



Worth Knowing 35 (2021 01 06)

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WORTH KNOWING

Increases to Canada Pension Plan (CPP) Premiums

Effective January 1, 2021, Canada Pension Plan contributions are going up again. The planned increase is part of a multi-year plan approved by the federal government and all provinces four years ago to boost retirement benefits through the public plan by increasing contributions over time.

The CPP was intended to help Canadians and their employers contribute toward retirement planning. By collecting higher CPP contributions, Service Canada intends to pay retirees 33 per cent of their average work earnings up to maximum limits each year. (Prior to 2019, CPP was designed to replace one quarter of retiree average work earnings, up to a limit). The enhanced CPP requires this increase in contributions alongside the increase in upper limit on earnings subject to those premiums. When the plan is fully implemented by 2023, the contribution rate will have risen to 5.95 per cent from its 2019 level of 5.10 per cent. The new rates are shown below:

Year	Contribution Rate
2019	5.10%
2020	5.25%
2021	5.45%
2022	5.70%
2023	5.95%

Each year, the yearly maximum pensionable earnings (YMPE) are set based on a formula in the CPP Regulations, which accounts for growth in average weekly wages and salaries in Canada and compares the annual increase in earnings to the previous year. For 2021, the YMPE is \$61,600 with a basic exemption of \$3,500. (The exemption is unchanged since 1996).

In 2025, a second limit, called the upper earnings limit, will be implemented. It is set at 14 per cent above the YMPE. Earnings between the YMPE and the upper earning limit will face a contribution rate of 4 per cent.

So how will this affect you? It is not possible to calculate precise amounts since future YMPE levels are not known. However, Canada Revenue Agency (CRA) has some projected amounts that we can work with. Assuming that you earn the average 4-max salary in Alberta and have one dependent (so that your combined federal and provincial income tax rate in your tax bracket is 30.5 per cent), we can generate some estimates of the effects. The changes in the table below are relative to the base case of 2019.

Year	YMPE	Upper Limit	Base Rate	Upper Rate	Pre-tax Amount	After-tax Amount	Change Relative to 2019
2019	\$59,700	\$59,700	5.10%	0%	\$238.85	\$166.00	
2020	\$61,600	\$61,600	5.25%	0%	\$254.19	\$176.66	\$10.66
2021	\$63,500	\$63,500	5.45%	0%	\$272.50	\$189.39	\$23.39
2022	\$65,600	\$65,600	5.70%	0%	\$294.98	\$205.01	\$39.01
2023	\$67,800	\$67,800	5.95%	0%	\$318.82	\$221.58	\$55.58
2024	\$70,100	\$70,100	5.95%	0%	\$330.23	\$229.51	\$63.51
2025	\$72,500	\$72,500	5.95%	4%	\$376.13	\$261.41	\$95.41

What's your CPP payout?

The Canada Pension Plan calculates your CPP payout based on

- your average earnings in your working life,
- your CPP contributions and
- the age you start your CPP payout.

WORTH SHARING

CPP contributions are going up this year along with the maximum earnings limit. This will boost retirement benefits through the public plan. More information can be found here:

<https://www.canada.ca/en/services/benefits/publicpensions/cpp.html>

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