LEGISLATIVE UPDATE

October 2016

CPP enhancement proceeds into legislative phase

Full provincial support

In early October, the last of nine participating provinces confirmed its support for expanding the Canada Pension Plan (CPP), ratifying the agreement concluded on June 20, 2016 in Vancouver. The final province to ratify was British Columbia, which held consultations with employers and employees before approving the deal. B.C. Finance Minister Michael de Jong said in a statement that his government confirmed its participation in the expanded CPP "after hearing from thousands" of residents over the summer. (*National Post*, Oct. 4, 2016).

Quebec didn't sign the June 20 agreement because it was concerned that a broad-based premium increase would have a negative impact of low income earners. The province hasn't announced whether the Quebec Pension Plan will follow the CPP amendments.

The Government of Canada has moved forward quickly with legislation to enact the CPP enhancement. Bill C-26, *An Act to amend the Canada Pension Plan, the Canada Pension Plan Investment Board Act and the Income Tax Act*, requires three readings in the House of Commons and the Senate before becoming law. It received its first reading in the House on Oct. 10 and is now in its second reading.

A more generous public pension

The enhanced CPP will provide Canadians with a more generous public pension. It will increase income replacement from one-quarter to one-third of pensionable earnings. In addition, the maximum amount of earnings subject to CPP will be increased by 14 per cent, which is projected to be equal to roughly $82,700 by 2025.

Legislation governing the CPP requires that any enhancement to CPP benefits must be fully funded. Each year of contributions to the enhanced CPP will allow workers to accrue partial additional benefits. In general, full enhanced CPP benefits will be available after about 40 years of making contributions. Partial benefits will be available sooner and will be based on years of contributions.

Gradual phase-in

To ensure Canadians and the businesses they work for can adjust to these changes, the CPP enhancement will be introduced through a seven-year gradual phase-in, starting Jan. 1, 2019. Over the first five years, the focus will be on phasing in the higher contribution rate on earnings below the year's maximum pensionable earnings (YMPE - $54,900 in 2016).

In 2023, the CPP contribution rate is estimated by Department of Finance Canada to be one percentage point higher for both employers and employees on earnings up to the YMPE.

Beginning in 2024, a separate contribution rate (expected to be four per cent each for employers and employees) will be implemented for earnings above the then prevailing YMPE. The upper earnings limit will be extended over a two-year period and is expected to reach $82,700 in 2025.

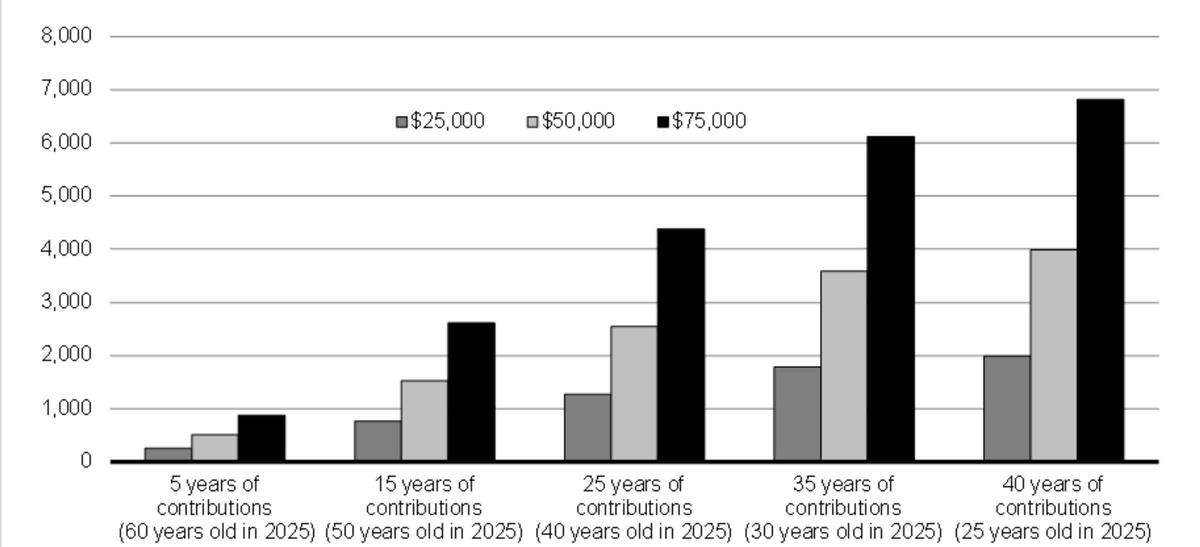
For example, a person with earnings of $54,900 will contribute about an additional $6 a month in 2019; their employer would contribute the same amount. By the end of the seven-year phase-in period (the end of 2025), this employee’s contributions would be about an additional $43 per month, the same as the employer’s contributions.

Working Income Tax Benefit enhancements

To ensure that eligible low-income workers aren’t financially burdened as a result of the extra contributions, the Government of Canada will enhance the Working Income Tax Benefit (WITB), an existing benefit that is designed to help keep people in the workforce and encourage others to join it.

The changes to the WITB will help offset the incremental CPP contribution of eligible low-income workers. The federal government will be consulting with provinces and territories before the final design of the enhanced WITB takes effect, coinciding with the introduction of the enhanced CPP.

Annual enhanced CPP benefits for different age cohorts and income levels



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: *Backgrounder: CPP Enhancement*, Department of Finance Canada, 2016

The graph above shows the effect of the CPP enhancements. It starts at age 60 in 2025 when all the changes are in full effect.

It's based on annual incomes of $25,000, $50,000 and $75,000. The largest effect occurs when someone has contributed for 40 years, bringing CPP coverage up to just under $7,000 per year.

Younger baby boomers – those aged 60 in 2025 – get very little benefit from the enhancements, since they contribute for the least amount of time.

Tax deductibility

Employee contributions to the enhanced portion of the CPP will be deductible. Providing a tax deduction for new employee CPP contributions will avoid increasing the after-tax cost of saving for Canadians. A tax credit will continue to apply to existing employee CPP contributions.

Employer contributions to the enhanced portion of the CPP will be deductible from income for tax purposes, as are existing employer CPP contributions.

Covering the retirement income gap

Even with the CPP enhancements, Department of Finance Canada says some families will still be at risk of not saving enough for retirement. However, the degree of under-saving would be materially reduced. It says the among families at risk, the median after-tax retirement income gap – the difference between current retirement income and that required to replace 60 per cent of pre-retirement income – is estimated to be reduced by more than half (from $8,300 to $3,700).

Future updates

Great-West Life will continue to provide updates about the CPP, as information becomes available.

The information provided is based on current tax legislation and interpretations for Canadian residents and may be affected by future legislation and interpretations. It is accurate to the best of our knowledge as of the date published. This is general information and not intended as legal or tax advice. For specific situations, you should consult a plan advisor or legal, accounting or tax expert as appropriate.