FTR Now

CPP Expansion and the (Likely) Demise of Ontario's Provincial Pension Plan

Date: June 21, 2016

On June 20, 2016, following a highly anticipated meeting between the federal, provincial and territorial Ministers of Finance concerning the possible expansion of the Canada Pension Plan (CPP), the federal government announced that an agreement in principle had been reached to enhance the CPP. When the announcement was made, all but two of the provincial Ministers had signed onto the agreement.

Under the current terms of the agreement, the CPP enhancements 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.

In this *FTR Now* we discuss what has been revealed about the proposed CPP enhancements, what this likely means for the Ontario Retirement Pension Plan (ORPP) and implications for employers and pension plan administrators.

Agreement to Enhance CPP

The CPP design features outlined in the June 20, 2016 agreement in principle would:

- increase the target income replacement from one-quarter to one-third of pensionable earnings;
- increase the maximum amount of earnings subject to CPP by 14%, which is projected to be equal to roughly $82,700 in 2025;
- enhance the federal Working Income Tax Benefit to offset the impact of increased contributions on low-income workers; and
- make employee contributions associated with the enhanced portion of CPP tax deductible instead of eligible for a tax credit.

The enhancements would be phased-in, commencing on January 1, 2019, with a five-year phase-in of the increased contribution rate, followed by a two-year phase-in of increases to the maximum earnings limit.

Full details of the CPP enhancements and implementation schedule are not yet known, but this important information can be expected in the months ahead (assuming ratification of the agreement in principle by the July 15, 2016 deadline).

What Does This Mean for the ORPP?

The Ontario government has consistently stated that an expanded CPP would be its preferred method of addressing the perceived retirement income gap, and had only taken steps to move forward with its on own provincial plan in 2014 in the face of the previous federal government's resistance to enhancing the CPP.

While the Ontario government's June 20, 2016 announcement regarding the agreement in principle is silent with respect to the future of the ORPP, it seems all but certain that implementation of the ORPP will grind to a halt and that the supporting ORPP legislation will be repealed. This assumes, of course, that the agreement in principle will be ratified by the July 15, 2016 deadline. If not ratified by that time, then Ontario would likely continue with its current ORPP implementation plans.

Implications for Employers and Pension Plan Administrators

For 2016, employers and employees contribute to the CPP at a rate of 4.95% of each covered employee's income between $3,500 and $54,900.[1] While not stated in the federal government's announcement, reports in the media have suggested that the proposed CPP enhancements will require contribution rate increases of about 1% each, once fully implemented.

Although the exact amount by which contributions will increase and how the increases will be phased-in have not been announced yet, clearly the proposed CPP enhancements will result in larger payroll costs to employers starting in January 2019. Employees will similarly be required to contribute more to the CPP; however, additional employee contributions are to be made tax deductible. In both cases, employers will have additional payroll obligations and will be required to report the additional CPP contributions on employees' T4s.

With many of the details respecting the proposed CPP expansion still to come, other implications for employers and pension plan administrators are not yet clear. For plans whose contributions and/or benefit formula is integrated with the year's maximum pension earnings (YMPE), the increases to the CPP's maximum pensionable earnings could impact liabilities and funding obligations. Employers and pension plan administrators will therefore wish to closely watch for further details on the higher CPP earnings limit as well as other CPP expansion details to determine the potential pension plan implications of these changes. Depending on the impact, some employers may determine that it is desirable to amend their plans in response to these CPP changes.

Our Pension, Benefits and Executive Compensation practice group continues to monitor developments relating to the ORPP and expanded CPP. If you have any questions, please contact Stephanie Kalinowski or any other member of our practice group.

Further reading

- *ORPP Act* Passes Third Reading as Amended by Committee (June 2, 2016)
- Countdown to ORPP: Ontario Tables New Implementation Legislation (April 18, 2016)
- Preparing for the ORPP (May 31, 2016)
- Ontario Budget 2016 (February 29, 2016)
- ORPP Implementation Delayed to January 1, 2018 (February 17, 2016)
- Ontario Government Announces Additional ORPP Design Details (January 28, 2016)
- 2015 Federal Election Update: ORPP or CPP – Which Will it be? (October 26, 2015)
- ORPP: Ontario Government Announces Implementation Details (August 11, 2015)
- Ontario Budget 2014 (July 17, 2014)

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[1] Required contributions to the Quebec Pension Plan are presently higher.
