Ontario Retirement Pension Plan Additional Design Details

January 26, 2016 12:15 P.M.

Ontario is moving forward with its commitment to strengthen retirement income security for Ontarians by announcing further design details of the Ontario Retirement Pension Plan (ORPP), modelled on the strengths and principles of the Canada Pension Plan (CPP).

Information for Employees:

By 2020, every eligible worker in Ontario will be part of either the ORPP or a comparable workplace pension plan.

Benefits: The ORPP is designed to provide plan members a 15 per cent income replacement rate after they contribute to the plan over 40 years. When a plan member retires, their pension benefit would be calculated using their average earnings over the years they contributed to the plan. The ORPP would begin paying benefits in 2022.

Pre-retirement indexation: Benefits would be indexed according to the average growth of wages and salaries as outlined by Statistics Canada. This means the benefits that a plan member has earned in the past will be given present-day value upon retirement.

Post-retirement indexation: Benefits paid over the course of a plan member's retirement would be indexed according to the Consumer Price Index (CPI) to account for inflation. This means that the retiree maintains the purchasing power of their benefits throughout their retirement.

Structure of the survivor benefit: Survivor benefits will be payable to the surviving spouse of an ORPP member or their beneficiary or estate.

- <u>Pre-retirement death:</u> If a plan member dies before retirement, a lump sum based on the actuarial equivalent value of the member's pension will be paid to an eligible spouse. If there is no eligible spouse, the lump sum will be paid to the member's beneficiary or the estate. The CPP does not pay a similar benefit.

- <u>Post-retirement death (with a spouse):</u> When a member with a spouse retires, they will receive a joint and survivor pension, where the plan member receives an adjusted benefit over their lifetime. This will entitle the member's spouse to receive a survivor benefit equal to 60 per cent of the member's adjusted pension after the plan member dies for the course of their life.

The plan member may choose to waive the survivor benefit and receive their full retirement pension with a 10-year guarantee period. If the member dies within that guarantee period, the remaining value of the pension up to 10 years post-retirement is paid to the spouse.

- Post-retirement death (without a spouse): A plan member with no spouse at the time of retirement is entitled to their full pension with a 10-year guarantee period. If the member dies within that guarantee period, the remaining value of the pension up to 10 years post-retirement is paid to the beneficiary or estate.

Religious exemption: The ORPP would establish a religious exemption mirroring the CPP for individuals who are employed as a member of a religious order, have taken a vow of perpetual poverty and whose wage is paid to the religious order. There will also be an exemption for individuals who have self-employed earnings and are members of a religious sect that oppose the acceptance of any public/private benefits and makes provisions for the support of dependent members.

First Nations: The government has worked with the First Nations community and will continue to engage on retirement security and the ORPP. On-reserve First Nation employers and their employees could voluntarily participate in the ORPP as long as both the employer and employee opt-in. If an on-reserve employer voluntarily opts-in to participate in the ORPP, all of its on-reserve employees would be eligible to participate in the plan. The employer or employee would be able to opt-out of the ORPP at any time.

Information for Employers:

Definition of employment in Ontario: Employers would be required to pay contributions on behalf of workers employed in Ontario and also collect and remit contributions from those workers. A person would be considered employed in Ontario if they report to work, full- or part-time, at an employer's establishment in Ontario. This also applies to a worker whose salary or hourly wages are paid from an Ontario-based employer, but who is not required to work at an employer's place of business because they work from a home office, for example.

Pensionable earnings: Pensionable earnings would include both cash and non-cash earnings, including amounts beyond base salary such as bonuses and commissions.

Comparability test: Many pension plans have subsets or classes of employees who are all enrolled in the same pension plan, but do not have identical benefits. For example, some employers have different benefits for part-time and full-time employees. The comparability test will apply at the level of a subset of employees. This approach would streamline the administrative process of assessing plan comparability. A subset must be clearly identifiable in the employer's registered pension plan or collective bargaining agreement in order to be recognized.

Multi-Employer Pension Plans (MEPPs): A MEPP is a pension plan where two or more unrelated employers contribute to the same pension fund. This can be a defined benefit, defined contribution, or a combination of both. For employers that participate in a MEPP, the ORPP would apply the comparability test to the employer's collective bargaining or employee agreements at the subset level. Due to the unique nature of MEPPs and the ways they calculate their benefit, employers would have the option to be evaluated using the Defined Benefit or Defined Contribution threshold.

Waiting periods: If a worker is employed in a workplace with a comparable plan but is not a member of that plan because it has a waiting period, they would also be required to be a member of the ORPP until the waiting period has ended.

Voluntary contributions: Voluntary workplace pension plan contributions will not be applicable when determining if a defined contribution plan is comparable to the ORPP. Employers who offer such plans will have until January 1, 2020 to make any necessary changes to enable them to meet the minimum total mandatory contribution rate of 8 per cent for defined contribution plans under the comparability test.

Opt-in: Employers that have comparable workplace pension plans would be able to opt-in to the ORPP in wave four of the ORPP enrolment schedule or at any time thereafter.

Non-resident workers: The ORPP would include non-resident workers who earn above the minimum earnings threshold of $3,500 and have income that is taxable for the purposes of Canadian and Ontario income tax. In the case of a non-resident employee working in Ontario who is exempt from tax under a tax treaty, they would also be exempt from contributing to the ORPP.

Office of the Chief Actuary: The government intends to establish an Office of the Chief Actuary to conduct actuarial valuations of the ORPP and to provide advice and analysis. As part of its accountability measures, the ORPP AC would be required to file an actuarial valuation of the ORPP with the Canada Revenue Agency every three years, and to publish the valuation.

ORPP funding policy: In order to ensure plan sustainability, the government has designed ORPP benefits to be sustainable over the next 100 years. A funding policy has been established that requires appropriate adjustments to be made in the event that the plan becomes underfunded.

The ORPP's funded status would be measured by the difference between the current contribution rate and the sustainability rate at the time of review, where the sustainability rate is the lowest contribution rate required to keep funding sustainable in the long-term. If this number is zero, plan assets are sufficient to cover expenditures into the future. If the number is greater than zero, plan funding is in excess. If the number is less than zero, plan funding is in shortfall.

In the event of a funding shortfall, the ORPP AC board of directors will operate within a prescribed set of actions, including reversing any previous actions taken during a funding excess and reducing benefit indexation up to a certain limit. If the shortfall has not been remedied by these actions, the AC may increase contribution rates by up to 0.2 per cent. The actions will be certified by the Chief Actuary before they are implemented. In the event of a more significant funding shortfall, the AC will work with the Chief Actuary to make recommendations to the government on which actions are needed to return funding to sustainability.

In the event that a fundamental change is proposed to the nature of the ORPP that would impact plan members' benefits substantially and that is not a direct result of funding policy adjustments, the consent of at least 60 per cent of ORPP members would be required in order to implement such a change. This would ensure that ORPP members have the opportunity to review and approve future changes to the plan that would have a significant impact on their ORPP benefits.

For Media Inquiries only:
Clancy Zeifman Associate Minister's Office
clancy.zeifman@ontario.ca
416-325-3749
Scott Blodgett Ministry of Finance
scott.blodgett@ontario.a
416-325-0324

Available Online
Disponible en Français