Client Advisory

Second phase of CPP and QPP enhancement begins in 2024

January 22, 2024

Summary

This Advisory sets out the details of the next phase of the enhancements to the CPP and QPP that are being implemented in 2024. This phase increases, over two years, the maximum earnings on which the CPP or QPP benefit is based. Plan sponsors should review their pension plans to determine whether to amend their plan to account for these additional enhancements. They should also consider communicating with employees regarding the changes in benefits and contributions under this new phase.

The second phase of the enhanced Canada Pension Plan (CPP) and Québec Pension Plan (QPP) begins in 2024. In this phase, the maximum earnings used for determining the CPP and QPP benefits and contributions will increase over two years. Pension plan sponsors, who have not already done so, should review their plans to determine if they should be amended to account for earnings increases and for earlier CPP and QPP enhancements. While all plan sponsors should review their plans, sponsors whose plans either integrate or offset CPP and QPP benefits in their benefit formulas should especially consider the effect of the enhancements.

CPP and QPP enhancements

Effective January 1, 2019, both the CPP and QPP were amended to provide enhanced benefits and to increase employee and employer contributions. These enhancements occur incrementally and apply to benefits earned in years after the enhancements come into effect. The full impact of the enhancements will not occur until 40 years after the enhancements are fully implemented in 2025.

The enhancements are being implemented in two phases. During the first phase, from 2019 to 2023, the percentage used to calculate benefits for earnings up to the YMPE increased in stages over that period: from 25% of pensionable earnings to 33.33%. Employer and employee contributions also increased incrementally in that period: from 4.95% to 5.95% for the CPP and from 5.4% to 6.4% for the QPP.

The second phase of enhancements began on January 1, 2024. During this phase, the maximum income on which CPP and QPP benefits and contributions are based will be increased:

- In 2024, to 7% higher than YMPE ($73,200, based on YMPE of $68,500)
- In 2025, to 14% higher than YMPE for 2025 (projected to be $81,100, based on projected YMPE of $71,200)

The new tier of earnings above the YMPE is called the Year's Additional Maximum Pensionable Earnings (YAMPE). After 2025, the YAMPE will increase in line with the increase in the average wage, the same rate of increase that applies to the YMPE.

Employer and employee contributions, for both the CPP and QPP, will be 4% of pensionable earnings over the YMPE up to the YAMPE. Therefore, for employees earning more than the YMPE, employer and employee contributions will each be the total of 5.95% (CPP) or 6.4% (QPP) of earnings up to YMPE, and 4% of earnings above YMPE up to YAMPE.

The tax treatment of employee contributions has also changed. Employees can continue to claim a 15% non-refundable tax credit for contributions relating to the pre-enhanced CPP or QPP (i.e., 4.95% (CPP) or 5.4% (QPP) up to YMPE). However, employees can claim a tax *deduction* for contributions relating to the enhanced CPP or QPP (i.e., for the additional 1% contribution up to YMPE and the 4% contribution between YMPE and YAMPE).

Related tax changes

The federal government has proposed changes to the regulations under the federal *Income Tax Act* that govern permitted benefits under a registered pension plan. These amendments, effective retroactively to January 1, 2024, will increase the maximum bridge limits to account for the enhanced C/QPP benefits. As of the date of publication of this Advisory, the amendments were still draft and final versions had not yet been released or adopted.

Next steps for employers and retirement plan sponsors

Employers should consider communicating the changes with respect to the new phase of CPP and QPP to their employees, including the fact that this will increase both employer and employee contributions and the tax treatment of the additional contributions.

As well, employers and plan sponsors should, if they have not already done so, review their pension plans in consideration of the impact of the C/QPP enhancement. Some plans may require amendments to clarify the impact of the enhanced C/QPP on plan benefits and/or contributions. Updates may also be required to revise YMPE references to the YAMPE and to reflect the change to the maximum bridge limits, as applicable.

For more information

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