March 7, 2025

Assessing the Impact of Canada Pension Plan Enhancements on the Public Service Pension Plan

OFFICE OF THE PARLIAMENTARY BUDGET OFFICER
BUREAU DU DIRECTEUR PARLEMENTAIRE DU BUDGET

The Parliamentary Budget Officer (PBO) supports Parliament by providing economic and financial analysis for the purposes of raising the quality of parliamentary debate and promoting greater budget transparency and accountability.

This report examines how the Canada Pension Plan (CPP) enhancements from 2019 to 2025 affected the Public Service Pension Plan (PSPP). The Parliamentary Budget Officer (PBO) commissioned the Office of the Chief Actuary (OCA) to compare the PSPP's actual contribution rates with a hypothetical scenario that fully integrated each stage of the enhanced CPP.

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Acknowledgements:

We thank officials at the Office of the Chief Actuary, without whom this report would not have been possible, for their invaluable analysis and feedback.

Nathalie Desmarais, Marie-Eve Hamel Laberge, Martine Perreault and Rémy Vanherweghem assisted with the preparation of the report for publication.

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Highlights

The CPP was enhanced from 2019 to 2025 by increasing contribution rates and expanding pensionable earnings to provide higher retirement benefits, while the PSPP did not adjust its contribution and benefit rates accordingly.

Under a hypothetical scenario from the Office of the Chief Actuary where the PSPP rates were adjusted to reflect the CPP enhancement, the difference in the PSPP's annual contributions grow over time, reaching a projected 9% of service costs (about $616 million) in 2025–26; summing across the 2017-18 to 2025-26 fiscal years, these differences total approximately $2 billion.

Although actual PSPP contributions were higher than they would have been under a fully integrated framework, so were the benefits accrued by participants. Since the contributions collected correspond to the benefits that were accrued, there is no impact on the funded status of the PSPP.

Summary

Between 2019 and 2025, the Canada Pension Plan (CPP) was enhanced by raising the percentage of earnings replaced in retirement from one quarter (25%) of a contributor's average work earnings to one third (33.33%).[1] Contribution rates paid by workers and employers were also increased. Additionally, a second earnings threshold, known as the Year's Additional Maximum Pensionable Earnings (YAMPE), was introduced. This threshold, or earnings ceiling, is higher than the Year's Maximum Pensionable Earnings (YMPE), expanding the portion of earnings replaced by the CPP.

Although the Public Service Pension Plan (PSPP) is integrated with the base (or original) CPP, the plan's formula has not been amended to reflect the new, higher CPP benefit and contribution rates. At the request of the Parliamentary Budget Officer (PBO), the Office of the Chief Actuary (OCA) examined how the PSPP might have evolved under a hypothetical scenario that mirrored each step of the CPP enhancement.

Currently, when a pensioner turns 65 or becomes entitled to a disability pension from the CPP or the QPP, the annual pension amount is reduced by a "CPP offset." Since 2012, the CPP offset percentage is calculated at 0.625% of the indexed CPP annual pensionable earnings multiplied by the years of PSPP pensionable service. Under the hypothetical scenario, the PSPP's CPP offset would have gradually risen from 0.625% of the Year's Maximum Pensionable Earnings (YMPE) to 0.833% of the YMPE by 2023, and then to 0.833% of the Year's Additional Maximum Pensionable Earnings (YAMPE) in 2024 and 2025.

As the CPP offset rises, PSPP benefit and contribution rates are lowered. The resulting annual difference between the PSPP's current rates and the hypothetical scenario where it is fully integrated with the enhanced CPP start modestly but escalate over time. By 2025-26, this difference reaches 9%, which is equivalent to a gap of $616 million in that year alone. Across the entire period analyzed, the aggregate difference amounts to about $2 billion.

Parliamentarians may wish to consider legislative amendments to revise the CPP offset reduction factor, which is used to calculate PSPP benefit and contribution rates, to address the misalignment between the two pension plans that was caused by the implementation of the CPP enhancements.

Introduction

Between 2019 and 2025, the Canada Pension Plan (CPP) underwent a phased enhancement designed to expand retirement benefits for working Canadians. The enhancement included increases to the percentage of income replaced by the CPP, increases in contribution rates and the introduction of a second, higher maximum level of pensionable earnings, significantly changing the structure of pensionable earnings under the plan.

The Public Service Pension Plan (PSPP), which was fully integrated with the CPP prior to 2019, was not amended to adjust its benefit accruals or contribution rates in line with these enhancements.[2] As a result, benefits continue to accrue at a higher rate than if the PSPP's integration formula had been adjusted in line with the expansion of CPP benefits, leading to joint PSPP and CPP income replacement rates exceeding 2% per year up to the maximum 35 years of pensionable service. Further, contributions to the PSPP exceeded the amounts it would have collected had its rates been adjusted to reflect the higher CPP contribution thresholds.

To quantify these impacts, the Parliamentary Budget Officer (PBO) requested the Office of the Chief Actuary (OCA) to conduct an analysis. The OCA examined a hypothetical scenario in which the PSPP adjusted its benefit accruals and contribution rates to align with the CPP enhancements, allowing for a direct comparison with actual PSPP contributions. This report presents the findings of that analysis, including the estimated total difference in contributions between the actual and a hypothetically fully integrated PSPP and the rates that would have been required to match the enhancement.

The CPP Enhancement and Its Implications for the PSPP

The enhancement to the Canada Pension Plan (CPP), which started in 2019, gradually increased benefit and contribution rates, and expanded the range of contributors' pensionable earnings in order to provide higher benefits in retirement. These changes were introduced in three components:

The **first additional component:** from 2019 to 2023, the maximum amount of income replaced by the CPP was increased from one quarter (25%) to one third (33%) of average annual pensionable earnings up to the maximum threshold or earnings limit.

The **second additional component**: contribution rates for employees and employers were incrementally raised from 4.95% in 2018 to 5.95% in 2023, applied to yearly maximum pensionable earnings (YMPE), which adjusts annually based on wage growth.

The **third additional component**: beginning in 2024, a second earnings threshold, the yearly additional maximum pensionable earnings (YAMPE), was introduced. This new threshold was set at 7% higher than the YMPE in 2024 and increased to 14% higher in 2025 and thereafter.

On January 1, 2025, the final adjustments to the YMPE and YAMPE, along with their respective contribution rates, were applied, completing the CPP enhancement.

PSPP Benefit and Contribution Rates

The contribution rates for the PSPP vary depending on the membership date. As of January 2025, members who joined before 2013 (Group 1) contribute 9.06% of earnings up to the Year's Maximum Pensionable Earnings (YMPE), and 11.64% on earnings above it. Members who joined after 2013 (Group 2) contribute 7.95% on earnings up to the YMPE and 10.53% on earnings exceeding the threshold.[3]

The PSPP's benefit formula was not adjusted to reflect the enhanced thresholds of the CPP, which has led to a misalignment between the two pension plans. As a result, PSPP members' combined contributions (to both the PSPP and CPP) and benefits accumulated more than they would have under the pre-enhancement framework, leading future retirees to accrue benefits exceeding 2% per year up to the maximum 35 years of pensionable service.

Results

The Office of the Chief Actuary (OCA) examined how the PSPP might have evolved had it fully integrated the CPP enhancements from 2019 onward. As shown in Table 1, the PSPP's "CPP offset" would have gradually increased each year, rising from 0.625% of the YMPE to 0.833% of the YMPE by 2023, and then to 0.833% of the YAMPE for 2024 and 2025. This mirrored the CPP enhancement's step-by-step increases and reflects how the PSPP might have phased in similar adjustments.

Table 1

Phase-in Approach

Calendar Year	Level of CPP offset	Earnings threshold
Before 2019	0.625%	YMPE
2019	0.656%	YMPE
2020	0.688%	YMPE
2021	0.729%	YMPE
2022	0.781%	YMPE
2023	0.833%	YMPE
2024	0.833%	YAMPE (1.07 X YMPE)
2025 and later	0.833%	YAMPE (1.14 X YMPE)

Source:

Office of the Chief Actuary.

Note:

Details on underlying data and assumptions are given in Appendix A.

Building on this phase-in approach, Table 2 shows how the PSPP's annual current service cost might have evolved each fiscal year under the hypothetical scenario. Early in the period, the differences are relatively modest but grow as the enhanced offsets take effect, culminating in a 9.0% reduction—equivalent to $616 million—by 2025–26. If those yearly differences are summed across all years shown, they total approximately $2 billion, reflecting both employee and employer contributions. It is important to note that the same difference applies to the benefits accrued by the PSPP members. Because these figures are based on aggregate assumptions, they do not necessarily align with actual Public Accounts data or capture detailed impacts on specific groups.

Table 2

Estimated impact on current service cost

Fiscal Year	Before CPP enhancement ($M)	After CPP enhancement ($M)	Impact ($M)	Impact as a % of total service cost
2018-19	4,598	4,588	10	0.2%
2019-20	4,815	4,763	52	1.1%
2020-21	5,002	4,902	100	2.0%
2021-22	5,376	5,202	174	3.2%
2022-23	5,585	5,320	265	4.7%
2023-24	5,778	5,413	365	6.3%
2024-25	5,974	5,507	467	7.8%
2025-26	6,849	6,233	616	9.0%

Source:
Office of the Chief Actuary.

Note:
The “Impact” column shows the annual reduction in combined PSPP contributions (employee and employer) under the hypothetical scenario. Summing these annual figures would yield the total notional difference over the entire period; however, the OCA has cautioned that these estimates are based on aggregate assumptions and do not represent actual contributions.

It is also important to note that the OCA’s analysis was carried out at an aggregate level and did not distinguish between Group 1 and Group 2 members, nor did it differentiate contributions made above or below the YMPE. As well, the findings exclude any impacts on Retirement Compensation Arrangements (RCAs). As a result, the figures presented cannot be used to derive precise implications for individual employee groups or to match actual contributions reported in the Public Accounts. Instead, they highlight the difference between a PSPP that remained static and one that had been adjusted in tandem with the enhanced CPP thresholds.

The nominal dollar reductions shown in Table 2 are also projections rather than actual contributions. According to the OCA, these estimates should not be used for purposes other than assessing how the hypothetical CPP-aligned phase-in compares to the unchanged PSPP.

Relationship to PSPP Funding Status

The PSPP accrued more benefits and collected more contributions than it would have under a framework that was fully integrated with the enhanced CPP, which has led to a misalignment between the two pension plans. However, since the contributions collected continue to be in line with the benefits accrued, there is no impact on the PSPP's funding status.

Considerations

Parliamentarians may wish to consider legislative amendments to revise the CPP offset reduction factor, which is used to calculate PSPP benefit and contribution rates, to address the misalignment between the two pension plans that was caused by the implementation of the CPP enhancements. Amending the plan would result in lower contributions for the employees and the Government (as the employer) while maintaining the replacement rate of 2% per year up to the maximum 35 years of pensionable service.

Appendix A: OCA Data and Assumptions

The OCA based its analysis on the same data and demographic assumptions used in the Actuarial Report on the Pension Plan for the Public Service of Canada as at 31 March 2020,[4] supplemented by updated population growth assumptions provided by the Treasury Board of Canada Secretariat in fall 2023. Key economic assumptions, including salary growth, largely follow those outlined in the Actuarial Report on the Pension Plans for the Canadian Forces – Regular Force and Reserve Force as at 31 March 2022,[5] with adjustments for plan years 2023 to 2025 as provided by the Treasury Board.

The OCA estimated the PSPP's current service costs by referencing tables from the Actuarial Report on the Pension Plan for the Public Service of Canada as at 31 March 2017, 2020, and 2023 for fiscal years 2019 through 2026.[6] The results incorporate neither prior service nor retroactive contributions, focusing instead on the core current service cost.

Notes

[1] The Québec Pension Plan (QPP) was also enhanced effective January 1, 2019. Although the implementation timelines and rates differ from the CPP enhancement schedule, the QPP coordination factor has not been updated for the PSPP.

[2] The CPP coordination factor was updated for some pension plans, such as those for federal parliamentarians, to reflect the CPP enhancements. Other plans, including those for the Canadian Forces and RCMP, were not similarly updated and may face comparable issues, though analysis of these plans is outside the scope of this report.

[3] Treasury Board Secretariat, 2025. Accessed January 15, 2025.

[4] Actuarial Report (19th) on the Pension Plan for the Public Service of Canada as at 31 March 2020. Office of the Chief Actuary, Office of the Superintendent of Financial Institutions, Government of Canada. Accessed December 12, 2024.

[5] Pension Plans for the Canadian Forces – Regular Force and Reserve Force as at 31 March 2022. Office of the Chief Actuary, Office of the Superintendent of Financial Institutions, Government of Canada. Accessed December 12, 2024.

[6] Recent reports on Public Sector Pension Plans. Accessed December 12, 2024.

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