

DUPE

CBA webinar

by

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Why you want to pay attention

- There are about 9,000 – 10,000 CPP credit splits (DUPE) each year.
- About half include CRDO/CRP protection for one spouse.
- Average result of DUPE/CRDO overlap is a net loss of about \$100 per month in CPP benefits.
- Over an average lifetime, this is a net loss of about \$26,000 per couple.
- CPP is “saving” about \$96 million each year, due to the DUPE/CRDO overlap issue.

History of DUPE (credit-splitting)

- **Jan. 1/78** – DUPE introduced:
 - Divorce of legal marriage only
 - 36-month minimum cohabitation
 - Must apply within 36 months of divorce
 - Spousal agreements ignored (legislation was silent)
- **1983** – Preece case at Pensions Appeal Board (PAB):
 - Even a general waiver should preclude a DUPE
- **June 4/86** – Legislation introduced regarding agreements considered if:
 - Specific mention of CPP and no splitting
 - Must be permitted by provincial statute (AB , BC, SK, QU)
 - Must not be invalidated by court order

History of DUPE (cont'd)

- **Jan. 1/87** – Major legislative amendments:
 - “Mandatory” splitting after divorce (no time limit)
 - Separation of legal spouses (time limit 3 years after death)
 - Separation of common-law spouses (apply within 4 years)
- **2000** – *Modernization of Benefits and Obligations Act*
 - Credit splitting extended to same-sex relationships
- **2007** – Time limits for credit split can be waived if both parties agree

How DUPE works

- **Period of Division**
 - Starts January of year couple commenced living together
 - Ends December of year prior to separation
- **Excludes:**
 - Any year where combined earnings < twice YBE
 - Any months where either was < age 18 or > age 70
 - Any months where either was receiving CPP retirement
 - Any months where either was receiving CPP disability

How DUPE works (cont'd)

- **Result of DUPE**
 - CPP benefits in pay will be adjusted month following receipt of “application”
- **How DUPE impacts calculation of current or future CPP**
 - CPP retirement pension = 25% of “Average Monthly Pensionable Earnings” (AMPE)
 - $AMPE = \text{Total adjusted earnings} / \text{Contributory period (after dropouts)}$
 - Earnings lost as a result of DUPE = lower AMPE = lower CPP retirement (maybe)
 - Earnings gained as a result of DUPE = higher AMPE = higher CPP retirement (maybe)

Introduction to CRDO/CRP

- **What is CRDO/CRP**
 - CRDO stands for child-rearing dropout, and
 - CRP stands for child-rearing provision
- **Who is eligible**
 - Family Allowance recipient (includes Child Tax Benefit recipient since 1993)
 - Spouse of FA/CTB recipient if:
 - Spouse remains at home, AND
 - Spouse is primary caregiver, AND
 - FA/CTB recipient doesn't use CRDO/CRP themselves

Introduction to CRDO/CRP (cont'd)

- **How CRDO/CRP works**

- CPP benefits are based on “average lifetime earnings” (after dropouts)
- CRDO/CRP allows eligible parent to drop out periods of low income while raising child(ren) under age 7
- Dropping out periods of low income increases average earnings which increases CPP benefits

- **CRDO1 versus CRDO2**

- CRDO1 excludes periods under Year's Basic Exemption (YBE)
- Can create eligibility for disability or survivor's benefits
- Will increase all CPP benefit calculations
- CRDO2 drops out periods where earnings are less than average
- Can increase all CPP benefit calculations

Overlap of DUPE and CRP/CRDO

From: *Evaluation of Survivor Benefits and Other Features of Canada Pension Plan Final Report*, Evaluation and Data Development, Strategic Policy, Human Resources Development Canada, May 1997

“2. Simulating Removal of the Credit-Splitting Provision

Since credit splitting was, at least in part, implemented to balance CPP benefits between spouses that separate or divorce, one might expect that the removal of credit-splitting would reduce expenditures on benefits. In fact, the introduction of credit splitting actually reduced the costs of CPP in the long term.

3. An Explanation for the Finding

Credit splitting should by and large be transferring credits from men to women and from those with a consistent earnings record to those with a more erratic earnings record. Both of these effects should increase costs. Women also live longer than men, so equal benefits transferred to women should be more costly. Secondly, some lower earnings obtained through the credit split should be eliminated by general dropout for those with a consistent earnings record.

In fact, these effects are outweighed by the effective reduction in the cost resulting from the child rearing dropout. This is best illustrated by an example, illustrated graphically in Exhibit V-7.”

Overlap of DUPE and CRP/CRDO

Before credit split	
Husband	Wife
40 years of earnings above YMPE	<ul style="list-style-type: none"> • 26 years of earning above YMPE • 14 years of zero earnings to raise children under 7
$40 / 40 = \mathbf{100\%}$ of maximum pension	$26 / 28.05 = \mathbf{92.7\%}$ of maximum pension

After credit split	
Husband	Wife
<ul style="list-style-type: none"> • 26 years of earnings above YMPE • 14 years of 50% YMPE earnings after transfer of 14 zero-earnings years from wife 	<ul style="list-style-type: none"> • 26 years of earnings above YMPE • 14 years of 50% earnings transferred from husband • 14 years of child-rearing dropout
$26 + (14 \times 0.5) / 40 = \mathbf{82.5\%}$ of maximum pension	$26 + (2.05 \times 0.5) / 28.05 = \mathbf{96.3\%}$ of maximum pension

Overlap of DUPE and CRP/CRDO (Cont'd)

	Husband	Wife	“Couple”
Before DUPE	100% = \$1,038.33	92.7% = \$962.53	192.7% = \$2,000.86
After DUPE	82.5% = \$856.62	96.3% = \$991.91	178.8% = \$1,848.53
Gain(+) or Loss(-)	-17.5% = -\$181.71	+3.6% = +\$29.38	-13.9% = -\$152.33

DRPC results for 2013

Years of marriage	Number of children	Male client gain/(loss)	Female client gain/(loss)	Net gain/(loss)
18	2	(\$172.70)	\$33.08	(\$139.62)
26	3	(\$83.06)	\$10.47	(\$72.59)
33	4	(\$218.49)	\$61.52	(\$156.97)
31	3	(\$195.35)	\$67.76	(\$127.59)
40	3	(\$161.61)	\$83.24	(\$78.37)
37	2	(\$71.08)	\$17.73	(\$53.35)
31	1	(\$179.94)	\$134.33	(\$45.61)
15	1	(\$0.22)	(\$1.32)	(\$1.54)
25	2	(\$169.40)	\$4.41	(\$164.99)
Average		(\$139.09)	\$45.69	(\$93.40)

Possible legislative solutions

1. Exclude periods of CRDO/CRP eligibility from DUPE
 - May hurt CRDO-eligible parent if low/no earnings outside of DUPE period
2. Allow both parents to claim CRDO/CRP for period of DUPE
 - Equal sharing of all CPP “credits”
 - Some additional costs compared to status quo (may eliminate current cost savings)

Other options

- **Simply wait until age 65 to apply for DUPE**
 - Neither spouse able to properly plan for retirement income
 - Good strategy if higher earning spouse is disabled
 - Possibly a bad strategy if CRDO-eligible spouse is disabled
 - DUPE at age 65 may still be net loss to couple

Current DRPC solution

DUPE report

- CPP calculations before/after DUPE
- Gain/loss calculations
- Recommended action

What is required?

- CPP statements of contribution for both husband and wife
- Estimated future earnings for both husband and wife
- Planned starting age for CPP retirement pensions for both
- Details of any past or present CPP disability or survivor benefits for either
- Birthdates for any children and confirmation of Family Allowance/Child Tax Benefit eligibility
- Confirmation of:
 - Date of marriage
 - Date started living together (if earlier than date of marriage)
 - Date of separation

Current DRPC solution

What is the cost?

- Standard report (four calculations) at \$175
- Additional calculations at \$25 each

Acronyms

AMPE	Average monthly pensionable earnings
CPP	Canada Pension Plan
CRDO	Child-rearing dropout
CRP	Child-rearing provision
CTB	Child Tax Benefit
DRPC	DR Pensions Consulting
DUPE	Division of Unadjusted Pensionable Earnings (aka credit splitting)
PAB	Pensions Appeal Board
YBE	Year's Basic Exemption
YMPE	Year's Maximum Pensionable Earnings

Important weblinks

- DR Pensions Consulting DUPE service
<http://www.drpensions.ca/dr-pensions-credit-split-calculation.html>
- DUPE guide for the legal profession
http://www.hrsdc.gc.ca/eng/retirement/cpp/credit_splitting.shtml
- CPP report confirming DUPE/CRP overlap
http://publications.gc.ca/collections/collection_2013/rhdcc-hrsdc/RH64-116-1997-eng.pdf