UNIVERSITY OF CALGARY

Canada Pension Plan (CPP) Enhancement

Canada Pension Plan contribution rates are on the rise, again. You may have noticed the increases over the last several years to how much is coming off your pay cheque for your CPP contributions, and for those of you who reach the annual maximum, you may be noticing that your CPP vacation is coming later and later each year.

This is the result of the **Canada Pension Plan Enhancement** implemented by the Canadian Government in 2019.

The purpose of the Enhancement is to help Canadians achieve their goal of a safe, secure retirement. To achieve this measure, the Government of Canada committed to working with the provinces to strengthen the Canada Pension Plan (CPP) and cooperative efforts as joint stewards of the program led to Canada's Ministers of Finance reaching an historic agreement in principle on June 20, 2016, to enhance the CPP. The enhancement is designed to increase the CPP retirement pension, post-retirement benefit, disability pension and survivor's pension you may receive. The enhancement will see the benefit rate increase from 25% to 33% and the earnings ceiling increase by 14%.

Please note: Eligibility for CPP benefits is not affected.

There are two phases to the program (2019-2023 & 2024-2025). Phase One saw the Canada Pension Plan (CPP) contribution rates begin to gradually increase, they started on January 1, 2019 and will be fully implemented over a 40 year period. The enhancement works as a top-up to the base, or original CPP, and will mean higher benefits down the road in retirement in exchange for making higher CPP contributions now.

Phase 1: 2019 to 2023

Beginning in 2019 through to 2023, the contribution rate on earnings has increased from 4.95% to 5.95% on the Yearly Maximum Pensionable Earnings (YMPE) which also increases each year.

CPP contribution rates, maximums, and exemptions

In this table we can see how the rates and contribution maximums have increased since 2018 to date:

Year	Yearly Maximum annual pensionable earnings	Basic exemption amount	Maximum contributory earnings	Employee and employer contribution rate (%)	Maximum annual Employee and employer contribution
2023	$66,600	$3,500	$63,100	5.95	$3,754.45
2022	$64,900	$3,500	$61,400	5.70	$3,499.80
2021	$61,600	$3,500	$58,100	5.45	$3,166.45
2020	$58,700	$3,500	$55,200	5.25	$2,898.00
2019	$57,400	$3,500	$53,900	5.10	$2,748.90
2018	$55,900	$3,500	$52,400	4.95	$2,593.80

January 10, 2023

Phase 2: 2024 to 2025

Starting in 2024, a second limit will be introduced, and employees will begin contributing 4% on an additional range of earnings above the Yearly Maximum Pensionable Earnings (YMPE). This will result in higher contributions towards CPP benefits for those who have higher earnings. This new limit, known as the **year's additional maximum pensionable earnings**, will not replace the **first earnings ceiling**. Instead, it will subject your earnings to two limits. This additional limit is referred to as the **second earnings ceiling**.

The value of the second earnings ceiling is based on the value of the first earnings ceiling. In 2024, the second earnings ceiling will be set at an amount that is 7% higher than the first earnings ceiling. It will rise to 14% above the first earnings ceiling in 2025 and the years after. Like the first earnings ceiling, the second earnings ceiling will increase each year to reflect wage growth.

Please note: The enhanced CPP contributions and additional 4% on upper earnings will also be matched by the University of Calgary.

Income Tax Relief on Enhanced CPP Contributions

The higher contributions paid by employees, the additional or enhanced contributions, are treated as fully tax-deductible at source. This reduces your taxable income thereby reducing the amount of income tax deducted each pay period that CPP is active.

From 2019 through 2022, this was treated as a tax credit and was applied when employees filed their annual tax returns. You can review this on Line 22215 (Deduction for CPP or QPP enhanced contributions on employment income) of your federal tax return.

Effective 2023, in following with CRA guidelines, the university's payroll system (People Soft) will process the enhanced contributions and generate a tax deduction on each pay that CPP contributions are active.

Do I need to do anything?

There is nothing you need to do in respect of the CPP changes as they will happen automatically. CPP benefits constitute one source of retirement income for you. In light of the CPP changes, you should review your retirement income strategy considering all your sources of retirement income and savings.

Resources

For more information on the Canada Pension Plan Enhancement, visit the Canada Revenue Agency (CRA) various web pages:

Canada Pension Plan Enhancement https://www.canada.ca/en/revenue-agency/programs/about-canada-revenue-agency-cra/federal-government-budgets/budget-2016-growing-middle-class/canada-pension-plan-enhancement.html

Canada Pension Plan Enhancement – What you need to know https://www.canada.ca/en/revenue-agency/campaigns/cpp-need-know.html

Archived – Backgrounder: Canada Pension Plan (CPP) Enhancement https://www.canada.ca/en/department-finance/news/2016/09/backgrounder-canada-pension-plan-cpp-enhancement.html