



Canada Pension Plan Enhancement

Federal, Provincial and Territorial Governments Announce Agreement in Principle to Enhance Canada Pension Plan

On June 20, 2016, the Federal Minister of Finance and his provincial and territorial counterparts announced that an agreement in principle had been reached between the federal government and the provinces and territories on Canada Pension Plan (CPP) enhancement during the first day of meetings at the Federal-Provincial-Territorial Finance Ministers' Meeting in Vancouver.

The CPP enhancement is scheduled to begin on January 1, 2019 and would:

- increase income replacement from one quarter to one third of pensionable earnings—this means that, at maturity, a Canadian with \$50,000 in constant earnings throughout their working life would receive a yearly pension benefit of around \$16,000 instead of the \$12,000 they would currently receive, or \$4,000 more per year; and
- increase the maximum amount of income subject to CPP by 14%, which is projected to be equal to roughly \$82,700 in 2025.

In order to ensure a smooth transition for businesses and Canadian taxpayers, the Ministers propose the following measures:

- introducing a gradual phase-in starting on January 1, 2019 that will allow more time for businesses to adjust;
- enhancing the federal Working Income Tax Benefit as a means of offsetting the impact of increased contributions on low-income workers; and
- providing a tax deduction—instead of a tax credit—for employee contributions associated with the enhanced portion of CPP in order to avoid increasing the after-tax cost of saving for Canadians.

Further details will be forthcoming over the next few weeks. It is expected that when fully implemented, maximum annual CPP benefits will increase by roughly one-third to \$17,478.

Provinces will have until July 15 to officially sign on to the agreement before it becomes formalized.

As a result of this announcement, Ontario Finance Minister Charles Sousa also noted that progress towards the establishment and implementation of the Ontario Retirement Pension Plan (ORPP) will be halted pending the approval of the agreement in principle.

PBI has been publicly supporting Canadian pension reform including CPP enhancements since 2010, when then Finance Minister Jim Flaherty proposed a modest expansion with support of the provincial governments – see PBI's June 26, 2010 press release here: <http://pbiactuarial.ca/pension-reform-press-release/>

PBI will continue to monitor the progress of the agreement in principle and will provide further details as they become available.

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