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# TD Economics

**Data Release: Canadian Finance Ministers unveil significant changes to the CPP**

- Last night, the Federal Finance Minister and eight of his ten provincial counterparts reached an agreement in principle to enhance the Canada Pension Plan. Only Quebec and Manitoba did not agree to the changes.
- Quebec expressed concerns around the premium levied on lower income workers, and would like to see the basic income exemption increased. The Quebec government intends to submit its proposal during its consultations on the Quebec Pension Plan (QPP). Manitoban officials will speak today on their reasons for not signing, with reports indicating that the newly-elected government wants more time to analyze the changes.
- Yearly maximum pensionable earnings will reach approximately $82,700, up from $54,900 this year, and an increase of roughly 18-20% over what the 2025 maximum is likely to be absent the enhancement. The basic exemption appears likely to remain at $3,500.
- The new plan would replace one third of annual earnings, up to the maximum, whereas in its current form, the CPP replaces one quarter of earnings.
- Reports suggest that, once fully phased in, CPP premiums would rise by 1 per cent for both employers and employees. The current employee and employer contribution rate is 4.95%.
- A commitment has also been made to increase the Working Income Tax Benefit for low-income earners, but details are not currently available.
- The proposed changes would begin in January, 2019, with a seven year phase-in period
- For Ontario, should the CPP enhancements be agreed upon among the provinces by July 15, 2016, the proposed Ontario Retirement Pension Plan (ORPP) would be dropped.
- Implementing the change requires that two-thirds of the provinces, representing two-thirds of the population, agree. Given the signatories to the agreement in principle, the proposed changes appear likely to become law.

**Key Implications**

- After many years of discussions and a raft of proposals, it appears that the first major change to the structure of Canada Pension Plan since its establishment in 1965 is now upon us. While full details are not yet available, the proposed changes represent a significant, guaranteed enhancement to most Canadians' retirement incomes.
- A number of studies have identified a savings gap among middle-income Canadians, which these changes should help reduce. However, the increase in contribution rates will impact Canadians across the income spectrum. For those earning below the current income cap, increased contribution rates will result in higher deductions (and lower take-home pay), although changes to the Working Income Tax Benefit may help mitigate the impact.
- Both employees and employers will pay higher premiums to support the higher income replacement rate. For example, a worker making $90K per year in 2016 will pay roughly 4.2% of their gross earnings into CPP by 2025, a 47% increase over the 2.8% they will pay this year, with

an equivalent increase in costs to employers. (For employees, the tax deductibility of enhanced contributions will reduce the impact somewhat).

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