U.S. TAX
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How government pensions work for cross-border employees

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If you have worked in both Canada and the United States or are contemplating a move to the U.S. after years of working in Canada (or vice versa), you may wonder about paying into both the Canada Pension Plan (CPP) system and the U.S. Social Security system. Will you be able to collect pensions from both countries? The short answer is that it is possible, but while there are opportunities, there can also be pitfalls.

Entitlement

CPP entitlement is based on the amount of contributions you have made over your career. There are no restrictions on the number of years you need to contribute (other than QPP in Quebec, where you must have contributed for a full year). If you have only worked in Canada for a short period of time, the amount you receive may be minimal. However, if you spent a significant portion of your work life in Canada and your salary was at the maximum CPP contribution level, you may qualify for the full pension.

In contrast, entitlement under the U.S. Social Security system is based on the number of years you have contributed to the plan. You must have 40 quarters (ten years) of contributions to Social Security before you are eligible to collect it when you reach retirement age. If you have worked in Canada and you have not met the 40-quarter test in the U.S., it is possible – under the Canada-U.S. Social Security Totalization Agreement – to have the years that you contributed to CPP count toward your eligibility for Social Security, but you must have at least six quarters of contributions in the U.S.

If you qualify and plan to collect both CPP and Social Security, there is a catch. The U.S. has a Windfall Elimination Provision (WEP), which will reduce the amount of Social Security you may receive. The WEP is based on the number of years you did not pay into Social Security if you have less than 30 years of "substantial earnings" in the U.S., but the substantial earnings amount for each year is not excessively high. (A chart is available on the U.S. Social Security Administration website at www.socialsecurity.gov.) Canada does not have a similar provision, so your CPP will not be affected if you collect Social Security. To determine the amount of CPP for which you currently qualify, you may contact Service Canada at www.servicecanada.gc.ca.

If you are considering employment in the other country, be aware of which system applies. If you are working in the U.S. for a U.S. employer, you must pay into Social Security. Similarly, if you are working in Canada for a Canadian employer, you must pay into CPP. If you are temporarily assigned to the U.S. by your Canadian employer or by an affiliate of your Canadian employer for a period of time that is not expected to exceed 60 months, you may apply (under the Social Security Totalization Agreement) to continue to have CPP deducted from your pay and not pay into the U.S. Social Security system. If it is not a temporary assignment, you must pay into the U.S. Social Security. The same is true if you are working for a U.S. employer or its affiliate and you are temporarily assigned to Canada: you may continue to have Social Security deducted from your pay. If it is not a temporary assignment, you must pay into CPP.

Is one system better than the other?

The contributions you make to the Canadian system during your working years are much lower on an annual basis than the respective U.S. contributions, but the pension you will collect on retirement will also be lower. In 2017, the maximum employee share contributed to CPP was $2,564.10 per year, but the maximum benefit a retiree could collect was $13,370.04 per year (Canadian dollars). In contrast, the maximum employee contribution to Social Security in the U.S. in 2017 was $7,886.40 per year plus

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an uncapped amount of Medicare tax of 1.45 per cent of salary and an additional 0.9 per cent on salary over a certain threshold (depending on filing status). However, the maximum benefit a retiree could collect from Social Security in 2017 was $32,244 per year (U.S. dollars). If you were employed in both countries over the span of your career, it is unlikely you would reach the maximum in both countries, but it may be possible to collect a government pension from both countries.

In Canada, the CPP system will soon be "enhanced," as described on the Canadian government website. The enhancement plan will increase the maximum CPP benefits to almost $20,000 per year. Obviously, this does not come without a cost, as premiums will also rise. Not only will the contribution rate increase from 4.95 to 5.95 per cent for employees (double for self-employed persons), but the maximum contribution level on which this is calculated will rise from $55,300 to $82,700. In addition, the younger you are, the more you will benefit from the pension enhancement, which will be phased in after 2019. If you are near retirement, you will not see a large increase in your pension benefits. However, the annual Canadian contributions will still be less than the respective Social Security contributions, as will the pension benefits.

Canadian Old Age Security

While both countries have the employment-based government retirement plans, Canada also has Old Age Security (OAS), which is based on residency, rather than contributions or years worked. If you move to the U.S. (or anywhere else in the world, for that matter) and you have resided in Canada for 20 years after age 18, you will qualify to receive the Canadian OAS when you turn 65. However, if you move to Canada at some point in your life, your residency requirement in Canada is only 10 years after age 18 to collect OAS when you turn 65. If you were a U.S. resident and were covered under the Social Security system, this time period may be reduced, as the Social Security Agreement between Canada and the U.S. will allow those years in the U.S. to count toward your residency requirement.

If you have lived or worked in the United States and Canada, you may be eligible for pension benefits in both countries (and this may apply to your surviving dependants as well). The Social Security Agreement between Canada and the U.S. may make it easier to qualify for these benefits. It is worth investigating both sides of the border, in order to maximize your government pension benefits. Contact your local Collins Barrow advisor to discuss your options.

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