
NEWS RELEASE

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Ministry of Finance

Modest enhancement of Canada Pension Plan sustains future retirement income

VANCOUVER – Finance ministers reached consensus on an agreement-in-principle to recommend a modest and balanced incremental enhancement to the Canada Pension Plan, starting in 2019 and phased in over seven years until 2025, B.C. Finance Minister Michael de Jong announced today.

The proposed enhancement will now be considered by the respective jurisdictions and, if approved, formalized within the coming weeks.

“Like most jurisdictions, B.C. has consistently said we are open to a modest expansion of CPP when economic conditions permit,” de Jong said. “While economies across Canada continue to face challenges from the global economic downturn, this proposal appears to be affordable and appropriate, as the modest increases in contribution rates will be phased in over seven years starting in 2019.”

Under the agreement-in-principle, starting in 2019 CPP contributions for a typical worker earning the average Canadian wage of approximately \$55,000 would initially increase by an additional \$7 per month, and thereafter according to the following schedule. Employers would match these contributions. This individual’s maximum annual benefits under the CPP would increase by about one-third, to \$17,478 from \$13,110 (2016 dollars).

“This is a reasonable and appropriate change that balances improving the retirement income security of Canadian workers in the future with the need to recognize the additional cost to workers and employers,” de Jong said.

Learn more:

An example of how the incremental enhancement would impact the take-home pay of an individual earning \$54,900 per year is outlined here:

https://news.gov.bc.ca/files/BG_CPP_Example.pdf

Media Contact:

Jamie Edwardson
Communications Director
Ministry of Finance
250 888-0021

BACKGROUND

Modest enhancement of Canada Pension Plan sustains future retirement income

Example of the impact of a CPP expansion on the monthly take-home pay of an individual earning \$54,900 per year.

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
Wage Earnings (\$/month)	4,575	4,575	4,575	4,575	4,575	4,575	4,575	4,575
Deductions								
EI Premiums	86	86	86	86	86	86	86	86
Current CPP Contributions	212	212	212	212	212	212	212	212
Income Taxes	<u>691</u>	<u>691</u>	<u>691</u>	<u>691</u>	<u>691</u>	<u>691</u>	<u>691</u>	<u>691</u>
Take Home Pay	3,586	3,586	3,586	3,586	3,586	3,586	3,586	3,586
CPP enhancement								
Additional Contributions	0	9	17	26	34	43	43	43
Income Taxes Adjustment	0	<u>-2</u>	<u>-4</u>	<u>-5</u>	<u>-7</u>	<u>-9</u>	<u>-9</u>	<u>-9</u>
CPP2 after-tax Contribution		<u>7</u>	<u>14</u>	<u>20</u>	<u>27</u>	<u>34</u>	<u>34</u>	<u>34</u>
Take Home Pay	3,586	3,580	3,573	3,566	3,559	3,553	3,553	3,553
Change between years		-7	-7	-7	-7	-7	0	0

*Estimates relating to the CPP enhancement are subject to change based on possible changes to the tax treatment of the additional contributions and decisions regarding the year-to-year phase-in.

- In this hypothetical example, the monthly after-tax take home pay of the individual would be reduced by just under \$7 in each of the five years of the implementation of the increase in the replacement rate. Since the earner is not earning more than the year's maximum pensionable earnings (YMPE), he/she is not affected by the YMPE increase in years 6 and 7.
- After the CPP2 is fully implemented, the individual in the example would be making a net after-tax contribution of \$34 per month towards his/her pension (about a dollar a day). The monthly benefit accruing to the individual in this example from these additional contributions would be \$364.
- Employers would make the same additional CPP contribution as employees.
- In today's dollars, 40 years of additional employee contributions would total about \$16,320. If the individual retired at 65 and lived to be 85 (20 years of benefits), he/she would receive a total of about \$87,360 in benefits.
- Note that there is a strong likelihood that take-home pay would not actually decline, since average wages in Canada have increased every year over the past decade including during the recession. The after-tax employee contributions in respect of CPP enhancement would be reduced as well, should the federal government change the tax status of employee contributions for CPP2 to a tax deduction, rather than a tax credit.

- It also should be noted that the federal government has indicated that it plans to reduce EI premiums.

Media Contact:
Jamie Edwardson
Communications Director
Ministry of Finance
250 356-2821

FINANCE MINISTERS' MEETING RÉUNION DES MINISTRES DES FINANCES



June 20, 2016
Vancouver

Canada's Ministers of Finance agree in principle to a Canada Pension Plan (CPP) enhancement with the following design features:

- The income replacement level will be increased to one third of income.
- The upper earnings limit will be targeted at \$82,700 upon full implementation in 2025.
- There will be a gradual 7-year phase-in beginning on January 1, 2019 consisting of:
 - A 5-year contribution rate phase-in below the Yearly Maximum Pensionable Earnings (YMPE), followed by
 - A 2-year phase-in of the upper earnings limit.
- An increase to the Working Income Tax Benefit (WITB) to help low-income earners.
- Tax deductibility for the enhanced portion of employee CPP contributions.

Signed by Plan Stewards:

Cathy Bennett
Newfoundland and Labrador

Allen Roach
Prince Edward Island

Randy Delorey
Nova Scotia

Cathy Rogers
New Brunswick

Charles Sousa
Ontario

Kevin Doherty
Saskatchewan

Joe Ceci
Alberta

Michael de Jong
British Columbia

Bill Morneau
Canada

FINANCE MINISTERS' MEETING RÉUNION DES MINISTRES DES FINANCES



June 20, 2016
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The government of Quebec did express its support for a modest, targeted and gradual enhancement of the Canada Pension Plan.

In regards to this, Quebec presented an enhancement proposal for the CPP that protects the buying power of low income households, contributes the revenue growth of retired workers who are facing insufficient savings, while favouring voluntary savings, especially with the Voluntary Retirement Savings Plans.

Looking forward, the government of Quebec intends to submit its proposal to its citizens during its consultations on the Quebec Pension Plan.

Carlos Leitão

Québec

CPP ENHANCEMENT AGREEMENT

KEY MESSAGES – MINISTRY OF FINANCE

June 21, 2016

- Finance ministers reached consensus on an agreement-in-principle to recommend a modest and balanced incremental enhancement to the Canada Pension Plan, starting in 2019 and phased in over seven years until 2025.
- Like most jurisdictions, B.C. has consistently said we are open to a modest expansion of CPP when economic conditions permit.
- While economies across Canada continue to face challenges from the global economic downturn, this proposal appears to be affordable and appropriate, as the modest increases in contribution rates will be phased in over seven years starting in 2019.
- Starting in 2019 CPP contributions for a typical B.C. worker earning the average Canadian wage of approximately \$55,000 would initially increase by an additional \$7 per month, rising to an additional \$34 per month in 2025.
- This is a reasonable and appropriate change that balances improving the retirement income security of Canadian workers in the future with the need to recognize the additional cost to workers and employers.
- We have also worked to make Pooled Registered Pension Plans available to workers and businesses in British Columbia. This represents a further tool to support the retirement income of British Columbians and help address the ongoing concern of under-saving among a portion of the workforce.
- All governments reviewed a range of proposals -- ^{s.16}

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The agreement reached by finance ministers is a compromise that phases in the cost of the changes in a way that helps employees and employers, while also helping make retirement income more secure for the next generation of Canadian workers.

- Provincial governments will now review the proposed enhancement and discuss the changes with interested business and labour organizations.

BACKGROUND

Under the agreement-in-principle, starting in 2019 CPP contributions for a typical worker earning the average Canadian wage of approximately \$55,000 would initially increase by an additional \$7 per month, and thereafter according to the following schedule. Employers would match these contributions. This individual's maximum annual benefits under the CPP would increase by about one-third, to \$17,478 from \$13,110 (2016 dollars).