services. New residents are advised to apply for coverage as soon as possible upon arrival in any given province or territory. It is the parents' responsibility to register a newborn or adopted child.

Effective Dates of Coverage

Effective dates of coverage for registered individuals vary by jurisdiction. Generally:

- (a) Newborn children are entitled to coverage upon birth.
- (b) Insured residents moving from one province or territory to another are generally entitled to coverage as of the first day of the third month following the month of arrival. (In a couple of provinces, it is the first day of the third month following residency.) For example, a person who moved from Prince Edward Island to British Columbia on September 15 would be entitled to coverage in Prince Edward Island for September, October and November. On December 1, that person would be entitled to coverage in British Columbia.
- (c) Persons arriving from outside Canada to reestablish residence in Canada are entitled to coverage as of the day of arrival (provided they are Canadian citizens or hold permanent resident status).
- (d) For new Canadians or immigrants, the waiting period is not greater than three months (as required by CHA), and it begins the day of arrival and/or day of legal entitlement.
- (e) Discharged members of the Canadian Forces and released inmates of federal penitentiaries are entitled to coverage as of the day of discharge or release.

Certain other individuals such as some holders of study and/or work permits are covered.

Coverage During Temporary Absences Within Canada

Medically necessary hospital and physician coverage is provided to eligible residents during temporary absences within Canada. Temporary absence is when a person is absent from the home province or territory for business, education, vacation or other reasons without assuming permanent residence.

Within Canada, the portability provisions are generally implemented through a series of bilateral reciprocal agreements between the provinces and territories for hospital and physician services. Quebec is the exception. Quebec does follow this practice for hospital services but not for physician services. In Quebec, the cost for physician services received in another province or territory is reimbursed at the amount actually paid or the rate that would have been paid by the Régie de l'assurance maladie du Québec, whichever is less.

Reciprocal agreements are interprovincial and interterritorial, not federal. Signing them is not a requirement of CHA. The rates prescribed in these agreements are host provincial/territorial rates.

Reciprocal billing is a convenient administrative arrangement and only one method of satisfying the portability criterion of CHA. A requirement for patients to pay up front and seek reimbursement from their home province or territory also satisfies the portability criterion of CHA, as long as access to a medically necessary insured service is not denied due to the patient's inability to pay.

Coverage During Temporary Absences Outside Canada

The home province or territory provides coverage to residents during temporary absences outside Canada. Out-of-country insured inpatient and outpatient hospital services and physician services are covered for medically necessary emergency services at established rates. For reimbursement of out-of-Canada hospitalization, insured residents must support their claim for reimbursement with receipts from the facility where the services were rendered.

Specialized medically necessary hospital and physician services and insured elective hospital and physician services may be covered if the services are not available in the home province or territory.

Residence Rules to Qualify for Out-of-Province/Territory or Out-of-Country Coverage

The waiting period for eligibility to a provincial/territorial insurance plan must not exceed three months. After the waiting period, the new province or territory of residence assumes responsibility for health care coverage. With the exception of this requirement, CHA does not give guidance on minimum residence requirements with respect to an individual's eligibility for benefits under its health care insurance plan. In order to qualify for out-of-province/territory coverage, an individual must comply with the relevant home province/territory legislation and the rules regarding residency.

Prior Approval Requirements

Prior approval is not required for medically necessary insured services provided by accredited hospitals or licensed physicians in other provinces or territories. If a resident of a province or territory has to seek specialized hospital or physician care outside the country because the insured service is not available in Canada, provincial/territorial health care insurance plans will pay the costs of services necessary for the patient's care. However, it is necessary in these circumstances for such referrals to receive prior approval. Prior approval is not granted for out-of-country treatment of specialized services if the service is available in the province or territory of residence. Prior approval for out-of-province/territory health care services from the home province/territory plan for elective (nonemergency) health services is generally required.

Discontinuation of Coverage

Coverage is immediately discontinued when residents move permanently to other countries. In some provinces, coverage can be continued for students living outside Canada and/or for residents working outside Canada on a work permit.

Insured Services

Hospital Services

All provinces and territories cover treatment provided in acute care facilities for the entire period of time during which such services are medically required. Acute care includes health services provided to individuals suffering from serious and sudden health conditions that require ongoing professional nursing care and observation. Examples of acute care include postoperative observation in an intensive care unit and care while waiting for emergency surgery. Hospital services can be provided on an inpatient or outpatient basis.

Categories of insured hospital services generally include:

- (a) Accommodation and meals at the standard or public ward rate and preferred accommodation if medically required
- (b) Necessary nursing services
- (c) Laboratory, radiological (x-ray) and other diagnostic procedures
- (d) Drugs when administered in a hospital
- (e) Use of operating room, case room and anesthetic facilities
- (f) Use of radiotherapy and physiotherapy facilities

- (g) Medical and surgical equipment and supplies
- (h) Outpatient services. (An outpatient is a patient admitted to a hospital, clinic or other health care facility for treatment that does not require an overnight stay.)

Excluded (noninsured) hospital services are generally those considered not to be medically necessary. Hospital services for which patients may be charged include:

- (a) Preferred accommodation (private and semiprivate rooms) at the patient's request
- (b) Private duty nursing services
- (c) Ambulance transportation costs
- (d) Bedside telephones or television sets.

Physician Services

Insured physician services are medically necessary services (i.e., necessary to diagnose, treat, rehabilitate or otherwise alter a disease pattern) rendered by a medical practitioner. Persons who can provide insured physician services include:

- (a) General practitioners, who are persons who engage in the general practice of medicine
- (b) Physicians who are not specialists within the meaning of the clause
- (c) Specialists, who are physicians and are recognized as specialists by the appropriate licensing body of the jurisdiction in which they practice.

Categories of insured physician services generally include:

- (a) Diagnosis and treatment of illnesses and injuries
- (b) Surgical services
- (c) Maternity services
- (d) Anesthesia services
- (e) X-ray, laboratory and other diagnostic procedures.

Excluded (noninsured) physician services for which patients may be charged include:

- (a) Cosmetic services
- (b) The provision of medical certificates required by a third party (e.g., work, school, insurance purposes, fitness clubs)
- (c) Telephone advice.

Dental Services

CHA defines “surgical-dental services” as any service performed by a dentist in a hospital, where a hospital is required to properly perform the procedure. Categories of insured surgical-dental services generally include:

- (a) Oral and maxillary facial surgery
- (b) Routine extraction services provided for cardiac patients, transplant patients, immune-compromised patients and radiation patients, when these patients are undergoing active treatment in a hospital setting and the attendant medical procedure requires the removal of teeth
- (c) All precancerous or cancerous dental surgical biopsies.

Extended Health Care Services

Extended health care services as defined by CHA include certain aspects of long-term residential care such as:

- (a) Nursing home intermediate care services
- (b) Adult residential care services
- (c) Health aspects of home care services
- (d) Ambulatory care services.

These aspects of long-term residential care and community-based services are included under the scope of CHA because they are generally viewed as an alternative to hospitalization.

It is important to note that the five criteria of CHA (public administration, comprehensiveness, universality, portability and accessibility) and two provisions (extra billing and user charges) do not apply to extended health care services. Provincial/territorial plans must only meet the two conditions of CHA—providing information to the minister of health as prescribed by regulation under CHA and recognizing the federal financial contributions toward both insured and extended health care services. Unlike the insured health care services defined under CHA, extended health care services are not all provided on a prepaid basis without direct charges at point of access.

Long-term care (LTC) facilities provide living accommodation for people who require on-site delivery of 24-hour, seven-days-a-week supervised care. LTC includes a wide range of services for people with a degenerative condition (e.g., Parkinson’s, stroke, etc.) or a prolonged illness (cancer or Alzheimer’s). LTC is not necessarily medical care but rather “custodial care,” i.e., providing an individual assistance with the activities of daily living or supervising someone who is cognitively impaired. LTC includes professional health services, personal care, and services such as meals, laundry and housekeeping.

The size of the LTC system is a product of the number of people receiving care and the volume of care delivered per person. The number of people receiving care in the total network, or any part of it, is controlled by:

- (a) Factors that lead the user and the system to feel that entry is appropriate
- (b) Factors that determine the volume of care to be delivered
- (c) Factors that affect how long the user remains in the system. Many of the people in LTC are there for life. Discharge for other than acute illness or injury is rare. For those who are not discharged, the length of institutionalization is determined entirely by how long they live.

The entry of a person into LTC and the mix of services delivered is determined by the type and degree of measurable disability/dependency, by societal perceptions of dependency, and by the LTC resources available for purchase with private or public money.

General categories of extended health care services include:

- (a) Nursing home intermediate care services, which provide institutional LTC services to meet the needs of individuals with high nursing care needs. Services offered include accommodation and care, respite care, day programs, night care, palliative care and in some instances convalescent care.
- (b) Adult residential care services, which provide care and supervision in a protective, supportive environment for adults who can no longer be looked after in their own homes
- (c) Health aspects of home care services, which provide professional nursing care to people of all ages in their own homes. These services are available on a nonemergency basis and can include assessment, teaching and consultation, care coordination and direct nursing care for clients requiring chronic, acute, palliative or rehabilitative services. They can also provide nonprofessional assistance with personal care and housekeeping provided by home support workers.
- (d) Ambulatory care services, which can include services provided in hospital emergency rooms and day/night care in hospital facilities and health centres.

The provincial/territorial health care insurance plans cover the majority of nursing home costs for those who are without means by providing “ward” rates in a shared room. However, the wait can be several years. Unsubsidized rooms with significant cost are available more frequently. In all provinces and territories, most clients/residents pay a portion of the cost of nursing home care. Residents pay for semiprivate and private accommodation in most institutions.

Health aspects of home care (provided in an LTC context), at least to the level of public health nursing, are covered in all provinces and territories. Beyond these, the range of services and level of coverage and cost of these services vary considerably by province and territory. Services are generally based on an assessment of need (provinces and territories have their own assessment tools).

Payment for CHA Insured Services

In each province and territory, a public, nonprofit authority (plan administrator) is appointed to handle the administration of payment for insured services. Hospital operating costs are paid out of an annual budget the hospital negotiates with the provincial/territorial ministry of health or regional authority.

Health care providers in Canada fall into three categories, based on the way that the provider receives payment for his or her services.

1. When the public health care administrator (e.g., OHIP in Ontario) reimburses the health care provider directly *at the rate defined by the jurisdiction's fee schedule*, the provider is considered a “participating” practitioner. This is regardless of whether the practitioner's services have been provided inside, or outside, of a hospital. If the jurisdiction imposes specific dollar limits on the amount that the public plan will reimburse, the insured person is responsible for paying any charges over that limit to the practitioner or health care facility.
2. When the health care provider bills his or her patient directly *at the rate set by the particular jurisdiction*, and the patient then seeks reimbursement from the public health care administrator, the provider is considered to be an “opted-out” practitioner. In order for the patient to receive reimbursement from the public plan, that individual must obtain sufficient billing information from the practitioner to satisfy the public plan administrator.
3. When the health care provider does not participate in the public plan, and as a result bills the patient directly *at a fee level established by the provider*, the practitioner is considered a “nonparticipating” practitioner. The practitioner must advise patients in advance that he or she does not participate in the public health care plan, and neither the practitioner nor the patient is eligible for any payments from the jurisdiction's public health care plan.

Conditions That Allow User Fees

CHA gave the federal government the authority to impose financial penalties on provincial/territorial jurisdictions that did not allow reasonable access to basic hospital and physician services without financial or other barriers.

CHA allows provinces and territories to charge a user fee without financial penalty for insured hospital services if the hospitalization is for chronic care (in the opinion of the attending physician), and the patient is more or less permanently resident in the health care facility. In the context of CHA, “chronic care” is care required by a person who is chronically ill or has a functional disability (physical or mental), whose acute phase of illness is over, whose vital processes may or may not be stable, and who requires a range of services and medical management that can only be provided by a hospital. A chronic care facility is a facility providing ongoing, long-term, inpatient medical services. Chronic care facilities do not include nursing homes.

Payment for Excluded Services

Insured residents are required to pay charges for excluded physician and excluded hospital services.

Taxation Provisions

As noted earlier, some jurisdictions help finance health care services through an employer health tax or health care premiums payable by individuals in that jurisdiction. Employer health tax payments and any portion of an employee's health care premium paid to the public health care plan can be deducted from the employer's taxable income. Any portion of a health care premium paid by an employer is considered taxable income to the employee. Health care premiums paid by employees are not deductible to the employee. Benefits received under the public health care plan are not taxable to the employee.

Supplementary Health Care Services Provided at Provincial/Territorial Discretion

All provincial/territorial jurisdictions have discretion to provide a range of health care services that fall outside the scope of CHA. These supplementary health care services are provided under terms and conditions set by each jurisdiction and vary considerably across jurisdictions.

Supplementary health care services covered (i.e., paid for partially or in full) by provincial/territorial plans are usually targeted at specific population groups (e.g., children, seniors or low-income families).

Under most provincial/territorial laws, private insurers are restricted from offering coverage that duplicates that of the publicly funded plans, but they can compete in the supplementary coverage market.

Types of Supplementary Health Care Services

Similarities and significant differences across the provincial/territorial plans are addressed below.

Prescription Drugs

There is considerable variation among provincial/territorial plans in terms of who is covered for what drugs and what user fees apply. Provincial/territorial health care insurance plans subsidize the costs for some residents, particularly low-income individuals and seniors.

Plans vary between those that cover a wider range of prescription drugs for a targeted group of people (e.g., seniors and low-income individuals) and those that provide benefits for a larger range of people but have a narrower range of drugs and higher copayments and deductibles in order to limit utilization.

Eye Examinations

Most provinces and territories cover eye examinations for seniors and/or children.

Dental Care

Most provinces and territories provide limited, nonhospitalized dental care coverage for children. The maximum eligible age varies in each jurisdiction. The emphasis is on basic services.

Aids to Independent Living

Aids to independent living include such items as hearing aids, wheelchairs and medical appliances. These aids are generally intended to enhance the independence of individuals living at home who have a chronic or terminal illness or disability. Some provinces cover a portion of the cost of some aids to independent living.

Paramedical Professional Services

All provinces and territories cover physiotherapy services outside of a hospital in an approved facility, provided certain conditions are met. Some provinces provide chiropractor services.

Funding

Unlike insured services that fall under the scope of CHA, provincial/territorial coverage for these services does not necessarily insure the full cost. Instead, provincial/territorial health care insurance plans supplement private (personal or employer-sponsored) insurance and private payment by households. Government coverage for these supplementary services is generally accompanied by copayments, deductibles, and income and means testing.

Administration

There are significant variations among the jurisdictions in administration, plan eligibility, plan funding and plan cost for supplementary services. Most of these services are administered by the provincial/territorial authority having responsibility for the administration of services provided under CHA. Some provinces and territories have special programs administered by Social Services or a separate program of their Ministry of Health or their Ministry of Human Resources.

Residence Requirements

Each province or territory is responsible for establishing its own minimum residence requirements regarding eligibility under its health care insurance plan. CHA does not give guidance on minimum residence requirements beyond an initial waiting period (no greater than three months) to establish eligibility for insured services. Provinces and territories may require minimum residence annually in a province or territory and evidence of intention of returning to that province or territory for that minimum residence period each year.

Registration Requirements

Registration under the provincial/territorial insurance plans and possession of a valid health insurance card are required in order to access supplementary health care services. New residents should apply for coverage as soon as possible upon arrival in any given province or territory.

Out-of-Province/Territory Coverage

Provincial/territorial reciprocal agreements do not apply to all services provided under the provincial/territorial health plans. For most supplementary health care services, there is no coverage if the service is rendered outside the province or territory of residence, or the coverage is limited to the amounts payable in the home province or territory.

Given the variability in provincial/territorial plans, there is extremely limited interprovincial/interterritorial portability of drug plans. When people move from one province or territory to another, they generally lose their drug coverage and have to wait for three months to be eligible in their new province or territory.

Payment for Supplementary Services

Payment for insured supplementary health care services is handled by an appointed administrator in each jurisdiction. Payment processes and types of practitioners (participating, opted-out and nonparticipating) are as described above for CHA insured health care services.

Conditions That Allow User Fees

CHA allows provinces and territories to charge a user fee for services that are considered noninsured services under CHA, as is the case with supplementary health care services.