October 2, 2019

Public Service Superannuation Plan Trustee Inc.

DISCUSSION PAPER

Canada Pension Plan (CPP) Changes and the Public Service Superannuation Plan (PSSP)

Between 2019 and 2025, the CPP will gradually be adjusted. (That process began on January 1, 2019 with a small increase to the amount you contribute to the CPP and a small increase in the benefit you earn.) The changes to the CPP mean that you will receive higher CPP benefits in retirement in exchange for making higher CPP contributions during your working lifetime. The changes have no impact on CPP benefits earned prior to January 1, 2019.

The federal government is <u>changing the CPP to assist Canadians who are not saving enough for retirement.</u> The government estimates currently 1.1 million families approaching retirement are not saving enough for retirement. These families are primarily <u>middle-class Canadians without workplace pension plans</u>.[1]

<u>The Current Situation</u>

As with many pension plans in the country, the PSSP is designed to work with the CPP to provide an adequate retirement income. The PSSP is **<u>integrated with</u>** the CPP to provide, roughly, a combined annual retirement pension of 2% of your earnings for each year of employment (to a maximum of 70% of earnings). You pay into <u>both</u> the PSSP and the CPP, and receive a benefit from <u>both</u> the PSSP and the CPP.

What You Pay Now –

In 2018, the maximum salary on which you had to make **CPP contributions** was $55,900 – the 'Year's Maximum Pensionable Earnings', or 'YMPE'. In 2018 you paid CPP contributions of 4.64% of your gross salary up to the YMPE. (After full implementation, there will be a new concept under the CPP – the 'Year's <u>Additional</u> Maximum Pensionable Earnings', or 'YAMPE'. You will pay additional CPP contributions, and accrue additional CPP benefits, on the amount of your salary between the YMPE and the YAMPE. If the YAMPE were in play in 2018, it would be $63,726.)

You make lower **PSSP contributions** on the portion of your salary on which you make CPP contributions. The PSSP contribution rates are 8.4% at or below the YMPE, and 10.9% above the YMPE.

So in 2018 your **total pension contributions** were 13.04% on the portion of your salary at or below the YMPE, and 10.9% on the portion of your salary above the YMPE.

What You Get Now –

Because the PSSP and the CPP are integrated, **your ultimate pension will have an amount from the PSSP and an amount from the CPP**. Your pension is based on your highest 5-years' average annual salary (HAS), with that average

---

[1] Department of Finance Canada, *Backgrounder: Canada Pension Plan (CPP) Enhancement*, https://www.fin.gc.ca/n16/data/16-113_3-eng.asp - "Middle class Canadians are working harder than ever, and many are worried that they won't have set enough money aside for their retirement. Young Canadians in particular are facing the challenge of securing adequate retirement savings at a time when fewer can expect to work in jobs that will include a workplace pension plan… Families are considered to be at risk of under-saving for retirement if their projected after-tax income at retirement does not replace 60 per cent of their pre-retirement after-tax family income… Middle class families without workplace pension plans are at a greater risk of under-saving for retirement. It is estimated that 33 per cent of families nearing retirement age who have no workplace pension plan assets may be at risk of under-saving for retirement, compared to 17 per cent of families who have workplace pension plan assets… Overall, families in the lowest income group were found to have the lowest risk of under-saving, as OAS and CPP benefits provide relatively high income replacement at this income range." (pp. 3-4)

salary figure multiplied by a percentage. The percentage is determined by multiplying your total years of pensionable service (to a maximum of 35 years) by 2%. So your maximum pension is 70% of your HAS.

Breaking down that 2%, 1.3% comes from the PSSP and approximately 0.7% from the CPP – for the part of your HAS below the YMPE. (Note that the precise CPP amount will ultimately depend on your own CPP contribution history.) For that part of your HAS above the YMPE, you receive 2% from the PSSP and 0% from the CPP.

Because the CPP does not pay an unreduced pension until you are 65 years old, the PSSP provides a **bridge amount** over and above your PSSP pension amount if you retire before age 65. On turning 65, the bridge payment from the PSSP stops.

The Options Under Discussion

The PSSP Trustee is currently discussing what modifications to the PSSP, if any, should be undertaken in response to the CPP changes occurring between 2019 and 2025.

OPTION 1

If the PSSP Trustee does not modify the PSSP, the CPP changes will result in increasing costs for employees and employers, and higher CPP retirement benefits for employees. The bridge benefit provided by the PSSP would continue to be based on the pre-2019 formula. **ADDITIONAL COSTS; ADDITIONAL BENEFITS**

OPTION 2

The other option is to modify the PSSP so as to maintain the current combined level of retirement saving through the PSSP and CPP, at approximately the same overall cost to employees and employers as existed before the CPP changes. **NO ADDITIONAL COSTS; NO ADDITIONAL BENEFITS**

It is important for anyone assessing their personal opinion about these options to keep in mind that the full impact of the CPP changes will gradually accrue, with the revised formula itself not even completely implemented until 2025. Therefore, anyone now receiving CPP will not be affected and anyone near retirement will be minimally affected. One would have to contribute for approximately 35 years from 2025 in order to ultimately receive the full benefit of these CPP changes. So, it will take about a generation to see the impact of the CPP changes in totality. Someone commencing employment in 2025 who earns the YAMPE salary level would be expected to retire around 2060 with a CPP pension of approximately 33% of the YAMPE (compared to 25% of the YMPE under the pre-2019 CPP rules). The increased retirement benefit resulting from the CPP changes over the course of an individual's working life, together with matching employer contributions, would finance this higher CPP retirement benefit.

October 2, 2019

COMPARISON TABLE ASSUMING FULL IMPLEMENTATION OF CPP CHANGES (all in 2018 dollars)												
Earnings	Approximate additional annual CPP contribution required to be paid each year by **employee**	Approximate additional annual CPP contribution required to be paid each year by **employer**	Approximate additional annual CPP retirement benefit received at age 65 per year of pensionable service	Assuming 5 Years of Pensionable Service After Full Implementation of CPP Changes			Assuming 20 Years of Pensionable Service After Full Implementation of CPP Changes			Assuming 35 Years of Pensionable Service After Full Implementation of CPP Changes		
				Approximate additional lifetime contribution required to be paid by **employee**	Approximate additional lifetime contribution required to be paid by **employer**	Approximate additional annual lifetime CPP retirement benefit received at age 65	Approximate additional lifetime contribution required to be paid by **employee**	Approximate additional lifetime contribution required to be paid by **employer**	Approximate additional annual lifetime CPP retirement benefit received at age 65	Approximate additional lifetime contribution required to be paid by **employee**	Approximate additional lifetime contribution required to be paid by **employer**	Approximate additional annual lifetime CPP retirement benefit received at age 65
$40,000	$365	$365	$91	$1,825	$1,825	$455	$7,300	$7,300	$1,820	$12,775	$12,775	$3,185
$55,900 (YMPE)	$525	$525	$125	$2,625	$2,625	$625	$10,500	$10,500	$2,500	$18,375	$18,375	$4,355
$63,726 (YAMPE) or higher	$838	$838	$196	$4,190	$4,190	$980	$16,760	$16,760	$3,920	$29,330	$29,330	$6,870

NOTE 1: The maximum CPP benefit in 2018 was $13,610.

NOTE 2: Each individual's situation is unique and CPP benefits will ultimately be determined by the amount contributed and the period over which the contributions were made. The figures included in this document are approximate and for illustrative purposes only.