

News From Aon

On Canada Pension Plan reform, employers have concerns, but many have yet to begin preparing for change

Aon survey suggests less than half of employers will plan for CPP reform in 2017

TORONTO, JANUARY 16, 2017 – As the government commitment to expanding the Canada Pension Plan (CPP) moves forward, the need is pressing for Canadian employers to assess employee compensation, pensions and benefits, and to prepare for integrating the new CPP into their total rewards strategies. Yet according to research from [Aon Hewitt](#), the global talent, retirement and health solutions business of Aon plc (NYSE: AON), most Canadian employers have yet to begin this important task. In fact, less than half of Canadian employers say they will be planning for CPP enhancement this year, and nearly the same proportion do not know when they will begin the planning process.

The [survey](#), completed in early October, compiled responses from nearly 250 Canadian organizations in the private and public sectors about their attitudes towards and level of preparedness for CPP expansion; 95% of surveyed companies offer some form of pension plan (defined benefit, defined contribution or hybrid DB/DC).

When it comes into effect in 2019, CPP enhancement could have a significant impact on employee compensation, pension funding formulas, total rewards strategies and other factors. For Canadian employers, the challenge and the opportunity of enhanced CPP lies in integrating the changes into their rewards and pension strategies. “The CPP enhancement is big enough to provide meaningful benefits, yet small enough that it won’t cause the elimination of workplace pension plans,” said Allan Shapira, Managing Director and Senior Partner, Aon Hewitt. “The challenge for employers now is how best to integrate a bigger CPP into their overall compensation and rewards strategies.”

According to the Aon survey, only 13% of employers have started to plan for CPP reform, and 35% will begin planning by October 2017. Meanwhile, 46% of respondents said they do not know when they will start preparing for CPP reform.

The employers surveyed share some common concerns. Many (36%) are worried about increased administrative complexity; others (22%) are concerned about potentially negative employee reactions. The chief concern, cited by 65% of respondents, is increased cost, although there is no consensus on how best to address this challenge. Two-thirds of respondents said that they simply do not know. Of those who do, about a quarter (27%) said they plan to absorb any cost increases; eight percent said they will make changes to current retirement plans, and six percent plan to change other employee compensation. Meanwhile, only three percent of respondents said they expect to look at health benefits plans to find funding, even though the CPP changes provide an opportunity for employers to look holistically at their pension, compensation and pre-/post-retirement health benefits spends to maximize value.

According to Aon, a comprehensive strategy to integrate the new CPP into their total rewards strategies is vital for employers. Most registered workplace retirement plans are designed to target an overall benefit level for employees, inclusive of current CPP benefits. As part of planning for public pension enhancement, employers should prioritize assessing benefits adequacy in light of a bigger CPP. According to the Aon survey, however, only seven percent of respondents said they are using the CPP enhancement as an opportunity to reassess total rewards strategies, and 18% intend to do so. Still, more than half (57%) have no plans yet.

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“The phase-in period for CPP enhancement is a long one, and for good reason, but pension plan sponsors should not look at it as a grace period,” said William da Silva, Senior Partner and National Retirement Practice Leader, Aon Hewitt. “The work to design, implement, communicate and administer the changes is significant, and employers should not underestimate it.”

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