

Lesson 2 Practice Questions

Calculating Canada Pension Plan

1. John's gross pay is \$43 000.00/year.
 - a. What is his CPP contribution for one year?

Step 1: Subtract \$3 500.00 from the annual salary.

$$\begin{aligned}\text{CPP income} &= \$43\,000.00 - \$3\,500.00 \\ &= \$39\,500.00\end{aligned}$$

Step 2: Calculate the CPP contribution.

$$\begin{aligned}\text{CPP} &= \$39\,500.00 \times 4.95\% \\ &= \$39\,500.00 \times 0.0495 \\ &= \$1\,955.25\end{aligned}$$

Step 3: Check to see if the annual contribution amount is greater than the maximum CPP contribution of \$2 425.50.

As \$1 955.25 is less, he only pays \$1 955.25.

John will contribute \$1 955.25 in one year. His required contribution amount is less than the maximum allowable amount.

- b. How much CPP is deducted from each paycheck if he is paid once a month?

$$\begin{aligned}\text{monthly deduction} &= \$1\,955.25 \div 12 \text{ months/year} \\ &= \$162.94\end{aligned}$$

John pays \$162.94/month in CPP contributions.

2. Michelle, a carpenter, makes \$5020.83/month. Calculate her annual CPP deduction.

Step 1: Calculate Michelle's annual gross pay.

$$\begin{aligned}\text{annual gross pay} &= \$5020.83/\text{month} \times 12 \text{ months/year} \\ &= \$60\,249.96/\text{year}\end{aligned}$$

Step 2: Subtract \$3 500.00 from the yearly salary.

$$\begin{aligned}\text{CPP income} &= \$60\,249.96 - \$3\,500.00 \\ &= \$56\,749.96\end{aligned}$$

Step 3: Calculate the CPP contribution.

$$\begin{aligned}\text{CPP} &= \$56\,749.96 \times 4.95\% \\ &= \$56\,749.96 \times 0.0495 \\ &= \$2\,809.12\end{aligned}$$

Step 4: Check to see if the annual contribution amount is greater than the maximum CPP contribution of \$2 425.50.

Michelle only needs to contribute the maximum allowable amount of \$2 425.50.