FIRST CAPITAL FINANCIAL

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Sponsoring Mutual Fund Dealer

Good news -Canada Pension Plan (CPP) is being enhanced. Bad news -it's going to cost us all more. As the article <here> in the Globe & Mail explains, the contribution rate for both employees and employers goes to 5.45% from 5.25%, while the yearly maximum pensionable earnings (YMPE) is being increased from $58,700 to $61,600. So a higher percentage on income and on higher income amounts. The editorial position of the article is that this is a good thing, because Canadians look to CPP to provide a reliable base of retirement income. Holding premiums level now is thought to have negative impacts later on on benefits.

"Years ago, there was only one Santa Claus. Now because of genetic engineering, there can be lots of them."

This is where we part company with the G&M, and see this increase as just another tax on already cash strapped small businesses struggling to stay afloat due to Covid-19. CPP is well funded and premium increases should be put off until Canadians have been vaccinated and the economy has fully recovered. The actuarial impact on solvency ratios for CPP would be minimal, but holding the fixed costs to employers at this critical time would be significant.

Of interest is that Covid has had a disproportional impact on low and middle wage earners. Take them out of the calculation of YMPE (due to job losses) and you have a higher average wage. This explains the increase of the pensionable amount and accordingly, the higher overall CPP premiums. Of more interest will be whether there is a decrease in costs as Canadians return to work post-pandemic. Don't hold your breath on that!

The big take-away here is that life goes on. CPP is a multigenerational -essentially perpetual- pool of capital that exists for the benefit of Canadians today, tomorrow and even for Canadians yet-to-be-born. Financial security in retirement means financial dignity in retirement and we are in fundamental agreement with ensuring a well-funded CPP -but let's hold off on increases to 2022.

Be safe, be well!

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