HENDRY WARREN LLP
MONTHLY NEWSLETTER

ORPP or CPP?
That is the Question

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Our goal is to provide updates on topical tax issues. Information contained in the newsletters is not meant to be a comprehensive summary of the issues raised. Rather, we wish to bring what we believe to be important issues to the attention of our valued clients. We would be pleased to discuss any questions that you, the reader, might have in greater detail.

Contributions to the Ontario Registered Pension Plan ("ORPP"), a new pension system to help Ontario residents save for retirement, were set to commence as early as January 1, 2017. With enhancements announced to the Canada Pension Plan ("CPP") on June 20, 2016, the ORPP will almost certainly be abandoned. This newsletter reviews the original ORPP proposals, the proposed changes to the CPP system, and summarizes what this means for Ontario residents and small businesses going forward.

The Proposed ORPP System

Details of the ORPP were first announced in August of 2015. The ORPP was to be a provincially-managed pension plan for residents of Ontario. It was to be meant to help subsidize the CPP and Old Age Security ("OAS") benefits, as studies suggested that Ontario residents were not saving enough for their retirement. In many ways, the ORPP was to be very similar to the CPP. The following is a summary of the key aspects of the ORPP:

- mandatory for employees without a comparable workplace pension plan
- employees would contribute up to 1.9% of their annual earnings, up to $90,000
- to be eligible to contribute to the ORPP, the following conditions had to be met:
    - eligible employee between the ages of 18 and 70
    - a minimum of $3,500 of salary annually
    - not already enrolled in a comparable workplace pension plan
    - employed in Ontario

The employee contributions were to be funded with payroll source deductions while employers would have had to match the contributions of their employees dollar for dollar. People were to be entitled to begin receiving an ORPP pension at age 65 after making contributions to the ORPP, with options to receive adjusted retirement income as early as age 60 or as late as age 71. Pensionable earnings were to include things like bonuses, commissions and tips. The amount of ORPP benefits was to be dependent on how many years funds had been contributed to the plan and the person's salary throughout those years. The greater the contributions, the greater the pension benefits under the plan.

ORPP contributions were to be phased in gradually. For large companies with more than 500 employees, contributions were to commence January 1, 2017 and be increased each year until 2019. For medium-sized companies, contributions were to commence beginning January 1, 2018, while small companies with fewer than 50 workers were to start contributing on January 1, 2019, with contributions phased in to their maximum by 2021.

Although the rationale for the introduction of the ORPP, helping Ontario residents save for retirement, was sound, the plan was met with much opposition. A number of details did not seem to be well thought out. For example, the issue of transferability if someone moves from Ontario to another province was unclear. Further, the additional administration burden for employers of administering yet another series of source deductions, and the cost associated with the employer portion of ORPP contributions, led to outcry from many small businesses across the province.

Proposed Changes to the CPP

The enhancements to the CPP system are being proposed for the same reason as the ORPP was originally presented in Ontario: to help Canadians save more for retirement. The CPP will be expanded in three significant ways:

1) Currently, workers and employers in Canada pay 4.95% each of salaries into the CPP, up to a maximum income level of $54,900 a year. When people retire at the age of 65, they are paid a maximum annual pension of $13,110 under the program. People earning more than $54,900 do not contribute to CPP above that level, and do not earn any additional pension benefit. The annual payout target will be increased from about 25% of preretirement earnings to 33%. That means workers who earn $54,900 a year would receive a maximum annual pension of about $17,500 in 2016 dollars by the time they retire, an increase of over $4,000 a year.

2) The second change will increase the maximum amount of income covered by the CPP from $54,900 to about $82,700 when the program is fully phased in by 2025, which means higher-income workers will be eligible to earn CPP benefits on a larger portion of their income. The portion of earnings between $54,900 and $82,700 will have a different contribution rate for workers and employers. Although this has not been announced yet, it is expected to be 1 or 2% lower than the general contribution rate.

3) Contributions to CPP from workers and companies will increase by one percentage point to 5.95% of wages under $54,900, phased in slowly between 2019 and 2025 to ease the impact.

What Do All the Recent Changes Mean?

The proposed CPP enhancements fill the same perceived void in retirement savings that the ORPP was meant to fill. Workers and employers will benefit from the relative simplicity of expanding the CPP compared with the introduction of the ORPP. The CPP already exists, so enhancing it will require minimal new infrastructure. The CPP changes will be implemented over a 7 year period starting in 2019 which should provide employers plenty of time to adjust for the financial impact associated with matching a higher amount of employee contributions.

There are still a number of questions to be answered about the CPP proposals. For example, how will expanded CPP contributions interact with the Guaranteed Income Supplement ("GIS")? The GIS is a government stipend aimed at low-income seniors. It is not clear if more generous CPP payments could result in greater clawbacks of GIS.

Perhaps the biggest question mark remains in Ontario and the spending on the ORPP. Ontario's soon-to-be-defunct ORPP cost Ontario taxpayers approximately $20 million, though the exact dollar figure does not appear to be known at this time. The money was spent on research, setting up the ORPP, advertising the plan and the "administration corporation" that was supposed to run it. Work on the ORPP will not stop immediately, and so these costs will likely continue to mount.

It will be interesting to monitor developments in the coming months as the new CPP enhancements are enacted and clarity is provided with respect to details of the plan. Here is hoping some answers are forthcoming.