

CASE IN POINT

Sales Tax Estate Planning Underwriting & Product Newsletter

Will CPP enhancements reduce the need for long-term savings in RRSPs and TFSAs?



The federal government created much fanfare in announcing enhancements to the Canada Pension Plan (CPP).

Contributions and benefits under CPP are increasing, effective January 1, 2019. Income replacement under CPP will be increased from 1/4 to 1/3 of pensionable earnings, to a defined maximum. What does that mean?

Canadians who have earned an average of \$50,000 per year in today's dollars over their working lifetime of about 40 years receive about \$13,854 per year in CPP benefits (2019) under the old CPP scheme. The Maximum Pensionable Earnings that limit how much Canadians must contribute to CPP is \$57,400 (2019). The payout at age 65 is 1/4 of the Maximum Pensionable Earnings. The CPP enhancements will bump that up.

The current maximum annual retirement pension of \$13,854 would be worth approximately \$21,122 in 2019 dollars by the time the CPP enhancement process reaches full fruition. That amounts to an increase of \$7,268 per year. This increase reflects the long-term goal to replace 1/3 of the maximum pensionable earnings which itself will be increased to \$79,400 (2025). More of your earned income will be subject to mandatory contributions and your benefits will increase based on the higher cap. The amount of your CPP benefits goes up if the cost of living goes up. Monthly benefits are adjusted every year in January based on the Consumer Price Index. Sounds good?



Peter A. Wouters,
Director, Tax
Retirement &
Estate Planning
Services, Wealth

Peter works with independent advisors and other professionals raising awareness on issues and concerns faced by affluent individuals, professionals and business owners. He supports efforts in researching and developing optimal solutions for clients aimed at improving their financial well-being and supporting their personal wishes and lifestyles. He annually provides 100's of workshops, seminars and technical support throughout the country on tax, retirement income and estate planning issues, concepts and strategies to both advisors and consumers. As an accredited Registered Financial Gerontologist, a good deal of his time is spent on building awareness and educating people of all professions who work with or specialize in the needs, expectations and issues of elders. Comprehensive lifestyle planning is an important element of these processes.

The Sales, Tax, Estate Planning, Underwriting & Product (STEPUP) team provides internal and broker support, including seminars, education, advanced concept illustrations & Client case technical consultations.

Peter can be reached at
peter.wouters@empire.ca

The reality is that older Canadians today will experience little benefit from the CPP enhancements.

Canadians who only work in Quebec are not affected by the enhancement. They contribute to the Quebec Pension Plan (QPP). The reality for older Canadians in the rest of the country today is that they will experience little benefit from the CPP enhancement. The enhanced benefits fully mature in 2070. Very few of our older Canadians will live that long. What's more, the higher payouts may reduce the amount of Guaranteed Income Supplement payments lower income Canadians will receive. It's important to note that although the maximum amount of CPP payments is \$1,154.58 per month (Oct 2019), the average monthly benefit is only \$664.41 (for new beneficiaries as of Oct. 2018)¹ That's not a lot of money.

[Check here for how much you could receive.](#)

Consequently, they need to save as much as possible to replace at least their spendable cash flow while working through the various phases of what we still call retirement. Projections from a report² published by the Canadian Institute of Actuaries in 2018 show that almost a quarter of Canadians won't be able to maintain their standard

of living through retirement. Canadians who do not participate in an employer – sponsored pension plan, most because no plan is available, may fare worse. More than a third of these people will not be able to maintain their standard of living through retirement.³

The average monthly CPP benefit is only \$664.41 for new beneficiaries as of Oct. 2018.

There is still a strong need coupled with healthy incentives to save for your own financial independence. Capitalize on the benefits that a registered retirement savings plan (RRSP) has and take every opportunity to maximize the use of a tax free savings account (TFSA). One may be a better vehicle than the other depending on your tax bracket now compared to what it might be in retirement. For those that could do both, get started now on building your own long-term nest egg.

Sit down with a financial advisor and develop a written plan that works for you now and will help you live out your dreams and expectations of financial independence.



Related articles

[Canada Pension Plan Enhancement](#)

Remember to click on highlighted text for links to related articles

¹ Government of Canada/Services Canada 2018-12-28

² New CPP Enhancements: What they mean for Canadian workers and seniors? June 2018

³ IBID

©2018 by Peter A Wouters

This information is for general information purposes only and is not to be construed as providing legal, tax, financial or professional advice. Empire Life Investments Inc. and its affiliates assume no responsibility for any reliance on or misuse or omissions of the information contained herein. Information obtained from and based on third party sources are believed to be reliable, but accuracy cannot be guaranteed. Please seek professional advice before making any decisions.

Empire Life Investments Inc., a wholly owned-subsiary of The Empire Life Insurance Company, is the Manager of Empire Life Mutual Funds and the Portfolio Manager of Empire Life Segregated Funds. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund and segregated fund investments. **Any amount that is allocated to a Segregated Fund is invested at the risk of the contract owner and may increase or decrease in value.** A description of the key features of the individual variable insurance contract is contained in the Information Folder for the product being considered. Segregated Fund policies are issued by The Empire Life Insurance Company.

® Registered trademark of **The Empire Life Insurance Company**. Empire Life Investments Inc. is a licensed user of this trademark.