



# CPP Expansion and its Impact

## Mayors' Caucus

June 13 – 15, 2017

Prepared by Aon Hewitt

# Myths or Facts – Your CPP Pop Quiz

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1. The federal government contributes to the CPP?
  - **Myth.** Almost 40% of Canadians think the government pays for part of CPP
2. Any CPP enhancements will apply on all service, including prior to the implementation date?
  - **Myth.** Only 25% of Canadians know it will take 40 years before full increase in benefits is available
3. Current retirees will benefit from the CPP expansion?
  - **Myth.** More than 70% of Canadians don't realise that current retirees get nothing from CPP expansion
  - Over 25% of those already retired believe they will see bigger CPP cheques as a result of the expansion

# Refresher – Current CPP

## Pensionable Earnings

- Pensionable Earnings includes earnings between \$3,500 (“Year’s Basic Exemption” or YBE) and the year’s maximum pensionable earnings (YMPE) while members contributed between 18 and 70 years of age
- Allows for certain drop-out years when earnings were lower (15% + parental leaves)

## Benefit

- CPP benefit aims to replace 25% of annual earnings up to YMPE for members who contribute over 35-40 years
  - Adjustments are made for years with lower earnings
  - Adjustments are made if you don’t start CPP at age 65

## Cost

- Employees and employers each contribute 4.95% of pensionable earnings
- Total of 9.9% to fully fund current CPP benefit

## Current Maximums

- YMPE in 2017 is \$55,300 (it increases each year)
- Maximum CPP employee contributions in 2017 = \$2,564.10
- Maximum CPP benefit in 2017 = \$1,114.17 per month (at age 65)

# Refresher – Current CPP – Continued

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## Early Retirement Provisions

- Eligible for pension as early as age 60
- Unreduced at age 65
- Early retirement reduction of 0.6% for each month between 60 and 65
- Enhanced by 0.7% for each month beyond age 65 up to age 70
- Option to contribute to CPP after 65 if working

## COLA

- CPP benefits are adjusted each January based on the increase in CPI

## Other Information

- You can continue to work and collect CPP as long as you are less than age 70
- Married or common-law spouses can share their CPP retirement pensions
- CPP provides disability benefits for those who cannot work at any job on a regular basis
- A monthly benefit for dependent children if also available



# CPP Enhancement

# Building a Consensus for CPP Reform

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Changes to the Canada Pension Plan (CPP) require the support of at least 7 out of 10 provinces, representing two-thirds of the Canadian population, as well as the federal government.

Several attempts in recent years to reform the program have failed.

- In 2015, the Federal Liberal Party indicated it was willing to enhance CPP, if elected
- To this end, a meeting of finance ministers (federal and provincial) was held on June 20, 2016 in Vancouver
- There was enough consensus at that meeting to reach an agreement-in-principle on CPP reform
- All provinces agreed except Québec which has its own Québec Pension Plan (QPP)



# CPP Enhancement – Summary

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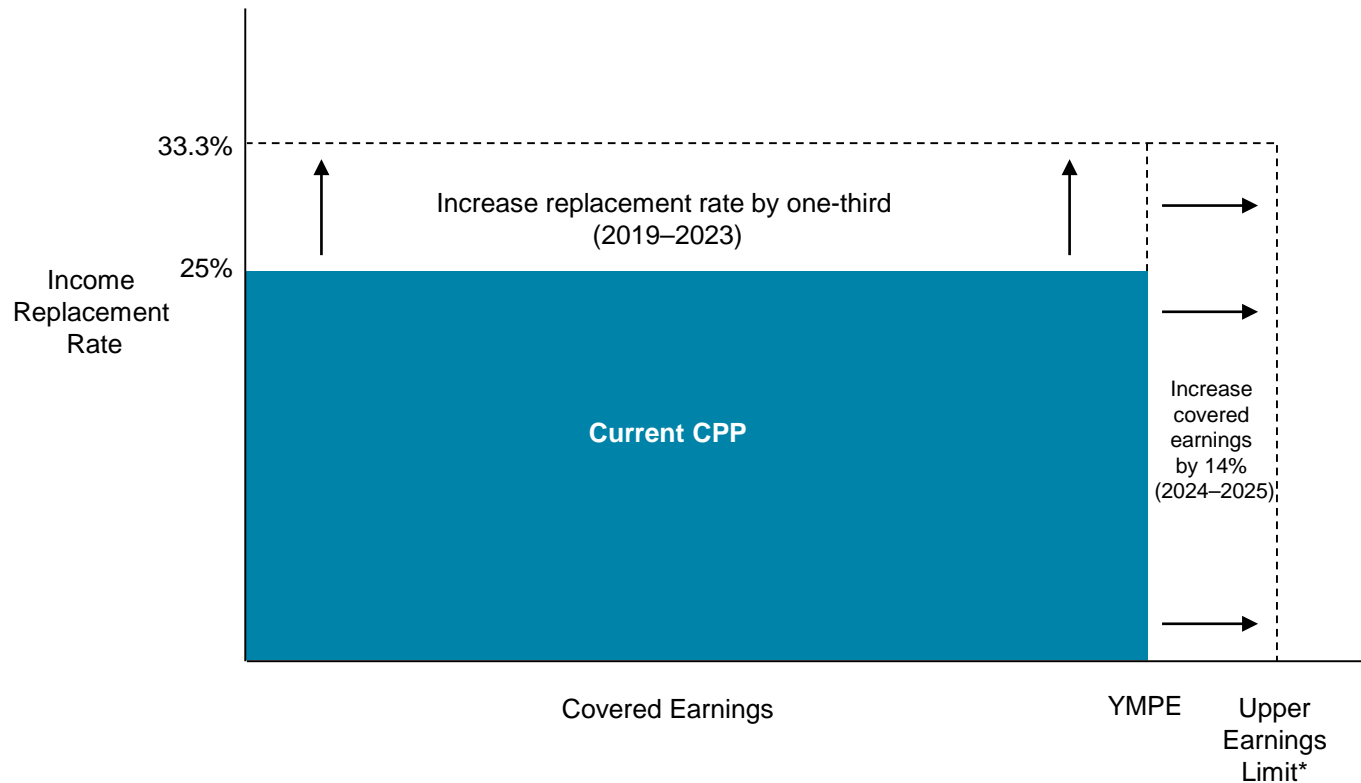
- Seven year phase-in period starts January 1, 2019
- Applies nationally (except Québec)
- Is universal (no exceptions made for workers in “comparable plans”)
- Will be fully funded (avoid deficits for future generations) – treated separately
- Once fully in place, increases income replacement from 25% to 33.33% of pensionable earnings
- Has a new “Upper Earnings Limit” of 114% of YMPE (YAMPE = Year’s Additional Maximum Pensionable Earnings)

What’s going up?

- income replacement rate
- pensionable earnings
- employer and employee contributions

# Main Design Parameters of CPP Enhancement

## Increased Income Replacement Rate and Increased Covered Earnings



After 40 years of contributions, CPP is improved by 50% for a person with earnings above YAMPE



## 3 Tiers of Employee CPP Contributions

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- Tier 1 (“Base Contributions”)
  - Current contribution rate of 4.95% of earnings between YBE and YMPE
- Tier 2 (“First Additional Contributions”)
  - Additional 1.0% of contributions between YBE and YMPE
  - Phased in gradually starting in 2019 (5 years)
  - 0.15% in 2019, 0.3% in 2020, 0.5% in 2021, 0.75% in 2022 and 1.0% in 2023
- Tier 3 (“Second Additional Contributions”)
  - 4.0% of earnings between YMPE and new YAMPE
  - Phased in starting in 2024 (2 years)
  - YAMPE will be 7% higher than YMPE in 2024 and 14% higher in 2025
- Employer must match employee contribution rate

## Example – Calculating Enhanced CPP Contributions (Earnings greater than YMPE in 2025)

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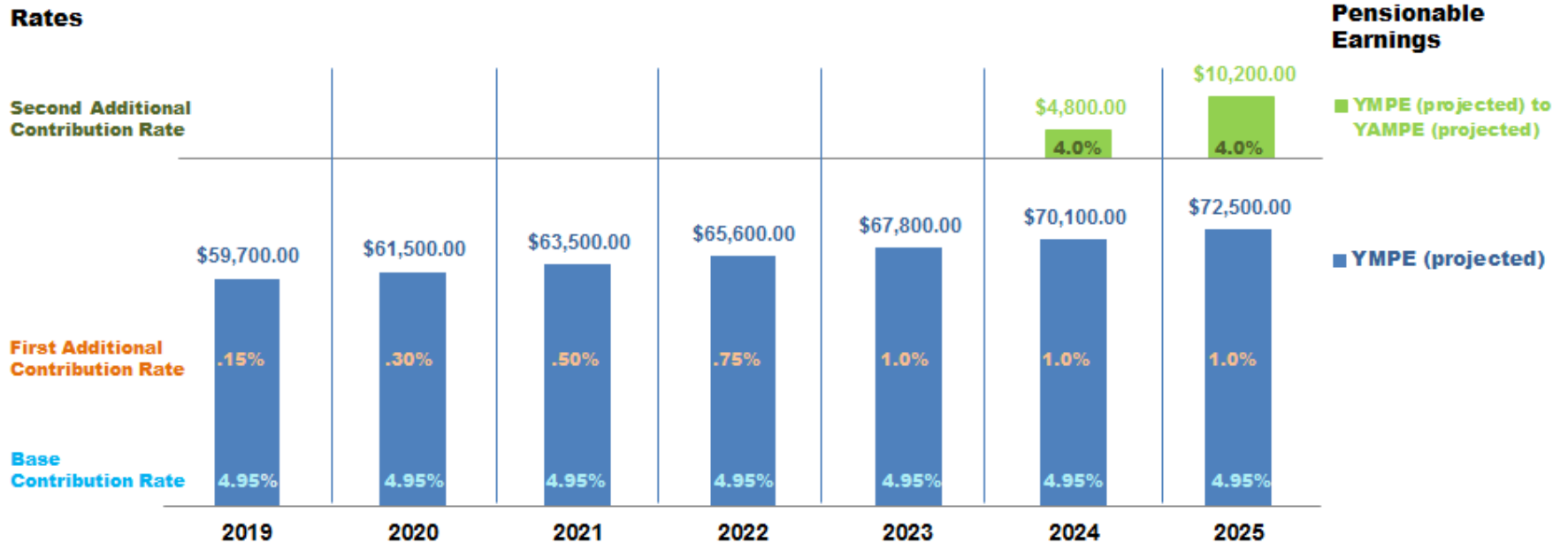
2025 assumptions: Earnings of \$100,000, YMPE of \$72,500, YAMPE of \$82,700 and YBE of \$3,500

- Base Contributions = Adjusted Earnings to YMPE x 4.95%  
=  $\min(\text{Earnings}, \text{YMPE}) - \text{YBE} \times 4.95\%$   
=  $\$69,000 \times 4.95\%$   
= \$3,415.50
- First Additional Contributions = Adjusted Earnings to YMPE x 1.00%  
=  $\$69,000 \times 1.00\%$   
= \$690.00
- Second Additional Contributions = Earnings between YMPE & YAMPE x 4.0%  
=  $\$10,200 \times 4.0\%$   
= \$408.00
- Estimated CPP Contributions =  $\$3,415.50 + \$690 + \$408 = \$4,513.50^*$

\* Matched by Employer Contributions of the same amount

# 3 Tiers of Employee CPP Contributions

## Three Tiers of Employee CPP Contributions\*



\*This diagram shows the three tiers of employee CPP contribution rates that will be in effect, as well as the pensionable earnings to which the rates will apply. Employers will be required to contribute the same amount.

# Benefit Enhancement Phase-In

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- Benefit enhancement aims to replace 1/3 (33.33%) of employee's income instead of current 1/4 (25%)
- Full enhancement will not be available until after about 40 years of making contributions, but partial benefits will be available sooner based on years of contributions
  - Proration of benefits based on years of enhanced contributions

## 3 Part Benefit Formula

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25% of “average monthly pensionable earnings”

**PLUS**

8.33% of “first additional monthly pensionable earnings”

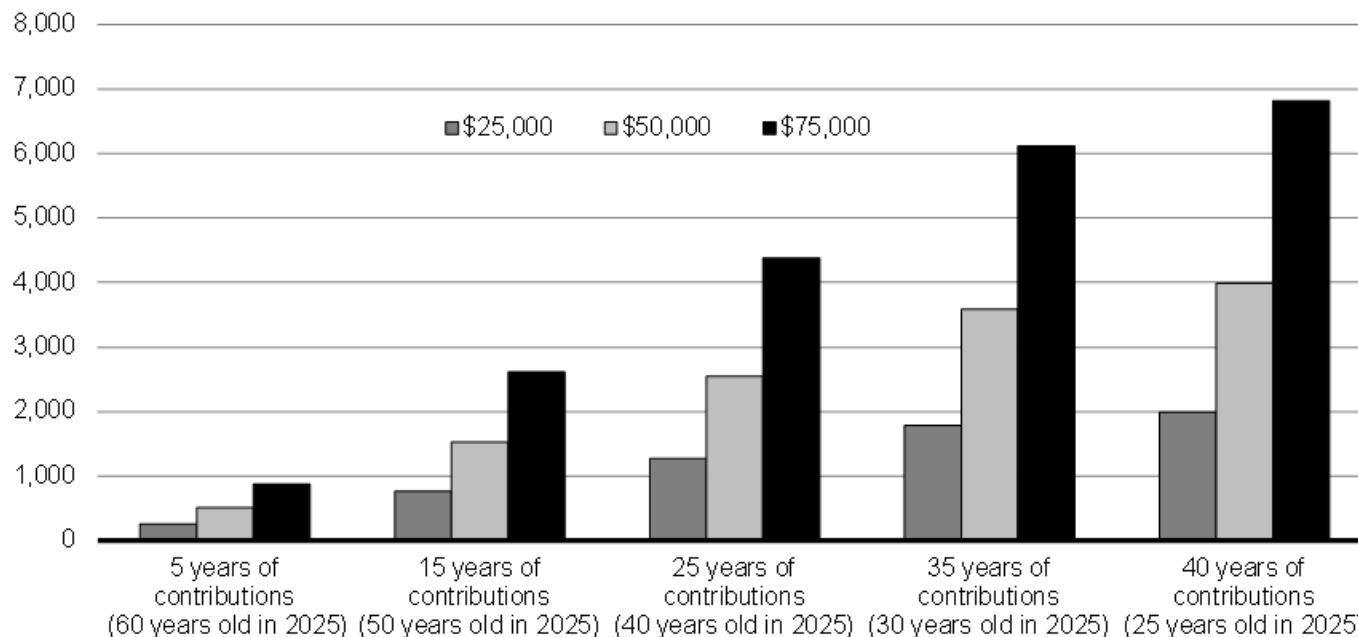
**PLUS**

33.33% of “second additional monthly pensionable earnings”

# Who will benefit from the CPP Enhancement?

**Chart 2**

**Illustration of Additional Annual CPP Benefits for Different Age Cohorts and Income Levels  
In \$2016**



Note: This illustration assumes that individuals have constant earnings and that individuals would take-up CPP benefits at age 65. The increase in benefits is based on contributions starting in 2025 (when enhancement is fully implemented); rounded to nearest \$10.

Source: Department of Finance Canada, "Background on Agreement in Principle on Canada Pension Plan Enhancement", June 23, 2016

# CPP Enhancement “Add-ons”

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- Creation of the “Additional Canada Pension Plan Account” for receiving the First and Second Additional Contributions and the benefit payments associated with these contributions
- Tax deduction for employee contributions to CPP Enhancement (instead of tax credit which will continue to apply for contributions to CPP)





# Impact of CPP Enhancement

## As we approach 2019:

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1. Think about overall benefit level for the members
2. Think about overall cost of retirement benefits
3. Plan how and when to communicate changes to total rewards programs
4. Consider the effect on payroll systems and processes
  - More complex retirement system (phased in over 7 years)
  - New tax reporting requirements
  - Potentially, more complex pension plan contributions and benefit formulae
5. Larger public pension plans may be impacted (e.g. LAPP)

# More Information Available

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- Websites:
  - Parliament of Canada (Bill C-26 - First Reading)
  - Service Canada
  - “CPPhelp.ca”

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