

# Why \$1,364.60 is *not* the maximum monthly Canada Pension Plan retirement pension in 2024

Attention to detail is needed for accurate CPP estimates

The Government of Canada website will tell you that, for 2024, the maximum monthly amount for a Canada Pension Plan (CPP) retirement pension if you start your pension at age 65 is \$1,364.60.<sup>1</sup>

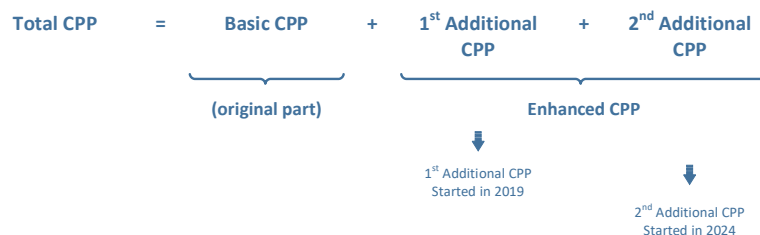
What the Government of Canada website doesn't mention is that since the introduction of the Enhanced CPP, the maximum monthly amount for a CPP retirement pension actually increases each month over the year.

Unlike the calculation for the Basic CPP, the retirement pension for the Enhanced CPP works by taking an individual's best 480 months (40 years) on a going-forward basis. The maximum monthly amount of \$1,364.60 is only applicable for January 2024. As the monthly enhanced parts accumulate every month that follows, the maximum retirement pension for new beneficiaries continues to increase over the year.<sup>2</sup>

Although these monthly increases have been going on since 2019 when the first part of the Enhanced CPP was introduced, now is the perfect time to review this phenomena because the second part of the Enhanced CPP has just started to take effect in January 2024.

## Today's CPP: Sum of the parts

For individuals who have contributed into the Enhanced CPP, their retirement pension has three parts: (1) the Basic CPP, (2) the 1<sup>st</sup> Additional CPP, and (3) the 2<sup>nd</sup> Additional CPP. The three parts are shown in Figure 1.



**Figure 1.** The three parts of today's CPP.

Although a CPP recipient only receives a single monthly payment, behind the scenes each part is tracked and calculated individually. Each part has its own maximum.

<sup>1</sup> Government of Canada. "CPP Retirement pension – How much you could receive." Available at <https://www.canada.ca/en/services/benefits/publicpensions/cpp/cpp-benefit/amount.html>. Accessed 23 January 2024.

<sup>2</sup> Employment and Social Development Canada. "The Annual CPP & OAS Stats Book 2023." 2023. Available at <https://publications.gc.ca/site/eng/9.858997/publication.html>. Accessed 23 January 2024.

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## Today's CPP maximum: A tale of two methods

For the Basic CPP, contributions are required on employment earnings up to a maximum threshold called the Year's Maximum Pensionable Earnings (YMPE). The YMPE is meant to represent the average national wage in Canada, and year-over-year changes in the YMPE represent wage inflation. The Maximum Pensionable Earnings Average (MPEA) for a given year is equal to the average of the YMPE in that same year, and the YMPE in the previous four years. The maximum amount of a retirement pension for the Basic CPP is 25% of the MPEA.

What's important to know is that the MPEA is static. The MPEA remains the same value throughout an entire calendar year. Thus, the maximum amount for the Basic CPP also remains the same value throughout an entire calendar year.

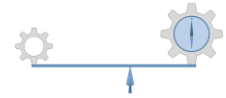
For the 1<sup>st</sup> Additional CPP, contributions are also required on employment earnings up to the YMPE. What's different is how the retirement pension is calculated for the 1<sup>st</sup> Additional CPP compared to the Basic CPP.

The 1<sup>st</sup> Additional CPP is calculated from an individual's best 480 months of employment earnings on a going-forward basis. The going-forward basis provides a way to transition the full impact of the 1<sup>st</sup> Additional CPP over 40 years. A consequence of breaking up each year into the 12 months and creating new pension capacity on a going-forward basis is that as the 1<sup>st</sup> Additional CPP accumulates every month, the maximum retirement pension for new beneficiaries continues to increase over the year. Another way to think about this effect is that there is a monthly accrual rate for the maximum 1<sup>st</sup> Additional CPP each calendar year. The maximum 2<sup>nd</sup> Additional CPP also exhibits a monthly accrual rate effect.

For the 2<sup>nd</sup> Additional CPP, contributions are required on employment earnings between the YMPE and a new maximum threshold called the Year's Additional Pensionable Earnings (YAMPE). Otherwise, the 2<sup>nd</sup> Additional CPP is calculated in a similar way as the 1<sup>st</sup> Additional CPP by using an individual's best 480 months on a going-forward basis.

The monthly accrual rate can be illustrated by taking a closer look at the 2<sup>nd</sup> Additional CPP. The maximum monthly amounts for new benefits for an individual starting their pension at age 65 in 2024 are provided in Table 1.

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**Table 1.** Maximum monthly amounts for new benefits in 2024.<sup>3</sup>

Month	Max. New Benefit (Total CPP)	Monthly Accrual Rate
January	\$1,364.60	-
February	\$1,365.77	\$1.17
March	\$1,366.96	\$1.19
April	\$1,368.14	\$1.18
May	\$1,369.32	\$1.18
June	\$1,370.50	\$1.18
July	\$1,371.68	\$1.18
August	\$1,372.86	\$1.18
September	\$1,374.04	\$1.18
October	\$1,375.22	\$1.18
November	\$1,376.40	\$1.18
December	\$1,377.59	\$1.19

Source: Canada Pension Plan Maximum Benefit Amounts 2024 and author's calculations.

The MPEA for 2024 is \$64,060.<sup>4 5</sup> Therefore, the maximum monthly amount for the Basic CPP for 2024 is \$1,334.58 (25% x \$64,060 divided by 12 months). The difference between the maximum new benefit amount for January in Table 1, and the maximum monthly amount for the Basic CPP is \$30.02 (\$1,364.60 - \$1,334.58 = \$30.02). The entire \$30.02 is the maximum amount for the 1<sup>st</sup> Additional CPP in January 2024.

None of the \$30.02 can be attributed to the 2<sup>nd</sup> Additional CPP because the 2<sup>nd</sup> Additional CPP only came into effect in January 2024. The first possible 2<sup>nd</sup> Additional CPP contribution could only have been made in January 2024. A pension can only be earned *after* a contribution has been made in respect of that pension. Thus, the first possible 2<sup>nd</sup> Additional CPP can only become available in February 2024, after the first possible 2<sup>nd</sup> Additional CPP contribution has been made. With each successive month as more 2<sup>nd</sup> Additional CPP parts accumulate, the maximum retirement pension for new beneficiaries continues to increase over the year – there is a monthly accrual rate.

The monthly accrual rate for the 2<sup>nd</sup> Additional CPP is illustrated in Figure 2 using the analogy of a large tree and watering small plants. The large tree represents the maximum amount for the Basic CPP which remains the same value throughout an entire calendar year. Watering small plants represents the continuously increasing maximum 2<sup>nd</sup> Additional CPP:

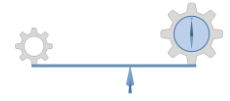
- The water represents the possible successive 2<sup>nd</sup> Additional CPP contributions, and
- The small plants that appear represent the new and increasing maximum 2<sup>nd</sup> Additional CPP from each 2<sup>nd</sup> Additional CPP contribution that was made each respective prior month.

<sup>3</sup> Employment and Social Development Canada. "Canada Pension Plan Maximum Benefit Amounts 2024." 2024. Available at: <https://publications.gc.ca/site/eng/9.860725/publication.html>. Accessed 23 January 2024.

<sup>4</sup> Ibid.

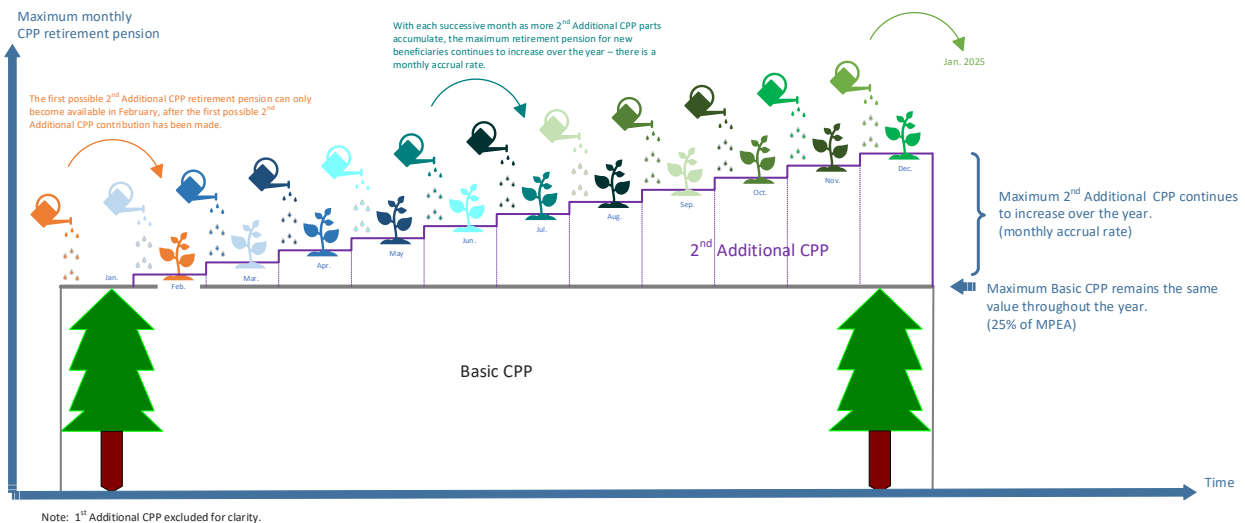
<sup>5</sup> MPEA is also referred to as Average YMPE and Average Maximum Pensionable Earnings, in the CPP and OAS Stats Book and the CPP Maximum Benefit Amounts respectively. The author uses MPEA to be consistent with terminology found in the CPP Act.

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**Figure 2.** Successive accumulation of 2<sup>nd</sup> Additional CPP throughout the year.

Of the \$1.18 monthly accrual rate in Table 1:<sup>6</sup>

- \$0.93 is attributed to the 1<sup>st</sup> Additional CPP, and
- \$0.25 is attributed to the 2<sup>nd</sup> Additional CPP.<sup>7</sup>

The current monthly accrual rate of \$1.18 for the maximum 1<sup>st</sup> and 2<sup>nd</sup> Additional CPP is arguably very small. However, it is important to point out that monthly accrual rates will increase and become more significant over time as the 40 year transition for the Enhanced CPP comes to pass.

## Conclusion

Professionals who perform CPP calculations and developers of financial planning applications will ultimately need to create calculation procedures with the level of detail that is required to know the maximum monthly CPP retirement pension for each month within a particular projected calendar year.

Now is the time to update your calculation procedures for the Enhanced CPP.

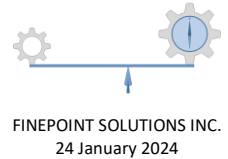
*FINEPOINT SOLUTIONS INC. has developed the necessary calculation procedures to estimate the maximum monthly CPP retirement pension described in this paper. The personal CPP estimates that we provide include the Enhanced CPP (1<sup>st</sup> and 2<sup>nd</sup> Additional CPP).*

<sup>6</sup> The monthly accrual rate is the month-over-month difference in maximum new benefit.

<sup>7</sup> Author's calculations.

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## About the Author



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FINEPOINT SOLUTIONS INC. provides:

- Personal Canada Pension Plan (CPP) analysis and estimates.
- Financial planning research and analysis.
- Educational videos.
- Analytical methods for financial calculations.
- Comprehensive financial planning services for individuals and families.

Prior to this role, Jason had a 16-year career as a Professional Engineer, where he held a number of technical and leadership roles managing operations at a variety of industrial facilities.

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