UNDERSTANDING THE CPP ENHANCEMENTS

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Our goal is to provide updates on topical accounting and tax issues. Information contained in this newsletter is not meant to be a comprehensive summary of the issues raised. Rather, we wish to bring what we believe to be important issues to the attention of our valued clients and readers. We would be pleased to discuss any questions that you, the reader, might have in greater detail.

In 2016, the Canadian federal and provincial governments (with the exception of Quebec which has its own provincial pension plan ("QPP")) agreed to enhance the Canada Pension Plan ("CPP") in an effort to make the CPP a bigger factor for the growing proportion of the population that does not have a company sponsored retirement plan and for those who could use a top-up to their own savings to maintain their standard of living in retirement. It is the first major reform to the benefit levels since the inception of the CPP in 1966. This article will explain what this means for Canadians in the workforce and how employers can prepare for these changes.

Under the current CPP regime, employees (and their employers) contribute to the CPP if they are between the ages of 18-70, work in Canada (except for Quebec, which is governed by the QPP), and earn more than $3,500 annually. Contributions are made on earnings above $3,500 and is capped at an amount known as the Year's Maximum Pensionable Earnings ("YMPE"), currently $55,900 for 2018. The YMPE is adjusted annually to account for inflation and rising wages. The contribution rate for both employees and employers is 4.95% of the amount in excess of $3,500 up to $55,900, equating to an annual maximum of $2,593.80 for 2018. Note that the employer must contribute an equal amount, which effectively doubles the contribution rate to 9.9% for a total contribution $5,187.60 for an employee earning $55,900 or more. Note that self-employed individuals must contribute both the employee and employer portion of the CPP.

Effective January 1, 2019, contributions under the CPP will gradually increase during a "phase-in" period which will be spread out over seven years. During phase 1, which will last for 5 years (between 2019 – 2023), the contribution rate will gradually rise from 4.95% to 5.95% and then level off thereafter. During phase 2, which begins in 2024, there will be an additional contribution rate of 4% for employees earning more than the YMPE, up to a new upper limit known as the Year's Additional Maximum Pensionable Earnings ("YAMPE"). For 2024, the new upper limit will be calculated using the year's YMPE and increasing it by 7%, and in 2025 increasing it by 14% and leveling off thereafter. See Table 1 below for a visual representation of the CPP phase-in.

Table 1: Phase-in of CPP Enhancement Between 2019 - 2025

Year	YMPE (Note 1)	YAMPE (Note 2)	Contribution rate up to YMPE	First contribution (Note 3)	Contribution rate on (YAMPE – YMPE)	Second contribution (Note 4)	Employee's total contribution	Total contribution to CPP including employer
2018	55,900	N/A	4.95%	2,593.80	N/A	N/A	2,593.80	5,187.60
2019	57,400	N/A	5.10%	2,748.90	N/A	N/A	2,748.90	5,497.80
2020	59,400	N/A	5.25%	2,934.75	N/A	N/A	2,934.75	5,869.50
2021	61,400	N/A	5.45%	3,155.55	N/A	N/A	3,155.55	6,311.10
2022	63,400	N/A	5.70%	3,414.30	N/A	N/A	3,414.30	6,828.60
2023	65,500	N/A	5.95%	3,689.00	N/A	N/A	3,689.00	7,378.00
2024	67,600	72,300	5.95%	3,813.95	4%	188.00	4,001.95	8,003.90
2025	69,700	79,400	5.95%	3,938.90	4%	388.00	4,326.90	8,653.80

Note 1: 2019 YMPE is the actual 2019 figure from CRA; 2025 based on CRA's projection of the YMPE for 2025.

Note 2: For 2024, 67,600 x 1.07 = 72,300. For 2025, 69,700 x 1.14 = 79,400 (rounded to nearest 100)

Note 3: Calculated using the $3,500 exemption and multiplying by the contribution rate up to the YMPE

Note 4: Calculated by subtracting the YAMPE "new upper limit" from the YMPE and multiplying by 4%

As shown in the table above, the total amount of CPP contributions will increase sharply over the next 7 years. The increase will be especially taxing for self-employed individuals, who must contribute both the employee and employer portions of the CPP. To help alleviate some of the additional CPP costs, the Income Tax Act has been amended to increase the Working Income Tax Benefit (now called the Canada Workers Benefit) to offset some of the additional cost for qualifying low-income individuals. Additionally, a deduction will be permitted for contributions to the enhanced portion of the CPP to avoid increasing the after-tax cost of savings for Canadians.

As a result of the enhancements to the total contributions and the increased pensionable earnings limit, contributors to the enhanced CPP will see the following benefit increases:

- The CPP retirement benefit will grow to replace 33% of their average work earnings (up to a maximum limit), up from 25%; and
- Disability benefits and survivor benefits will also be increased as a result of the enhancement.

The gradual and scaled implementation of the enhanced CPP is designed to give businesses and employees sufficient time to adjust to the changes. Employers with pension plans will have time to analyze whether any adjustments will need to be made to their plans to accommodate the increased CPP contributions.

To conclude, the enhancements to the CPP will result in higher costs to businesses and employees alike. However, the intention of the enhancement is to provide Canadians with a greater sense of security in retirement, and it will help ease the burden for employees who do not have access to employer-subsidized pension plans, which are becoming increasingly rare.

If you have any questions about the CPP enhancements and how they will affect your business, please contact us at info@hwllp.ca or call us at 613-235-2000.

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