

ORPP update following the passage of Bill 186, *Ontario Retirement Pension Plan Act, 2016*

June 2, 2016

ORPP LEGISLATION PASSED

On June 2, 2016, the Ontario government passed Bill 186, *Ontario Retirement Pension Plan Act (Strengthening Retirement Security for Ontarians), 2016* ("ORPP Act, 2016"). The ORPP Act, 2016 enshrines in legislation key requirements of ORPP plan design, including participation, contributions, benefit types and plan sustainability. It will be supplemented by a set of regulations that are expected to be published this summer.

Employers with 500 or more Ontario employees without registered pension plans will have to enroll in the ORPP in 2017, but no contributions will be made until January 1, 2018.

All other implementation timelines previously announced remain unchanged. Contributions will start January 1, 2018 for employers with 50-499 employees and January 1, 2019 for employers with less than 50 employees.

A summary of the ORPP plan design is provided below and our detailed FAQ has been updated, where required, in line with the ORPP Act, 2016.

More information about the administration and management of the ORPP will be provided once the ORPP legislation is finalized.

Information for Employees and Employers

Plan Design

Plan objective	The ORPP will provide benefits starting in the year 2022 and is intended to provide a 15% target income replacement rate for employees contributing to the ORPP over a 40 year period.
Contribution amounts	After the initial phase-in period, employees and employers will each be required to contribute 1.9% of earnings to the ORPP for a total contribution of 3.8%.
Pensionable earnings	Contributions to be based on cash and non-cash earnings which include base salary plus overtime and bonuses received.
Benefit amount	The benefit accrual rate for the ORPP would be 0.375% per year. When an employee retires, the employee's pension benefit would be calculated using the employee's average earnings over their career.
Indexation	Benefits will be indexed to ensure that the amounts received from the ORPP have a present day value and retain their purchasing power throughout retirement.
Survivor benefits	Pre-retirement and post-retirement survivor benefits will be paid from the ORPP with spousal priority if an employee has an eligible spouse.

Eligibility

Definition of employment in Ontario	A person is considered employed in Ontario if they report to work, full-time or part-time, at an establishment of their employer in Ontario, or if they are paid by an Ontario-based employer but are not required to report to work at the employer's place of business (for example, an employee who works from home in Manitoba but is paid from their employer's place of business in Ontario).
Waiting periods in relation to comparable workplace pension plans	Employees and employers would be required to contribute to the ORPP if there is a waiting period before an employee becomes eligible to participate in a comparable workplace pension plan.
Religious exemption	Employees who are members of a religious order or sect are exempted from participation in the ORPP provided that the prescribed criteria for exemption are met.
First Nations	Provisions are made to allow 'on-reserve' employees and employers to voluntarily participate in the ORPP, and they would be permitted to opt out at any time.

Comparability test for workplace pension plans

Pension plans with employee classes	Where benefits provided by a plan are not identical within each employee class, the comparability test to determine employee-required participation in the ORPP will be determined at the class level for each class that participates in the plan.
Multi-Employer Pension Plans (MEPP's)	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 as defined by the governing plan documents. Subsets are groups or classes of employees who are all enrolled in the same pension plan but who do not have identical benefits. Given the unique nature of a MEPP, which is a pension plan where two or more unrelated employers participate, and can be either defined benefit or defined contribution or a combination of both, the ORPP will allow employers the option to be evaluated at either the defined benefit or defined contribution threshold.

Funding and administration

ORPP AC	The Ontario Retirement Pension Plan Administration Corporation (ORPP AC) has been formally established and Ontario has appointed a CEO and Board of Directors for the ORPP AC. The ORPP AC will be responsible to set up the ORPP (including the infrastructure and technology required to implement the plan), register plan members and collect and invest contributions.
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Funding policy	A funding policy has been established that requires appropriate adjustments in the event the plan becomes underfunded. The objective is to ensure that ORPP benefits are sustainable over the next 100 years. The ORPP Act, 2016 (Act) sets out specific criteria that must be followed by the ORPP AC to ensure this objective is met over the long term which includes remedial actions affecting benefits and/or contribution rates where it is determined that the ORPP has a funding shortfall.
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The options available to the ORPP AC under the funding policy include the following:

- reverse previous actions taken to improve benefits or to reduce contributions during a funding excess;
- reduce benefit indexation amounts and adjust the maximum earnings threshold up to the maximum limits allowed under the Act; and
- increase combined employee/employer contribution rates by up to .2%.

If these prescribed measures are insufficient to restore sustainability, the ORPP AC will work with the Chief Actuary to determine what further changes would be necessary and will notify the Minister of Finance of the contribution rate increase or other remedial action that is required. The Lieutenant Governor in Council may then act on the information provided by the ORPP AC and take the necessary actions to amend the text of the ORPP to ensure its sustainability for the future.

Any changes made would be done on a prospective basis and may only affect adjustments that would be made, or contributions that would be payable, after the amendment is made.

In addition to the highlights described above, Manulife is continuing to engage the government of Ontario by having discussions about solutions that will make it easier for employers to transition to comparable pension plans, and share feedback we are receiving from plan sponsors and market sources.

Manulife will continue to monitor ORPP developments and will provide plan sponsors and market sources with additional details as soon as they become available. We will also continue to support plan sponsors and market sources in better understanding the impact to their plans, and work closely with them to support their course of action and to minimize the impact of the ORPP.

In the meantime, to learn more about the ORPP please visit manulife.ca/ORPP.

If you have any questions, please contact your Manulife representative.

