

## Canada Pension Plan Will Be Expanded

On June 20, 2016, the finance ministers of eight provinces signed an agreement in principle to expand the Canada Pension Plan (CPP) effective January 1, 2019.<sup>1</sup>

Although the province of Quebec did not sign the agreement, it expressed written support for a modest, targeted and gradual enhancement of the CPP and will engage with its citizens on the enhancement of the Quebec Pension Plan. The province of Manitoba did not sign the agreement, due to a recent change in government, but will continue to be part of the ongoing process of expanding the CPP.

As a result of the agreement to expand the CPP, the province of Ontario announced that the Ontario Retirement Pension Plan (ORPP)<sup>2</sup> will be cancelled.

### Enhanced CPP Design Features

The ministers of finance agreed to the following CPP enhancements:

- A gradual seven-year phase-in of benefit and contributions commencing on January 1, 2019;
- The income replacement level under CPP will be increased to one-third of average monthly pensionable earnings, from the current one-quarter of average monthly pensionable earnings. This will result in approximately an additional \$4,000 per year in enhanced CPP benefits based on a full (40-year) working career for an individual earning at the current CPP maximum amount.
- The maximum amount of earnings covered by CPP will be increased to \$82,700 by 2025 from the 2016 level of \$54,900;
- An increase in employer *and* employee contributions of 1 percentage point over a five-year period commencing January 1, 2019, from the current rate of 4.95 percent to 5.95 percent;



<sup>1</sup> A change to the CPP needed the consent of the federal government and a minimum of seven provinces representing at least two-thirds of the country's population. The [agreement in principle](#) can be viewed on the Department of Finance website.

<sup>2</sup> [Details about the ORPP](#) are on the Government of Ontario's website.

- An increase to the Working Income Tax Benefit<sup>3</sup> to assist low-income earners with the increase in CPP contributions; and
- The enhanced CPP contributions will be tax deductible, instead of the tax credit applied to regular CPP contributions.

## Implications

According to David Blundell, Compliance Specialist at The Segal Group, enhancing the CPP will mean that employers will face increased CPP contributions commencing in 2019 (the first increase since 2003). Mitigating this for Ontario employers is the elimination of the ORPP, which had potentially higher cost for affected employers. Elimination of the ORPP is also welcome news for sponsors of multi-employer pension plans (MEPPs) because of the challenges in demonstrating comparable plan coverage, which would result in exclusion from ORPP coverage. Ontario employers should, therefore, suspend any initiatives to address the requirements of the ORPP pending its elimination.

Employers may need to provide additional reporting and tracking of the enhanced CPP contributions to the Canada Revenue Agency to allow a tax deduction rather than a tax credit to be claimed on those enhanced contributions.

Employers that offset Registered Pension Plan contributions and/or benefits by CPP benefits will need to review their plans to identify if adjustments are needed.

## Next Steps

The agreement in principle now must be approved by all signatories no later than July 15, 2016, which means that the government of each province must approve the CPP enhancement principles. Once the agreement in principle is approved by the provinces, legislation to amend the *Canada Pension Plan Act* will need to be introduced and adopted by the federal government.

However, many details on how the enhanced CPP will work need to be determined by the federal government. At this point, the federal finance department has not released information about how CPP benefits will be increased during the transition period or whether a full working career is required to receive the full enhancement.



*As with all issues involving the interpretation or application of laws and regulations, plan sponsors should rely on their legal counsel for authoritative advice on Canada Pension Plan enhancement. Segal Consulting can be retained to work with plan sponsors and their legal counsel on determining the implications. For assistance or if you have questions about the regulations and the law, contact your Segal consultant or David Blundell, Compliance Specialist, at 416.969.3966 or [dblundell@segalco.com](mailto:dblundell@segalco.com).*

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<sup>3</sup> The Working Income Tax Benefit is a refundable tax credit intended to provide tax relief for eligible working low-income individuals and families who are already in the workforce and to encourage other Canadians to enter the workforce.



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