



# Canada Pension Plan Changes are coming!

## What does it mean for you?

### What is the Canada Pension Plan?

The Canada Pension Plan (CPP) is a federal government program that provides pensions and benefits when people retire, become disabled or die. It covers almost all working Canadians over the age of 18, including people who are self-employed.

The CPP is funded by contributions from employers and employees, as well as investment earnings generated by the Canada Pension Plan Investment Board.

### Secure and Predictable Retirement Income

CPP provides a secure and predictable retirement income for Canadians, outside the province of Quebec. Residents of Quebec are covered by the Quebec Pension Plan. Prior to the changes, someone who has contributed for at least 40 years under CPP is eligible to receive at age 65 an annual pension equal to 25% of his or her average earnings up to a ceiling; that pension is indexed to inflation.

## WHAT'S NEW?

*Improvements to the Canada Pension Plan began in 2019. So what does it mean for you?*

### **Higher contributions**

Starting with the first pay in 2021:



Your payroll deduction will increase from 5.25% in 2020 to 5.45% in 2021



McMaster will match your full CPP contribution



Contributions are based on your entire employment income above \$3,500 and up to the earnings ceiling (\$61,600 in 2021)

### **Higher benefits... eventually**

You will also get higher CPP benefits but the increase will be gradual. Additional benefits will be based on the number of years that you contribute from 2019 to your benefit start date. The full effect of the changes to benefits will apply in roughly 40 years (by 2059).

# Phased Approach For CPP Changes

## Retirement Income is Enhanced

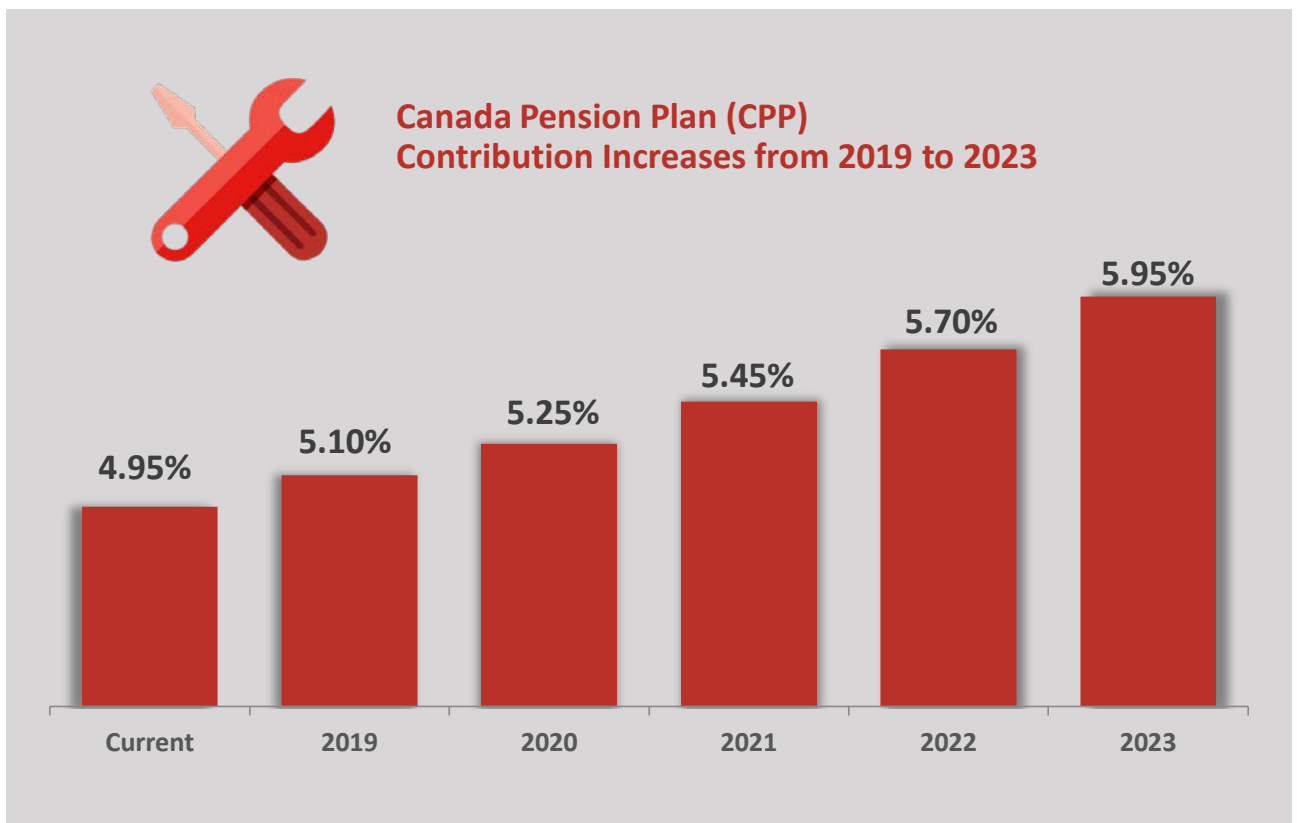
The federal government worked collaboratively with the provinces to increase the retirement income that will be paid from CPP to future retirees. The enhancement will see the benefit rate increase from 25% to 33% and the earnings ceiling increase by 14%. These enhancements are gradually being introduced. They started on January 1, 2019 and will be fully implemented over a 40 year period.

## Contributions Are Increasing

In order to pay for the benefit enhancements under CPP, both employers and employees will see their contributions increase. These contribution increases are being phased in to give employers and employees enough time to plan for them.

### Phase 1 (2019 to 2023)

Under the first phase, the rate of contribution on earnings currently covered by CPP increased starting January 1, 2019 and will continue to increase to 2023. Here is an overview of the contribution rates that you and McMaster, as your employer, will pay under CPP:



Here's an illustration of the impact of the contribution increase when comparing the maximum contributions.

CPP Contributions:	2020	2021
Year's Maximum Pensionable Earnings (YMPE)	\$58,700	\$61,600
Basic Exemption	\$3,500	\$3,500
CPP Contribution Rate	5.25%	5.45%
Calculation of Maximum Contributions for the Year	$(\$58,700 - \$3,500) \times 5.25\% = \$2,898.00$	$(\$61,600 - \$3,500) \times 5.45\% = \$3,166.45$
Increase in the Maximum CPP Contribution	\$149.10	\$268.45

McMaster University matches your contribution amounts.

## CPP Changes Coming In Phased Approach

### Phase 2 (2024 – 2025)

The second phase will introduce a higher ceiling for earnings covered by CPP. Currently, CPP covers earnings in excess of \$3,500 and up to the Year's Maximum Pensionable Earnings (YMPE). The YMPE is \$61,600 in 2021. The YMPE is adjusted each year in line with general wage increases in Canada.

Starting in 2024, a new earnings ceiling called the Year's Additional Maximum Pensionable Earnings (YAMPE) will be determined. In 2024, the YAMPE will be 7% higher than the YMPE. In 2025 and future years, the YAMPE will be 14% higher than the YMPE. In addition to the higher contributions mentioned in Phase 1, beginning in 2024, you will also pay a contribution of 4% on your earnings in excess of the YMPE but not exceeding the YAMPE. McMaster will also pay the additional 4% contribution.

Note that while the current level of your contributions to CPP generates a tax credit, the increases in contributions in phases 1 and 2 will generate a tax deduction.

### 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.

