Today's Objectives

- To discuss the Canada Pension Plan (CPP), in particular:
  - General provisions
  - Changes/enhancements to program

3) Canada/Quebec Pension Plan (C/QPP)

General CPP Provisions

Benefit Indexing

- Before retirement, indexing is based on average wages (YMPE values)
- After retirement indexing is based on CPI
- Benefits are adjusted annually

Income Tax

- CPP benefits are taxable income
- Employer (E'er) contributions are fully tax deductible
- Employees (E'ees) receive a tax credit = E'ee contribution x 15%

3) Canada/Quebec Pension Plan (C/QPP)

General CPP Provisions

Credit Splitting and Payment Assignment

- On separation/divorce CPP credits can be split (even if only one partner made contribution)
- Retirement pension payments can be divided between 2 spouses

Reciprocal Agreements

- Set up to help people qualify for benefits in either country
- CPP (federal) has 57 agreements, QPP has 33

3) Canada/Quebec Pension Plan (C/QPP)

General CPP Provisions

C/QPP Integration

- OAS GIS example (i.e., reduce GIS payment \$1 for every \$2 of CPP payments)
- Another example is that some Worker's Compensation (WC) programs take C/QPP disability pension into account when determining WC benefit
- Pension Plan Integrations: Defined Benefit (DB) pension plan benefits and contributions to the plan may be integrated either directly or indirectly with C/QPP (will discuss more when we discuss employer pension plans)

3) Canada/Quebec Pension Plan (C/QPP)

General CPP Provisions

Funding and Future Contributions

- CPP originally set up to be funded on a “pay-as-you-go” basis
- Reserve funds were set up that equal to 2 to 3 years of benefits
- Funds in excess of what is needed for 3 months worth of benefits were loaned to the provinces (at below market interest rates)
- Over time changes have been made

3) Canada/Quebec Pension Plan (C/QPP)

General CPP Provisions

Funding and Future Contributions

- 1998 was a major year of changes for the C/QPP and reasons for this included:
  - Full retirement benefits were available since 1977 (even though CPP only started in January 1965)
  - Aging population due to baby boomers – more retirees, but fewer workers to support them
  - Slower than expected economic growth (mid 80’s, early 90’s)
  - Higher disability payouts than expected

3) <u>Canada/Quebec Pension Plan (C/QPP)</u>

Major changes made in 1998 to C/QPP

1. Contribution rate rose sharply to 9.9% by 2003 and were to remain at this "steady state" level (see 2016 Expansion Announcements)
   - Increased reserve fund to amount to provide for before 3y 5 yrs of benefits
   - The 9.9% rate ensures that current workers contribute a fairer share towards their pension (lessens burden on next generation of workers)
2. YBE was frozen at $3500 (resulting in higher contribution base)
3. Reserve fund is invested prudently in a diversified portfolio of securities for higher returns Before: lending money below market rate
   - Fund started being managed by new CPP Investment Board (CPPIB)
4. Changes to how retirement benefits are calculated
   - Moved to 5 year YMPE average from a 3 year average
5. Changes to disability benefits eligibility and tighter administration

3) Canada/Quebec Pension Plan (C/QPP)

Major changes made in 1998 to C/QPP

- Actuarial valuation and report done every 3 years for each of CPP and QPP
- This includes assessment of contribution rates
  - QPP rates are different and increased starting in 2012
  - CPP rate 9.9% to end of 2018 (Note: changes in 2019 due to 2016 Expansion Announcements)

- For more details on changes, refer to article from In-Class Assignment #1 -The truth about whether CPP will be there for you in retirement

3) Canada/Quebec Pension Plan (C/QPP)

June 2016 CPP Expansion Announcements

- This expansion was to some extent triggered by the now defunct Ontario Registered Pension Plan ORPP)
- Expansion of the CPP deemed essential given the shrinking % of the work force covered by corporate pensions (especially Defined Benefit Pension Plans)
- Changes will be phased in, and these changes include:
  - Increase CPP RPB to 33% of average work earnings received after 2019 (versus its current 25% of average work earnings up to YMPE)
  - Substantial increase in maximum earnings to be covered (move from YMPE of 54,900 in 2016 to projected upper limit of $82,700 by 2025)
  - Increase contribution rates (9.9% to 11.9%) of earnings below YMPE over 5 years (2019 to 2023 to help support expansion, followed by 2 year phase in (2024 to 2025) of benefits based on new upper limit

3) Canada/Quebec Pension Plan (C/QPP)

June 2016 CPP Expansion Announcements

Year	Projected YMPE	Projected upper earnings limit	Upper earnings limit as share of YMPE	Below YMPE Contrib Rate	Above YMPE Contrib Rate
2018	$58,000	$58,000	100%	9.9%	0%
2019	$59,700	$59,700	100%	10.2%	0%
2020	$61,500	$61,500	100%	10.5%	0%
2021	$63,500	$63,500	100%	10.9%	0%
2022	$65,600	$65,600	100%	11.4%	0%
2023	$67,800	$67,800	100%	11.9%	0%
2024	$70,100	$74,900	107%	11.9%	8.00%
2025	$72,500	$82,700	114%	11.9%	8.00%

- Note that projected YMPE in table differs from actual YMPE for 2018 to 2020 (as a result projections for 2025 have changed)