

## LABOUR AND EMPLOYMENT

### EMPLOYERS' GUIDE TO THE ONTARIO RETIREMENT PENSION PLAN

by W. Eric Kay and Andrew J. Skinner

The Ontario Retirement Pension Plan (the **ORPP**), will be a provincially-managed plan that, like the Canada Pension Plan, will be funded by equal co-contributions from both employers and employees. It will come into effect as early as January 1, 2017, and will mean big changes are coming to the way employees save for retirement. Accordingly, employers are advised to continue follow the development of the ORPP as more details are announced, and to prepare for its implementation, beginning on January 1, 2017.

The ORPP is a mandatory provincial pension plan designed to provide Ontario employees with a predictable stream of income in retirement, in order to close the retirement savings gap for Ontarians who do not have a secure workplace pension plan. To achieve this goal, the ORPP mandates that every employee must participate in either the ORPP or in a "comparable" workplace pension plan by 2020. "Comparable" workplace pension plans will include registered plans subject to federal and provincial pension legislation and have minimum contribution thresholds, such as defined benefit plans (DB Plans), and defined contribution plans (DC Plans).

In both DB and DC Plans, employers and employees contribute set percentages of the employee's salary. The key difference between the two plans is that, in most DB plans, employers administer the investments, while under a DC plan, each individual employee decides how their money is invested. In a DB Plan, for example, contributions are invested in a pension fund and the assets are managed by the employer on the employee's behalf, while in a DC Plan, the contributions are deposited in a personal account set up in the individual's name.

To be considered "comparable", DB and DC Plans must meet the following contribution thresholds:

- A DB Plan will be considered comparable where there is an annual benefit accrual rate of at least 0.5 percent.
- A DC Plan will be considered comparable where there is a minimum total annual contribution of 8 percent of base salary earnings, and employers contribute at least 50 percent of the total contribution, being at least 4 percent.

Also, hybrid DB and DC Plans may also be considered "comparable" if they comply with certain formulas developed by the government.

#### Contribution rates and enrolment schedule

Enrolment in the ORPP will occur in four "waves", based on the number of employees in the business and type of registered workplace plan currently in place, beginning with the largest employers in 2017. Contribution rates will also be phased in based on the enrolment of a business, in order to allow employers time to adapt. Both employers and employees will make equal, graduated contributions to the ORPP,

starting at a rate of 0.8 percent each (1.6 percent combined), and ultimately capped at 1.9 percent each (3.8 percent combined) on an employee's annual earnings up to \$90,000. Once employers and employees begin contributing at the maximum rate, they will continue to contribute at that rate. Earnings above \$90,000 (in 2014 dollars) will be exempt from ORPP contributions.

Employers in each wave will commence making contributions within specific timeframes. Compulsory enrolment and contributions in accordance with wave schedules are as follows:

1. Large employers (with 500 or more employees) without registered workplace plans are in Wave 1. Contributions for Wave 1 employers will start as of January 1, 2017 at a rate of 0.8 percent. This rate will increase to 1.6 percent in 2018, and remain at 1.9 percent as of 2019 for both the employer and employees.
2. Medium employers (with 50-499 employees) without workplace plans are in Wave 2. Contributions for Wave 2 employers will start as of January 1, 2018 at a rate of 0.8 percent. This rate will increase to 1.6 percent in 2019, and remain at 1.9 percent as of 2020 for both the employer and employees.
3. Small employers (with 50 or fewer employees) without registered workplace plans are in Wave 3. Contributions for Wave 3 employers will start as of January 1, 2019 at a rate of 0.8 percent. This rate will increase to 1.6 percent in 2020, and remain at 1.9 percent as of 2021 for both the employer and employees.
4. Finally, employers with registered plans that do not meet the applicable comparability threshold test will be in Wave 4. Contributions for both the employers and employees in Wave 4 will start and remain at a rate of 1.9 percent as of January 1, 2020.

Any employer with a registered workplace pension plan that existed on August 11, 2015, or that has begun the process of registering one, will be assigned to Wave 4. If such an employer's plan meets the applicable comparability threshold test by the time Wave 4 begins on January 1, 2020, the employer will not be required to enroll in the ORPP. Similarly, any employer that does not have a workplace pension plan, but sets up a comparable plan prior to its entrance wave, will not be required to enroll in the ORPP.

#### Getting your business ready

To best evaluate a business' options, employers of all sizes should begin preparations before the mandatory ORPP enrolment begins for its entrance wave.

Employers currently without a workplace pension plan should make arrangements to prepare their business for making the required contributions prior to the start of their applicable wave, or put in place a "comparable" pension plan.

Employers currently with a workplace pension plan should evaluate their plan and determine whether it qualifies as "comparable". If the

plan does not meet the ORPP's "comparable" threshold, the employer will have to choose to either re-design the existing pension plan, or enroll in the ORPP.

The Ontario Retirement Pension Plan Administration Corporation will contact all Ontario employers in early 2016 in writing to verify their existing pension plans and assess the coverage offered by employers to their employees.

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