

HISTORIC PENSION REFORM: RETIRING ONTARIO'S PENSION PLAN AND ENHANCING THE CANADA PENSION PLAN

Posted on July 11, 2016

Categories: [Insights](#), [Publications](#)

Recently, Canada's finance minister and all of the provincial finance ministers, except for Quebec and Manitoba, announced their agreement in principle to enhance the Canada Pension Plan (**CPP**). Under the terms of the agreement in principle, the CPP enhancement would be phased in starting January 1, 2019 and fully implemented by 2025. A deadline of July 15, 2016 has been set for formal ratification so a historic pension reform may be only a week away.

Proposed CPP Enhancements

Currently, employers and employees contribute to the CPP at a rate of 4.95% of each employee's income between \$3,500 and \$54,900, which is the yearly maximum earnings threshold for 2016. Currently, CPP replaces about 25% of an employee's pre-retirement income up to the threshold. The maximum CPP pension in 2016 is \$13,110.

The agreement in principle provides for an enhancement of the yearly maximum earnings threshold by 14%, which is projected to be approximately \$82,700 in 2025. The agreement also proposes to enhance the percentage of pre-retirement income replacement to 33.3%, which means that the maximum CPP pension would be approximately \$27,539 in 2025. To cover the cost of the increased benefits, contribution rates for employers and employees are estimated to increase by 1% to 5.95%.

To ensure these changes are affordable for employers and employees alike, the finance ministers are considering a number of measures, including enhancing the federal Working Income Tax Benefit to offset the impact of the increased contributions on low-income employees and a tax deduction for employee contributions associated with the enhanced portion of the CPP in order to avoid increasing the after-tax cost of savings.

Further information about the CPP enhancement will become available in the coming months (provided the agreement in principle is ratified by the July 15, 2016 deadline).

Elimination of the Ontario Retirement Pension Plan (ORPP)

In recognition that the CPP does not provide Ontarians with enough financial security during retirement, the province created the ORPP, a retirement savings plan intended to supplement the CPP thereby providing Ontarians with an enhanced pension. The ORPP is scheduled to begin enrolling employers in 2017, with the first phase of contributions beginning January 1, 2018. By 2020, every eligible employee in Ontario would be required to be enrolled in the ORPP or a comparable workplace pension plan. Eligible employees and employers would contribute an equal amount, capped at 1.9% each (3.8% combined) on an employee's annual earnings up to \$90,000.

The Ontario government's announcement regarding the agreement in principle to enhance the CPP is silent on the future of the ORPP. However, if the agreement is ratified by July 15, 2016, the implementation of ORPP would almost certainly grind to a halt. If not ratified, then Ontario would likely continue with its current ORPP implementation plans.

Implications for Employers and Pension Administrators

We will continue to keep employers and pension administrators informed of all developments related to the CPP enhancement and the ORPP in the coming months. With ratification anticipated next week, employers may wish to conduct a preliminary review of the impact of the proposed CPP enhancement on their plans and assess the necessary adjustments that may need to be made following ratification. Otherwise, employers and pension administrators should continue to administer their current plans as per usual and wait for further information about the impending federal and provincial pension reform.

by Stefanie Di Francesco

A Cautionary Note

The foregoing provides only an overview and does not constitute legal advice. Readers are cautioned against making any decisions based on this material alone. Rather, specific legal advice should be obtained.

© McMillan LLP 2016