

Unit 2- Net Earnings

Lesson 2.2 Canadian Pension Plan

This lesson deals with one of the three mandatory deductions from your gross pay. All workers over 18 years of age must pay into this federal plan. This lesson will show you how to calculate the CPP deduction using tables or using a formula.

The Canada Pension Plan (CPP) is an earnings-related pension program run by the federal government. This national pension plan was initiated in 1966. Everyone across Canada over and including the age of 18 years who earns an income contributes a portion of their earnings to the CPP. This money funds a national retirement fund.

Once you reach retirement age, you are entitled to a monthly pension from the CPP. The amount of your monthly pension is dependent on the contributions you make over your working years. Your employer also makes CPP contributions for all employees.

Using Tables

Every year the federal government issues a set of payroll deduction tables to determine the exact CPP contributions you have to make based on your income.

Visit : www.cra-arc.gc.ca/E/pub/tg/44032mb/README.html *

To use the tables, you find the income level and read the required CPP contribution beside it. All of your calculations will be on weekly earnings.

Here is a sample from the 2009 CPP tables. If you made \$547.52, you look for that amount within the ranges provided. Then you slide to the right, and the CPP contribution you must make is shown.

Canada Pension Plan Contributions Weekly (52 pay periods a year)				Cotisations au Régime de pensions du Canada Hebdomadaire (52 périodes de paie par année)							
Pay Rémunération		CPP RPC	Pay Rémunération		CPP RPC	Pay Rémunération		CPP RPC	Pay Rémunération		CPP RPC
From - De	To - À		From - De	To - À		From - De	To - À		From - De	To - À	
532.66	- 532.85	23.04	547.20	- 547.40	23.75	561.75	- 561.94	24.48	576.29	- 576.49	25.20
532.86	- 533.05	23.05	547.41	- 547.60	23.77	561.95	- 562.14	24.49	576.50	- 576.69	25.21

income range
CPP deduction = \$23.77

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Example 1

Rudy earned \$762.81 last week. Use the tables to find his CPP contribution. *\$34.43 is*

Canada Pension Plan Contributions
Weekly (52 pay periods a year)

Rudy's CPP contribution

From	To	CPP	From	To	CPP	From	To	CPP
732.86 - 733.05		32.95	<u>747.41 - 747.60</u>		<u>33.67</u>	761.95 - 762.14		34.39
733.06 - 733.25		32.96	747.61 - 747.80		33.68	762.15 - 762.35		34.40
733.26 - 733.46		32.97	747.81 - 748.00		33.69	762.36 - 762.55		34.41
733.47 - 733.66		32.98	<u>748.01 - 748.20</u>		<u>33.70</u>	762.56 - 762.75		34.42
733.67 - 733.86		32.99	748.21 - 748.41		33.71	<u>762.76 - 762.95</u>		<u>34.43</u>
733.87 - 734.06		33.00	748.42 - 748.61		33.72	762.96 - 763.15		34.44
<u>734.07 - 734.26</u>		<u>33.01</u>	748.62 - 748.81		33.73	<u>763.16 - 763.36</u>		<u>34.45</u>
734.27 - 734.47		33.02	748.82 - 749.01		33.74	<u>763.37 - 763.56</u>		34.46

Practice

1. Find the CPP contributions for the following weekly incomes from the CPP table shown in Example 1.

- a) \$763.20 *CPP = \$34.45*
- b) \$734.10 *CPP = \$33.01*
- c) \$747.50 *CPP = \$33.67*
- d) \$748.08 *CPP = \$33.70*

Using a Formula

You can also use a formula to calculate the CPP contributions. In 2009, the federal government set the CPP contribution at 4.95% of the gross pay to a maximum of \$2118.60 per year. Values calculated using the formula are slightly higher than those shown on the tables.

Using the formula method can be quicker than looking through the tables.

The formula is

$$\text{CPP} = \text{Gross Income} \times 4.95\%$$

$$\text{CPP} = \text{Gross Income} \times 0.0495$$

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Example 1

Find the CPP on a gross income of \$562.48, using the percent rate of deduction.

$$\begin{aligned} \text{CPP} &= \text{gross income} \times 0.0495 \\ &= \$562.48 \times 0.0495 \\ &= \boxed{\$27.84} \end{aligned}$$

Example 2

Natalie worked 43.75 hours at \$10.35 per hour. She received overtime at time and one-half on any hours over 40. Find her gross pay and her CPP deduction using the formula.

Gross

$$\text{Reg} \rightarrow 40 \text{ hr.} \times \$10.35 = \underline{\$414.00}$$

$$\text{O.T.} \rightarrow \$10.35 \times 1.5 = \$15.53$$

$$3.75 \text{ hr.} \times \$15.53 = \underline{\$58.24}$$

$$\begin{aligned} \text{Gross} &= \$414.00 + \$58.24 \\ &= \boxed{\$472.24} \end{aligned}$$

$$\text{CPP} = \$472.24 \times 0.0495$$

$$\boxed{\text{CPP} = \$23.38}$$

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2. Use the formula method to find the CPP deductions for the following gross weekly incomes. * 4.95% used!

a) \$680 $\$33.66$

b) \$285.26 $\$14.12$

c) \$1285.62 $\$63.84$

d) \$87.60 $\$4.34$

3. Use the formula method to calculate Jane's CPP deduction for the year if her annual salary is \$56,480.

$$\text{CPP} = \$2795.76$$

* It is above the maximum. So....

$$\boxed{\text{CPP} = \$2118.60}$$

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4. Use the 2009 CPP tables shown below to find the CPP deductions for these weekly gross incomes.

Canada Pension Plan Contributions
Weekly (52 pay periods a year)

Pay Rémunération		CPP RPC	Pay Rémunération		CPP RPC		
From - De	To - Á		From - De	To - Á			
669.02	-	669.21	29.79	683.57	-	683.76	30.51
669.22	-	669.42	29.80	683.77	-	683.96	30.52
669.43	-	669.62	29.81	683.97	-	684.16	30.53
669.63	-	669.82	29.82	684.17	-	684.37	30.54
669.83	-	670.02	29.83	684.38	-	684.57	30.55
670.03	-	670.22	29.84	684.58	-	684.77	30.56
670.23	-	670.43	29.85	684.78	-	684.97	30.57
670.44	-	670.63	29.86	684.98	-	685.17	30.58
670.64	-	670.83	29.87	685.18	-	685.38	30.59

- a) \$670.00 *CPP = \$29.83*
- b) \$684.05 *CPP = \$30.53*
- c) \$670.60 *CPP = \$29.86*
- d) \$669.69 *CPP = \$29.82*

5. Use the formula method (4.95%) to find the CPP deductions on these gross earnings.

- a) \$258.24 weekly *CPP = \$12.78*
- b) \$1020.86 weekly *CPP = \$50.53*
- c) \$96.50 weekly *CPP = \$4.78*
- d) \$56,000 annually *CPP = \$2118.60*

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6. Shelley has a job where she earns 35% on all cosmetic sales. Last week, she sold \$1500 in cosmetics. Find her gross earnings and her CPP deduction using the formula method (4.95%).

$$\text{Gross earnings} = \$525.00$$

$$\text{CPP} = \$25.99$$

7. Larry earns \$18.58 per hour as a machinist. He is paid overtime at time and one-half on any hours over 8 hours per weekday or any time on Saturday. There are no late penalties. Use the following time card to calculate his gross earnings, and then find his CPP deduction using the formula (4.95%).

Employee: Larry					Hourly Rate: \$18.58		
Day	Morning In	Out	Afternoon In	Out	Evening In	Out	Total
Mon.	09:00	12:00	1:00	5:00	7:30	9:30	9
Tues.	07:30	12:00	1:00	4:30			8
Wed.			1:00	5:30	7:30	10:15	7.25
Thurs.	07:30	12:00	1:00	5:30			9
Fri.	08:00	12:00	1:00	5:00			8
Sat.			1:00	4:45			3.75
Sun.							
	Hours		Rate		Amount		
Regular	8+8+7.25+8+8		\$18.58/hr		\$728.87		
Overtime	1+1+3.75		\$27.87/h		\$160.25		
Total Hours	45		Gross Wages		\$889.12		

$$\text{CPP} = \$44.01$$