

CPP – Canada Pension Plan

Public pensions for retired & disabled workers

The CPP is a social insurance plan providing income replacement to contributors and their families in the event of retirement, disability or death. It is government-run, but funded by mandatory employee and employer premiums. Premiums are invested by *CPP Investments*, a body independent of government politics or CPP administration.

While CPP is the largest long-term disability plan in Canada, serving both contributors and dependents, the largest component of CPP payments is the retirement pension.

Guiding principles

Historically, CPP was designed to replace 1/4 of a worker's average earnings, up to a dollar ceiling equal to the average national wage. An enhancement added in 2019 raises premium rates through 2023 and the dollar ceiling in 2024 and 2025, which together will move the replacement target to 1/3 once fully implemented.

Premium payments

Employers must withhold employee premiums in their payroll process. The employer adds an equal amount as its own premium, and remits the total to the Canada Revenue Agency. Employees are entitled to a tax credit for premiums when filing their annual tax return, whereas employers claim a deduction for their premiums. Self-employed individuals must pay both the employee and employer portions.

For 2022, the employee rate is 5.70%, to a max of \$3,500 at the \$64,900 ceiling. Income under \$3,500 is exempt. The ceiling is indexed annually, and the rate rises in annual increments to 5.95% by 2023.

The connection between premiums paid and your potential retirement pension

Contributors earn credits for premiums paid during working years, from age 18 until the age when the pension begins. In concept, credits are spread across the number of working years to arrive at an average. In practice, there are adjustments for presumed and actual absences from work, mainly:

General dropout

Takes out up to eight years, to acknowledge schooling, unemployment or other reasons

Child rearing provision

For actual time away from the workforce spent caring for children up to age 7

Disability exclusion

Periods during which a person is disabled, per CPP definitions

Over-65 dropout

May replace relatively low earnings before age 65 with higher earnings after age 65

Your actual retirement pension depends on the age when you begin

For 2022, the maximum annual pension is \$15,043 at age 65. Age 65 is what CPP considers to be the standard age, but it's not a legal requirement. A retirement pension may begin as early as age 60 or as late as age 70:

- The pension is reduced 0.6% for every month taken before age 65, which is a 36% reduction at age 60
- The pension is increased 0.7% for every month taken after age 65, which is a 42% increase at age 70

Complementary components of the CPP, outside of the core retirement pension

Disability pension

Unable to work at any job on a regular basis due to severe & prolonged disability

Survivor's pension

Spouse or common-law partner of a deceased CPP contributor

Children's benefit

Dependent of a disabled/deceased contributor, to age 18, or age 25 if full-time student

Post-retirement benefit

Augments pension of CPP retiree who continues to work and pay premiums

Post-retirement disability benefit

When a disability arises after starting retirement pension

Death benefit

A one-time \$2,500 payment to the estate or dependent of a deceased CPP contributor

For more information, please consult your financial advisor and tax professional.

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