**Everything you need to know about the enhanced CPP — from how much you’ll pay to how much you’ll get**

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While it comes too late for retiring Baby Boomers, the generations that follow will benefit nicely from the newly “enhanced” Canada Pension Plan (CPP).

Higher premiums to fund it began this month. Once fully phased in almost half a century from now, CPP will replace 33.33 per cent of the average worker’s lifetime earnings to a higher pensionable earnings limit of $65,400 (rounded down, 2019 dollars.)

© Provided by PostMedia Digital   That compares to a replacement of pre-retirement earnings up to 25 per cent of the current Year’s Maximum Pensionable Earnings limit (YMPE) of $57,400 in effect in 2019. The boost means the maximum pension will eventually be 50 per cent higher than before, according to CPP expert Doug Runchey, of Vancouver Island-based DR Pensions Consulting.

* [What retirees need to know if they plan to defer Old Age Security benefits until 70](https://business.financialpost.com/personal-finance/retirement/what-retirees-need-to-know-if-they-plan-to-defer-old-age-security-benefits-until-70)
* [Keep working: Your defined-benefit pension plan is worth less after the end-of-year stock plunge](https://business.financialpost.com/personal-finance/pension-advisory-firms-say-q4-stock-plunge-hurt-defined-benefit-plans)
* [For baby boomer couples, synchronize or stagger is the new retirement dilemma](https://business.financialpost.com/personal-finance/for-baby-boomer-couples-synchronize-or-stagger-is-the-new-retirement-dilemma)

Aaron Hector, a vice president with Calgary-based Doherty & Bryant Financial Strategists, notes there are no contributions on earnings in excess of YMPE, so big earners would be replacing less than 25 per cent (or ultimately 33 per cent) of their pre-retirement income.

The full enhancement won’t occur until 2065, so the impact is most dramatic for young people starting their careers. But CPP is still less generous than Social Security in the United States, which replaces roughly 40 per cent of income for the average American, with contributions on earned income up to US$132,900. Employee contribution rates of 6.2 per cent are also higher than Canada’s previous 4.95 per cent rate. The enhanced CPP only starts to bridge this gap, Hector says.

The need for a heftier CPP is also evident given the decline of employer-sponsored Defined Benefit pension plans. Outside the public sector, it’s increasingly rare to receive such inflation-indexed guaranteed-for-life pensions. An enhanced CPP that insulates members from stock market volatility should be a boon.

All this comes at the price of higher payroll taxes. Employers and employees already feel the pinch with higher premiums that kicked in this month (January). In 2018, employees contributed 4.95 per cent of earnings up to the YMPE, and employers matched that for a total 9.9 per cent. Contribution rates gradually rise to 5.95 per cent by 2023, or 11.9 per cent combined. These rates apply to all pensionable earnings above the year’s basic exemption of $3,500. The self-employed still have to pay the combined rate.

While the full payout is 45 years away, benefits start edging up this year. Until now, the maximum CPP benefit at the traditional retirement age of 65 was $1,154.58, Runchey says, assuming earnings at or beyond the YMPE. The maximum benefit will be $1,207.83 in 2026, and eventually reach $1,753.78 by 2065. That’s a whopping $21,045 a year.

Still, Runchey says, “if you’re thinking of applying for your CPP earlier than 2025, the enhanced CPP will be of little value for you.” That said, for each year of pensionable earnings after 2024, maximum CPP payouts will be roughly 1.3 per cent more than under the previous rules.

Ottawa announced several tweaks late in 2017 affecting drop-out years for child rearing, and CPP disability. Those with low or no earnings because of child rearing (to age 7) can use earnings based on averages for five years prior to the child’s birth. And those eligible for CPP disability can use earnings based on 70 per cent of average earnings for the six years prior to the onset of a disability.

Retired actuary Malcolm Hamilton say the enhanced CPP will be better funded than basic CPP, which means lower contributions per $1 of pension, but entails higher investment risk. “Those who enter the expanded CPP on day 1 get a better deal than those who enter in the future, as is often the case with DB pension plans,” Hamilton says, “They will contribute less than they should and bear less risk than future generations of participants. However, they won’t get the absurd windfalls offered to those who entered the original CPP in 1966.”

Hamilton agrees the expanded CPP will especially benefit those lacking DB pensions: “They won’t need to worry about high fees and difficult investment decisions. They will receive larger pensions for life, which will diminish their exposure to longevity risk.”

But the expansion is a mixed blessing for employers, he cautions: “Private-sector employers will probably pay lower wages, but given the small contribution rate and lengthy phase-in period, this won’t be noticeable. Public-sector employers will probably not reduce wages, choosing instead to punt the added cost to taxpayers, as is their practice.”

The phase-in occurs in two steps. The first, between 2019 and 2023, sees a rise in contribution rates. The second, in 2024 and 2025, addresses higher earnings ceilings. The second ceiling will be created in 2024 and will be 7 per cent in excess of the regular YMPE, Hector says. Then in 2025, the second ceiling will rise another 7 per cent to a total 14 per cent: with contributions split evenly between employees and employers.

CPP enhancement may magnify the impact of perennial decisions like taking CPP early at 60 or delaying till 70 for higher payouts. Higher CPP income may impact Old Age Security (OAS) clawback zones and pension income splitting. Matthew Ardrey, wealth advisor with Toronto-based TriDelta Financial, says low-income persons obliged to contribute to the enhanced CPP will have less take-home pay, while in retirement, larger CPP benefits could reduce what they receive from the Guaranteed Income Supplement (GIS). GIS is tax-free while CPP is taxable so Ardrey observes low-income people could be worse off both at the contribution and the receiving end of the enhanced CPP.

Even so, the combination of an enhanced CPP and the decade-old Tax-free Savings Accounts (TFSAs) is something most Boomers wish they had when they were young.

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