

Pensions Law

June 21, 2016

CPP To Be Enhanced; ORPP To Be Cancelled

The Finance Ministers of Canada and its provinces have announced an *agreement* in principle to enhance the Canada Pension Plan (CPP). As a result it is anticipated that the province of Ontario will not proceed with the Ontario Retirement Pension Plan (ORPP).

CPP Enhancement

The enhanced CPP is expected to:

- increase income replacement from one quarter to one third of pensionable earnings;
- increase the maximum income subject to the CPP by 14%;
- be phased in over a seven year period beginning on January 1, 2019;
- increase the Working Income Tax Benefit to help low-income earners; and
- provide a tax deduction (rather than a tax credit) for the enhanced portion of the employee CPP contributions.

Once fully implemented in 2025, a Canadian with constant earnings of \$50,000 over their working life would receive a yearly pension benefit of around \$16,000 instead of the current benefit of \$12,000. Premiums for both employers and employees are anticipated to increase by 1% (from the current 4.95%) of income between \$3,500 and \$54,900. The new upper earnings limit will be \$82,700. Further details will be known as the CPP enhancement is fine-tuned.

A change to the CPP requires the approval of the federal government and at least seven provinces representing two thirds of the population. All provinces except Quebec and Manitoba have agreed in principle to the enhancement and those two provinces have agreed to remain part of the discussion moving forward.

ORPP Cancellation

As noted in our February 18, 2016 Update, *Ontario Announces One Year ORPP Delay for Large Employers; Continues CPP Discussions*, the province of Ontario had hedged its bets with respect to pension reform. Legislation to implement the ORPP was passed on June 9, 2016 but it had not yet been proclaimed in force. At the same time, Ontario has been very supportive of a CPP enhancement.

A joint Federal-Ontario *news release* indicates that the agreement in principle must be approved by all signatories no later than July 15, 2016. If that occurs, Ontario will not proceed with the ORPP.

The enhanced CPP starts one year later than the proposed ORPP and will be phased in more gradually. The CPP premium increases will be less than those contemplated by the ORPP but unlike the ORPP, the plan will be portable from province to province and will not be subject to the exemptions and exclusions previously adopted for the ORPP.

Please contact any member of our Pension, Benefits and Compensation Group for further information.