



Claw Backs

There has been plenty of discussion recently concerning 'claw-back' of certain CF pension and disability benefits which leads us to believe that some explanation may be warranted.

One of the issues relates to the claw back of Service Income Security Insurance Plan (SISIP) long-term disability benefits when a veteran is awarded a disability pension by Veterans' Affairs. This claw back is unfair because serving members may continue to draw both their CF salary plus a VAC disability benefit whereas a veteran's SISIP benefit is reduced by some or all of the VAC benefit. A class action suite has recently been authorized by the courts in the case of one Dennis Manuge in Nova Scotia.

Another alleged claw back, and one which certain opposition members of parliament have eagerly been exploiting, is related to the Canada Pension Plan (CPP).

For at least the past half century, retirement experts have preached that, on retirement, one needs about 70% of his/her pre-retirement income to maintain one's life style. CF annuitants' CFSA and combined CFSA/CPP benefits have been and continue to be based on providing this level of income (35 years @ 2% of best 5 or 6 years) on retirement.

When the Canada Pension Plan (CPP) was introduced in 1966 it was mandatory for all Canadian employees to contribute to the plan. CF personnel were not exempt and a small percentage of our CFSA premium was diverted from our CFSA account to our CPP account however the total combined premiums (about 7% of salary) and the combined benefit were essentially unchanged. But, because CF members would retire before reaching 65 years of age when they would become eligible for their CPP benefit, a 'bridging' bonus was established to maintain the equivalent of a 'full' CFSA benefit until the retired member became eligible to receive the CPP benefit on his/her 65th birthday. CF members have not contributed to this bonus which is in excess of their earned CFSA benefit but approximately equal to the earned CPP benefit. Similar 'bridging' arrangements were established for most other public sector, and some private sector, pensioners.

In 1987 CPP regulations were amended to permit anyone who was "substantially retired" to draw his/her CPP retirement benefit at any time after reaching his/her 60th birthday (albeit with a 0.5% penalty for each month short of the 65th birthday). However the pension acts which govern federal employee pensions were not amended and federal pensioners, including CF annuitant are permitted to continue to receive the bridging bonus until his/her 65th birthday – regardless of when CPP retirement benefits commenced.

Since 1966, all CF members on retirement from the Forces have been notified that the bridging bonus will terminate on their 65th birthday, and each member is provided a one-page document (DPS-4 Form B-2) which shows how the individual's CFSA benefit has been calculated and the amount by which it will

be reduced at age 65 when the bridging bonus ceases. It seems that some federal pensioners hold the mistaken belief that this is some sort of “claw-back” of their pension benefit: it isn’t!

However, when they reach 65 years of age, most Canadians are eligible to receive a non-contributory Old Age Security (OAS) benefit which is subject to a claw-back based on one’s income. The OAS income threshold for the claw-back is adjusted each year for inflation – in 2008 it was \$62,144. Approximately 15% of any amount above that is clawed-back from the OAS benefit.

February 10, 2009