

TO: All Employees

FROM: Finance – Payroll and Benefits

DATE: November 22, 2018

RE: NEW Enhancement to Canada Pension Plan (CPP) Contributions

The first phase of the new legislative changes to the CPP Enhancement will be in effect as of January 1, 2019. These changes will gradually be implemented over a seven-year period from 2019 through 2025.

Phase 1 includes changes from 2019 – 2023 and Phase 2 will see the implementation of the new **Upper Earnings Limit (Enhanced Earnings)** from 2024-2025.

Understanding how current deductions work:

Currently, statutory CPP deductions are based on a 4.95% contribution rate. The YMPE (Yearly Maximum Pensionable Earnings) for 2018 is \$55,900 and individuals are entitled to a \$3,500 exemption.

To calculate an employee's Maximum Annual Contribution:

We take the YMPE - \$3,500 * 4.95% = \$2,593.80

\$2,593.80 is the maximum amount an employee would contribute in 2018.

After you have contributed the maximum amount within the calendar year, you are then on a 'contribution holiday' which means you do not have to contribute any further money to the CPP for the remainder of the year.

How the upcoming changes will impact you (Phase 1):

As of January 1, 2019 the contribution rate will increase to 5.10% and the YMPE will be \$57,400.

Using the calculation above, the maximum you will contribute to the CPP for 2019 will be \$2,748.90.

The chart below, illustrates the changes to the CPP Pensionable Earnings and Contributions over the seven year period, including the new Upper Earnings Limit (or 'Enhanced' Earnings) being implemented in 2024 (Phase 2):

<u>Year</u>	<u>Projected* YMPE</u>	<u>Projected* Upper Earnings</u>	<u>Contribution Rate on YMPE</u>	Contribution Rate on Upper ('Enhanced') Earnings
2018	\$55,900	N/A	4.95%	N/A
2019	\$57,400	N/A	5.10%	N/A
2020	\$59,000	N/A	5.25%	N/A
2021	\$60,800	N/A	5.45%	N/A
2022	\$62,600	N/A	5.70%	N/A
2023	\$64,600	N/A	5.95%	N/A
2024	\$66,600	\$72,400	5.95%	4%
2025	\$68,600	\$79,400	5.95%	4%

**Projected earnings are estimates and subject to change*

How the upcoming changes will impact you (Phase 2):

As of January 1, 2024 we will have reached a full year at the maximum contribution rate of 5.95% and an Upper Earnings Limit will be introduced.

What this means to you: Once you have reached the maximum annual contribution in 2024, there will be an additional 4% deducted on the difference between the YMPE and the Upper Earnings Limit. After you have reached the Upper Earnings Limit, you are then on a 'Contribution Holiday' for the remainder of the year.

For example:

In 2024, a bi-weekly employee with annual pensionable earnings of \$78,000 may max out around pay period 19 out of 26 pays in the year and normally enjoy a contribution holiday for the remaining pays in the year. With the upper earnings limit in place, the employee will continue to pay 4% on earnings between \$66,600 (projected YMPE based on chart) and \$72,400 (projected Upper Earnings based on chart). After the employee has reached \$72,400 they would then be on a contribution holiday to the end of the year.

How the upcoming changes will impact King's:

All employee contributions in Phase 1 and 2 will be matched by King's employer contributions.

It is estimated that by 2025 when both phases have been implemented, King's contributions will be approximately \$400,000 higher than they are today.

Should you have any questions about this upcoming change please contact the Payroll Department.

Finance Department
King's University College