

The CPP Child Rearing Dropout Provision

Overview

If you are a parent, the Child Rearing Dropout (CRDO) provision of the Canada Pension Plan (CPP) should be important to you. This is because the calculation for your CPP benefits depends on how many years and how much you contributed between the ages of 18 to 65 (47 years). The “general dropout” rule will drop 17% (8 years) of the lowest earning years from this calculation and take 83% (39 years) of your highest earning years to determine your CPP benefits. However, this approach could penalize people who are parents if they stopped work or worked part-time while they raised their children.

To mitigate this penalty to parents, the CRDO was instigated. Broadly speaking, the CRDO is intended to ensure that a parent who stays at home or works only part-time while raising children isn’t penalized when their CPP benefits are calculated. The period of eligibility starts with the month following the birth of a child and ends with the month that the child turns 7. If you have multiple children who are less than 7 years apart, the period starts with the month following the birth of the first child and ends with the month that the youngest turns 7.

Take note that the CRDO is **not automatic – you must apply for it**, using a separate form (ISP1640) when you apply for your CPP. If you didn’t apply for it when you first started CPP, the CRDO can be applied retroactively.

Who Is Eligible

Before 1993, the parent who was eligible to receive the Family Allowance had the primary right to claim CRDO. After 1993, it was the parent who was eligible to receive the Child Tax Benefit (CTB). In both cases, it is usually the female parent who is eligible. The male parent qualifies only if:

- they remained at home during child rearing
- they were the primary care giver for the children
- the female parent doesn’t claim the CRDO and gives consent for the male parent to claim it,
or
- the male parent applies for the CTB under his name

How It Works

The CRDO allows a parent to drop eligible child rearing periods (in months) where their income was less than other years so that they are not used in their CPP benefits calculation. This results in having your level of benefits determined from the remaining years only, giving you a better result than if the low-earning child rearing years were included. An example of this is given below.

Susan worked full time, earning the Year’s Maximum Pensionable Earnings (YMPE) for a couple of years after completing high school, and then had two children, born June 1989 and December 1992. She

worked part-time until the second child turned seven, and then went back to work full time and earned more than the YMPE every year until she turned age 60, at which point she retired.

Without the Child Rearing Dropout (CRDO), Susan's CPP retirement pension at age 65 would be significantly affected by the 10.5 years of part-time earnings that she had while raising her children, because the "general dropout" would allow her to drop out only the five years of zero earnings after age 60, plus three of the lowest years of part-time earnings (total 8 years). By dropping out all of those 10.5 years under the CRDO provision, and by using the general dropout to omit the five years of zero earnings after age 60, Susan can receive a maximum CPP retirement pension at age 65.

What To Watch For

While the CRDO provision generally works well to protect a parent's CPP benefits, there is a certain nuance about how the CRDO works that is not so good. It comes from the way that CPP treats partial income during a year in which someone only worked a part of and not a full year.

As an example, consider a parent who worked 6 months fulltime and then took 6 months off for child rearing. If this person has a \$60,000 salary (\$5,000/mo), they would have earned \$30,000 for that year in which they only worked 6 months. The CRDO provision allows them to drop the other 6 months for child rearing. The remaining 6 months are added to their earnings credit, but not at the actual \$5,000/mo level. It is added at a \$2,500/mo level instead. The reason is because CPP calculates "deemed earnings" to be all contributory earnings over a **full calendar year**. Whatever you earned in a year is divided by 12 to arrive at the "deemed earnings" per month for that year, **regardless of how many months you worked**. In our example, the \$30,000 is divided by 12 to arrive at the \$2,500/mo deemed earnings level. This is then multiplied by the 6 months of work to arrive at the \$15,000 earnings credit CPP uses to determine your benefits, not the actual \$30,000 you earned.

This quirk in the CPP calculations causes double damage when both parents split the year to look after their child or children, because each one will have the same under-estimation of income for that year when their "deemed earnings" are calculated. For this reason, it is best to have each parent start their child rearing time in January and take full calendar years off rather than beginning or ending somewhere in the middle of the calendar year.