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Final Phase of 2016 CPP Enhancements Takes Effect January 1, 2024

Date: December 15, 2023

Starting in 2024, mandatory contributions to the Canada Pension Plan (CPP) will increase with the introduction of additional CPP contributions up to a second earnings ceiling.

The increase comes as part of the final phase of enhancements to the CPP that was introduced in 2016 through the federal Bill C-26, *An Act to amend the Canada Pension Plan, the Canada Pension Plan Investment Board Act and the Income Tax Act.* The first phase of CPP enhancements was rolled out over five years from 2019 to 2023 through the introduction of higher benefit rates and increased contribution rates.

Additional CPP Contributions

Beginning January 1, 2024, in addition to the regular CPP contributions on pensionable earnings up to the Year's Maximum Pensionable Earnings (YMPE), employers and employees will each be required to contribute 4% on pensionable earnings above the YMPE, if any, up to the new Year's Additional Maximum Pensionable Earnings (YAMPE).

In 2024, the YMPE will be $68,500 and the YAMPE will be $73,200.

The YAMPE is set at approximately 7% above the YMPE in 2024. It will increase to approximately 14% above the YMPE in 2025 and following years.

Unlike the base CPP, the enhanced CPP is required to be fully funded. Therefore, contributions made in respect of base and enhanced CPP benefits will be tracked separately and the funded status of the respective base CPP and additional CPP accounts will be managed independently.

As with additional contributions up to the YMPE introduced through the first phase of the CPP enhancement, employee contributions payable on income between the YMPE and YAMPE will qualify for a tax deduction.

Employer Obligations

All Canadian employers and payroll service providers will be required to revise their approach to making CPP deductions and contributions to give effect to the new enhancements. In addition to base CPP contributions, starting in 2024 employers will be required to make the additional CPP contribution deductions on any employee incomes that exceed the YMPE up to the YAMPE.

In most cases, the employer's payroll services provider will apply deductions in respect of additional CPP in the same manner as it applies base CPP and other payroll tax deductions.

Impact on Employer-Sponsored Registered Pension Plans

The introduction of the additional CPP contributions will not affect the administration of most registered pension plans.

However, pension plans that are integrated with the CPP should be reviewed in consideration of the impact of the enhanced CPP on their contribution and/or benefit formulas. Depending on the outcome of such reviews, in some cases plan text

references to the CPP and/or the YMPE may need to be amended to clarify the impact of the enhanced CPP and/or YAMPE.

If you have any questions regarding the implementation of the additional CPP contributions or the impact of the enhanced CPP on your existing pension plans, please contact a member of the firm's Pension, Benefits and Executive Compensation practice group.