



BACKGROUND

ONTARIO BUDGET • **2014**

MINISTRY of FINANCE

BUDGET 2014

Strengthening Retirement Security in Ontario

May 1, 2014

The government is committed to a strong and secure retirement income system to help ensure that Ontarians are better able to enjoy their retirement years.

Several studies have shown that, unless action is taken, a significant portion of today's workers will face a decline in their living standard in retirement, and that this problem will likely worsen over time.

Canada's publicly administered Canada Pension Plan (CPP) is fundamental to the retirement income security of all Canadians, but its benefits alone are too low to meet the needs of middle-income earners. And as noted in *Ontario's Long-Term Report on the Economy* (2014), two-thirds of workers do not participate in workplace pension plans.

The 21st century workforce needs a modern retirement income system, but Ontario and Canada have a 20th century system in place. That is why Ontario is taking a leadership role in addressing this pressing issue by introducing the Ontario Retirement Pension Plan.

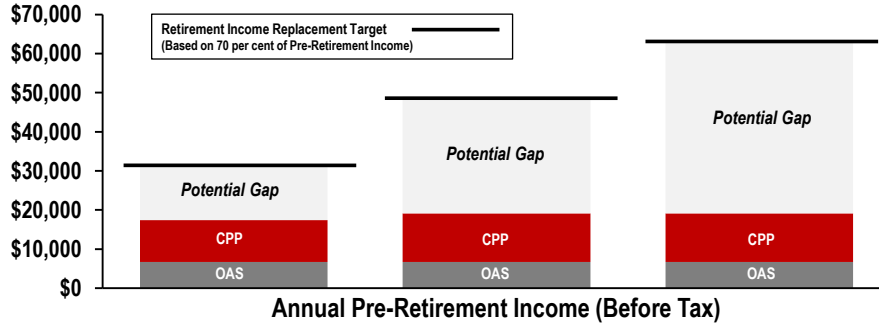
The Problem: Ontarians Are Undersaving for Retirement

Retirement experts often recommend that workers aim to replace up to 70 per cent of their income in retirement to maintain a similar living standard. Canada's retirement benefit programs, namely Old Age Security (OAS) and the CPP, do not provide sufficient income replacement for those with middle incomes.

In addition, a significant portion of today's workers are not saving enough to maintain their standard of living when they retire. Individuals with middle pre-retirement incomes face a potential retirement income gap due to the limited benefits provided by the CPP and OAS benefits. These workers must rely on other sources of retirement income, such as workplace pensions or registered retirement savings plans (RRSPs), to fill this gap.

Retirement Income Targets and Potential Gaps

Annual Retirement Income (Before Tax)



	At \$45,000	At \$70,000	At \$90,000
Retirement Income Target	\$31,500	\$49,000	\$63,000
Potential Gap	\$14,109	\$29,829	\$43,829

Notes: CPP amounts assume the individual contributes for 40 years, begins collecting CPP at age 65 and had steady career before-tax earnings of \$45,000, \$70,000 and \$90,000, expressed in 2014 dollars. OAS benefit amounts are based on estimates for 2014 and assume the individual has been a resident of Canada for 40 years after the age of 18, and begins collecting benefits at age 65. The target income levels are based on 70 per cent of pre-retirement income. Figures do not take into account the impact of income tax.
Source: Ontario Ministry of Finance.

Inadequate saving not only puts future retirees' incomes at risk, but will also have negative long-term impacts on the economies of Ontario and Canada.

Factors contributing to the undersaving problem include:

- Most people do not have a workplace pension plan
- Voluntary savings are inadequate
- People are living longer.

A New Initiative to Enhance Retirement Savings

The Province is committed to taking a leadership role in modernizing the retirement income system to help ensure that today's workers are able to enjoy their retirement years.

Strengthening the Retirement Income System

The Canada Pension Plan

The CPP is an efficient and effective mandatory public pension program, with contributions shared equally by employers and employees. It provides Canadians with a secure pension that is predictable, indexed to inflation and paid for life. Because the CPP is fully portable within Canada, it allows workers who change jobs frequently (e.g., younger workers) to have ongoing pension coverage, and it covers virtually all types of employment.

However, the basic structure of the CPP has not changed since the plan was created in 1966. The current maximum benefit is only about \$12,500 per year, and the average annual benefit paid is far below that, at about \$6,400 in Canada and \$6,800 in Ontario. These amounts are not high enough to allow workers, particularly middle-income earners, to maintain their standard of living in retirement.

Enhancing the CPP is critical to ensuring Ontarians and Canadians, particularly middle-income earners, have greater financial security in retirement. Ontario's preferred approach to strengthening the retirement income system is through an enhancement to the CPP. But despite the consensus among provinces and territories to continue collaborative efforts, in December 2013 the federal government unilaterally shut down CPP enhancement discussions.

The Ontario Retirement Pension Plan

Ontario is therefore proposing to move forward with a new mandatory provincial pension plan — the Ontario Retirement Pension Plan (ORPP) — that would be cost-effective, responsible and help Ontario workers build a more secure retirement future.

The ORPP would be the first of its kind in Canada and would expand pension coverage initially to more than three million working Ontarians who currently rely on the CPP, OAS and their own savings for retirement income. It would build on the key features of the CPP, and could later be integrated with the CPP should negotiations on an enhancement be successful in the future.

By targeting those most at risk of undersaving, particularly middle-income earners, the ORPP would provide more money for Ontarians in retirement.

The ORPP would include the following design features:

- A predictable stream of income in retirement by pooling longevity and investment risk, and indexing benefits to inflation, similar to CPP's retirement benefit.
- Equal contributions shared between employers and employees, not exceeding 1.9 per cent each (3.8 per cent combined) on earnings up to a maximum annual earnings threshold of \$90,000. The ORPP maximum earnings threshold would increase each year consistent with increases to the CPP's maximum earnings threshold.
- Aim to provide a replacement rate of 15 per cent of an individual's earnings, up to a maximum annual earnings threshold of \$90,000.
- Publicly administered at arm's length from government, have a strong governance model and be responsible for managing investments associated with annual contributions of approximately \$3.5 billion.
- Benefits would be earned as contributions are made to ensure that the system is fair, and younger generations are not burdened with additional costs.

Since the ORPP is intended to assist individuals most at risk of undersaving, particularly middle-income earners without workplace pensions, those already participating in a comparable workplace pension plan would not be required to enrol in the ORPP.

To reduce the burden on lower-income workers, earnings below a certain threshold would be exempt from contributions, similar to the CPP. The government will consult on whether the ORPP's lower-income threshold would mirror that of the CPP at \$3,500.

As the government recognizes the unique status of self-employed individuals in the labour market as both employee and employer, it will consult to determine how best to assist self-employed individuals in achieving a secure retirement future.

Examples of How the Ontario Retirement Pension Plan Might Work

The following ORPP numerical examples are based on analysis of recent CPP enhancement proposals. These examples may help show how the ORPP might address the undersaving problem. Since the design and structure of the ORPP may vary from the CPP, actuarial analysis would be required to finalize elements of the ORPP.

Barbara, Bonnie and Bernice are about to enter the labour force and plan to work for 40 years and retire at 65. For illustrative purposes, at age 65, Barbara, Bonnie and Bernice will have had steady career earnings of \$45,000, \$70,000 and \$90,000 respectively, in 2014 dollars. The chart that follows illustrates the annual ORPP retirement benefit, the benefit level when combined with CPP benefits, and the annual CPP and ORPP contributions.

With a contribution rate of 1.9 per cent, Barbara (earning \$45,000) would contribute about \$788 annually to the ORPP, matched by her employer over her working career. In retirement, Barbara would receive:

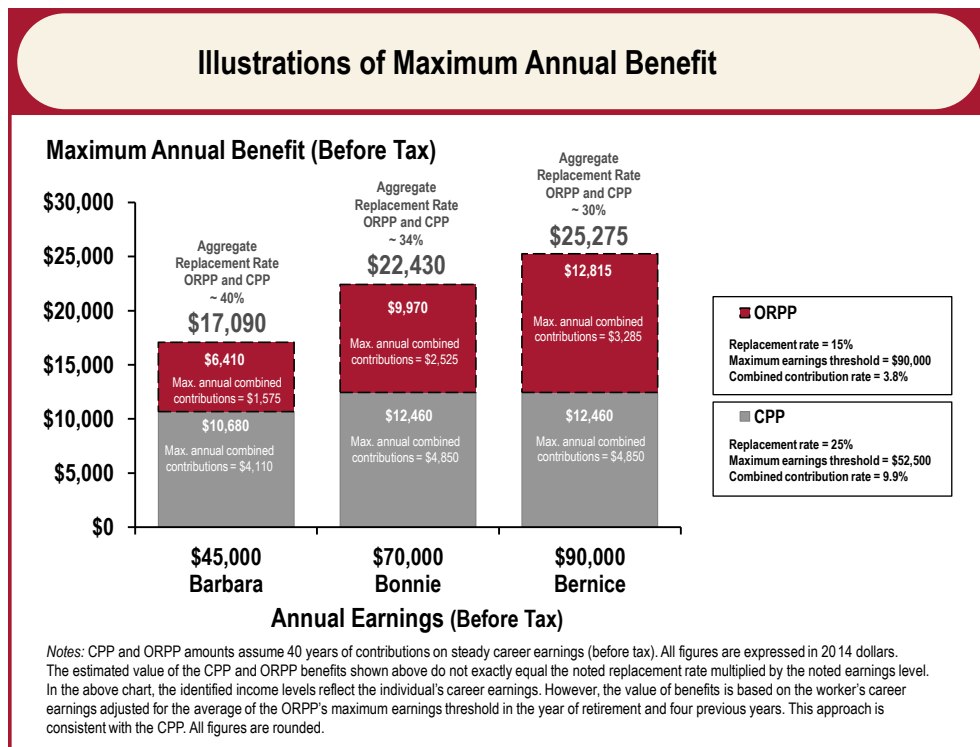
- A maximum ORPP benefit of \$6,410 annually for life
- Combined ORPP and CPP benefits of about \$17,090 annually for life, replacing about 40 per cent of her pre-retirement income.

With a contribution rate of 1.9 per cent, Bonnie (earning \$70,000) would contribute about \$1,263 annually to the ORPP, matched by her employer over her working career. In retirement, Bonnie would receive:

- A maximum ORPP benefit of \$9,970 annually for life
- Combined ORPP and CPP benefits of about \$22,430 annually for life, replacing about 34 per cent of her pre-retirement income.

With a contribution rate of 1.9 per cent, Bernice (earning \$90,000) would contribute about \$1,643 annually to the ORPP, matched by her employer over her working career. In retirement, Bernice would receive:

- A maximum ORPP benefit of \$12,815 annually for life
- Combined ORPP and CPP benefits of about \$25,275 annually for life, replacing about 30 per cent of her pre-retirement income. This roughly doubles the retirement benefit Bernice would receive under the CPP alone.



Recognizing that retirement income security is critically important to Ontario families and for the future prosperity of the province, the government will be moving forward with implementation of the ORPP as a priority. The ORPP would be introduced in 2017 to coincide with the expected reductions in Employment Insurance premiums.

Enrolment of employers and employees into the ORPP would occur in stages, beginning with the largest employers. Contribution rates would be phased in over two years.

To ensure the successful implementation of this initiative, the government will consult with various stakeholders to ensure the ORPP would effectively balance retirement income security with impact on business. In addition, the government will consider how to best leverage the expertise of Ontario's public-sector pension plans and the financial services sector. To facilitate a seamless implementation of the ORPP, the government will work with the federal government, where necessary.

The government will continue to engage the Technical Advisory Group on Retirement Security to finalize the design and structure of the ORPP.

Ontario will work with other provinces to examine whether the ORPP could be expanded to enhance the retirement income security of those living outside Ontario.

Further technical details will be released later this year prior to introducing legislation.

FOR MEDIA INQUIRIES ONLY:
Susie Heath, Minister's Office, 416-325-3645
Scott Blodgett, Ministry of Finance, 416-325-0324

ontario.ca/finance-news
Disponible en français

FOR PUBLIC INQUIRIES CALL:
1-800-337-7222
TTY: 1-800-263-7776