

Fiscal Flash

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Ontario Retirement Pension Plan — Additional Details

Ontario's further discussion of its proposed Ontario Retirement Pension Plan (ORPP) underlines the government's objective that every full- and part-time employee in the province will be part of the ORPP or a comparable pension plan by 2022 — a target involving adjustments for many Ontario employers. With the ORPP, the government expects to expand pension coverage to about 3.5 million workers.

The ORPP, designed to mirror the Canada Pension Plan (CPP), aims to provide retirees with a predictable income stream for life, with survivor benefits plus inflation indexation as long as the latter is consistent with the ORPP's sustainability. With the advantage of pooling investment and longevity risks, equal employer and employee ORPP contributions, totaling a maximum of 3.8% of wages, will aim to replace 15% of pre-retirement earnings up to \$90,000 (in \$2014). For each individual, benefits will be earned from their contributions and their employer's, assuring that younger workers do not pay for an older worker's benefits. Ontario states that the ORPP at maturity could pay a dollar benefit similar to the average CPP benefit today.

With passage of the Ontario Retirement Pension Plan Act, 2015, the selection process for an initial Board of Directors is under way for the ORPP Administration Corporation, an arm's-length entity to implement the ORPP, enroll eligible employers and their employees, collect and invest contributions and administer benefits. Contributions and investment funds will be held in trust for ORPP beneficiaries, completely separate from the provincial government's consolidated revenues. All administration and investment costs related to the ORPP will be covered by the *Plan*, not by taxpayers.

Designed to complement existing workplace retirement arrangements. ORPP participation is not required for employers and employees already participating in a comparable pension plan. Characteristics of a "comparable plan" include equal employer/employee contributions that are locked-in, and a goal of 15% pre-retirement income replacement for life. For Defined Benefit pension plans, this requires an annual benefit accrual rate of at least 0.5%; for Defined Contribution plans, employers must match each employee's payment to a minimum total contribution equal to 8.0% of base salary earnings. A comparability threshold is being developed for Pooled Registered Pension Plans, while Group Registered Retirement Savings Plans and Deferred Profit Sharing Plans will not be considered comparable. All Ontario employers will be contacted by the ORPP Administration Corporation early in 2016 to verify and assess their pension plans.

Proposed ORPP Timelines

For employers without comparable workplace pension plans as of August 11, 2015, Wave 1 will require ORPP enrolment and contributions for employers with 500 or more employees as of January 1, 2017; Wave 2 the following year will apply to employers with 50-499 employees; and, Wave 3 will cover small employers with 50 or fewer employees as of January 1, 2019 (see *table p.2*).

Wave 4, as of January 2020, will require ORPP participation for employers who have not sufficiently enhanced their pension plans to meet the comparability test or for employees opting out of their workplace pension plans.

Contributions will be phased in for Waves 1 to 3 at 0.8% of annual earnings up to \$90,000 (\$2014) for both employers and employees the first year, 1.6% each in the second year and 1.9% each in the third year. For Wave 4, a 1.9% contribution rate for both the employer and employee will apply on January 1, 2020.

As of January 2022, ORPP contributors 65 years or older may begin to receive ORPP benefit payments proportional to their contributions, with the option of actuarially adjusted benefits as early as age 60 or as late as age 70.

A minimum annual income threshold for ORPP contributions of \$3,500, similar to the CPP, is under consideration. The government recognizes that its goal of maximizing workers' participation and their long-term benefits must be

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balanced against the basic consumption needs of modest-income individuals and the possible consequences of oversaving such as the clawback of the federal Guaranteed Income Supplement during retirement.

To meet the needs of workers with multiple employers, Ontario has committed to developing a buy-back mechanism for employees to purchase service credits for periods when they were unable to contribute to the ORPP. Also under review are options to allow Ontario employers with comparable plans to opt into the ORPP.

Participation of the self-employed in the ORPP would require amendment of the federal *Income Tax Act* to allow individuals currently not in an employment relationship and not reporting salary or wage income to participate in the ORPP. For the CPP, changes already are in place to allow the self-employed to participate. Ontario wishes to resolve this issue because of this group's documented undersaving for retirement, such as the Statistics Canada study reporting financial preparations for retirement by only 74% of Canada's self-employed versus 85% of paid employees.

The federal government recently indicated to Ontario that it will not be involved in the ORPP's administration, leaving Ontario to independently collect required information and ORPP contributions. Federal legislation changes are not planned to allow the ORPP to be treated like the CPP for tax purposes, or to integrate the ORPP within RRSP contribution limits.

Through Canada's extended discussions in recent years of retirement savings adequacy and options, Ontario has remained convinced that factors such as increased longevity make it essential for governments to reinforce Pillar 1, publicly funded supplements for seniors (i.e., federal Old Age Security and Guaranteed Income Supplement and provincial top-ups such as Ontario's Guaranteed Annual Income Supplement), and Pillar 2, the Canada and Quebec Pension Plans. With the Ontario government's initial preference to enhance the CPP not proceeding, it has turned to comprehensive pension coverage for its workers in addition to voluntary tax-sheltered savings instruments. The ORPP's key features are intended to facilitate its adoption by other Provinces and its possible integration with the CPP at some point in the future.

The Planned Phase-In of ORPP Employer/Employee Enrolments and Contributions

	2016	2017	2018	2019	2020	2021
	% of wages / salaries					
Wave 1: Large Employers with 500+ Employees						
Employer Contribution	Enrol	0.8	1.6	1.9		
Employee Contribution		0.8	1.6	1.9		
Wave 2: Medium Employers with 50-499 employees						
Employer Contribution		Enrol	0.8	1.6	1.9	
Employee Contribution			0.8	1.6	1.9	
Wave 3: Small Employers with up to 50 Employees						
Employer Contribution			Enrol	0.8	1.6	1.9
Employee Contribution				0.8	1.6	1.9
Wave 4						
Employer Contribution				Enrol	1.9	
Employee Contribution					1.9	

* All contributions start January 1st of given year. Source: Ontario Finance.

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