

Winter 2018

15 Toronto Street, Suite 700
Toronto, Ontario
M5C 2E3

(416) 366-9256
1 (800) 265-7818
Fax: (416) 366-9171
Web: www.pyc.net

Impending Changes to CPP

In 2018, many owner-managers across Canada chose to adjust staff levels, wages and prices when the minimum wage was increased. For many, it is still too early to determine the final impact on the corporate bottom line as a full fiscal year has not been completed.

With the adjustments of 2018, owner-managers may not have looked at budgets for 2019, but considering changes in the Canada Pension Plan (CPP), it may be time to start projecting 2019 and beyond.

Bill C-26

On October 6, 2016, Bill C-26 was passed with the objective of enhancing the CPP to increase the amount working Canadians receive from CPP when they retire. The amount is set to increase from one quarter of their eligible earnings to one third. The increase to an individual's pension will depend on how long and how much they have contributed to the enhanced CPP structure. An individual will receive the full increase if they have contributed to the enhanced CPP for 40 years. Further, the federal working income tax benefit (WITB) will increase to offset the increase in CPP contributions from low-income earners.

This is a polite way of saying that starting January 1, 2019, higher contributions will be required from both employees and employers. Higher contributions will be phased in over seven years.

The new structure requires that employees and employers contribute more on earnings up to the maximum amount of eligible earnings as indicated under the CPP contribution tables. By 2023, the employee and employer CPP contribution rate will have risen from 4.95 per cent to 5.95 per cent of eligible earnings. This increase will be phased in gradually from 2019 to 2023.

Those who are self-employed pay both sides of the equation, so contributions will have risen by 2% of eligible earnings by 2023.

Maximum Pensionable Earnings Increasing

Under the current system, CPP contributions are capped at 4.95% of the maximum annual pensionable earnings of \$55,900. Once the \$3,500



basic exemption is applied, the maximum contribution by both employee and employer is \$2,593.80 for a total contribution of \$5,187.60.

Down the road the Yearly Maximum Pensionable Earnings (YMPE) figures are going to change starting from the 2018 YMPE maximum to a projected YMPE of \$72,500 by 2025. This amounts to an increase in the YMPE approximating 30%.

In addition to establishing a graduated YMPE rate for contributions there will be a new upper earnings limit starting in 2024 called the Year's Additional Maximum Pensionable Earnings (YAMPE) that will effectively require both the employee and the employer to pay an additional amount into CPP when they exceed the YMPE. It appears that an additional 4% contribution will be required by both the employee and the employer on any amounts that exceed the \$72,500 YMPE amount up to the YAMPE of \$82,700.

Tax Deduction for Enhanced CPP Contribution

For the employed and self-employed that exceed the \$72,500 YMPE and are required to pay in an additional amount to CPP, the employed will be entitled to a tax deduction on the excess amount, while the self-employed will be able to deduct both the employee and employer share of enhanced contribution.

Holiday Donations

In lieu of seasonal gifts to individual clients, Prentice Yates & Clark made donations to certain charities.

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Impending Changes to CPP - continued

Manage the Future

Even though these increases will be phased in over time, astute owner-managers must consider:

- the future cost of payroll and the impact on profits
- the impact that these changes may have on the company retirement and savings plans already in place for employees
- whether future hires will be entitled to the same benefit package as existing employees
- ensuring that those preparing payroll are aware of the impending changes
- preparing your employees for the additional deductions by communicating to employees the projected additional CPP source deductions from their pay
- communicating to the employee the additional benefit cost for contributions the company makes to their CPP
- communicating to employees the impact that additional contributions may or may not have on the company retirement and savings plan
- the impact that this may have on future payroll costs as employees request raises to offset the additional deductions from payroll and an increase in the cost of living
- the timing of bonuses and other discretionary income

Employers and those who are involved in payroll may be interested in reviewing the [CRA website](#) that offers a chart showing the timing of the changes, the increased YMPE, the additional contribution amounts that will be required up to the YMPE and the contributions required on amounts over the YMPE. Those who are involved with payroll will certainly want to keep abreast of the changes and ensure that their accounting packages can be modified for the changes that are coming. ♦

Inside PYC

Effective January 1, 2019, Lloyd K. Turner, CPA, CA, LPA will retire as a partner of Prentice Yates & Clark. Lloyd has been a team member since 1985 and partner since 1995. Lloyd will remain with the firm as a senior associate and continue providing value added service and advice to and for the benefit of clients, staff and partners.

The annual **Golden Horseshoe Co-operative Housing Federation** AGM/Winter Workshops Supplier Expo will be held January 26th in St. Catharines where J.J. Pauze will be at the Supplier Expo.

Congratulations to **Darja Morley, Treasurer, Mariposa Place-Orillia**. Ms. Morley won the draw for the gift basket courtesy of Prentice Yates & Clark at the recent ONPHA Conference and Trade Show.

We would like to welcome **John Petrakos and Gayan Premachandra** as new members of our professional staff.



The High Cost of Stress

According to Psychology Today:

"Stress generally refers to two things: the psychological perception of pressure, on the one hand, and the body's response to it, on the other, which involves multiple systems, from metabolism to muscles to memory. Through hormonal signaling, the perception of danger sets off an automatic response system, known as the fight-or-flight response, that prepares all animals to meet a challenge or flee from it."

Stress response was meant to be a temporary reaction to a life-threatening situation, but unfortunately more and more employees are finding that the stress of everyday living combined with on-the-job stress is having an impact on their lives.

Owner-managers may not be able to control an employee's personal life stress. However they must be sensitive to stress points that trigger employees' unhappiness, both within and outside the workplace environment, and work towards assuaging the stress points.

Stress within the workplace is an expensive hidden cost to the employer:

- Absenteeism increases create higher payroll cost.
- Productivity is reduced when employees are absent.
- Illness, both physical and mental in nature, drive up the cost of health premiums.
- Employee turnover results in higher training cost and lost productivity.
- Costly litigation may result if employees challenge dismissal.
- Individuals under stress may have reduced ability to make critical decisions, as their thought process is clouded with personal issues that lead to errors.

Interpersonal skills may deteriorate, as individuals under stress may not filter comments, thereby offending co-workers or clients.

Other workers are negatively impacted thereby reducing effectiveness and creating job dissatisfaction.

Reducing Employee On-The-Job Stress

Identifying and counteracting on-the-job stress is not an easy task for the owner-manager. Perhaps the best approach is for the owner-manager to put themselves in the worker's position to try to understand the stress points of the job. It is not suggested that management needs to become an **"Undercover Boss"** as depicted on the television series, but adopting the concept certainly would help management identify stress points within a job classification and better enable them to address the areas that require attention.

The High Cost of Stress - continued

Consider these practices to help your employees reduce their stress on the job:

- Have an open-door policy with the assurance of confidentiality that allows employees to discuss workplace-related issues as well as personal issues that are causing anxiety. (Only 23% of Canadian workers had enough confidence to approach management and seek help with stress issues.)
- Address job-related problems and or employee concerns (bereavement, divorce, illness, moving home and financial) in a timely fashion. An individual's stress is an overlay of personal and work-related problems and not understanding and working with the employee to address issues amplifies their stress level.
- Ensure that managers know how to reprimand and provide constructive criticism without humiliating or degrading employees.
- Never tolerate aggressive physical, emotional or vocal bullying tactics.
- Institute empathy and interpersonal skills training for all employees.
- Prepare employees for changes in work environment or upcoming projects through dialogue. Management receives feedback and thus a means of judging the demands that will be placed upon employees, available employee skills, project hours and timeline required. This in turn will assist in normalizing the project into a manageable process and thereby reduce stress.
- Owner-managers want employees that work as hard for the company as they do. Ensure that employees do not take on more than they can handle. Encourage employees to take coffee breaks, lunch breaks, full vacation and statutory holidays to allow time to let go of workplace responsibilities.
- Provide training in time management that educates employees not only to manage their time, but also to recognize that taking on multiple projects that cannot be completed within given time frames leads to poor job performance, anxiety and stress.
- Monitor employees and management to make more effective use of time. Spending time on non-essentials tasks when a major project is underway creates anxiety and stress. Focusing on what is important directs employees to what is priority.
- Ensure that upper management and team leaders can vent their concerns by having regular meetings to discuss concerns about projects, employees or management issues. Second-in-command individuals are unable to discuss issues with employees and thus need a means to express frustration and anxiety that they may be feeling about the job.
- Reward employees by letting them know their work is valued and appreciated. Regular reviews, and not just for raises, are required to let employees know when they are doing well and when there is need to modify their approach, or to gain more experience, additional training or education.
- Involve employees' spouses and children so they have an appreciation of job functions, environment and co-workers and thereby have a better understanding of what goes on during the work day. Consider family days, bring your child to work days or company events to create a family environment.

Canadian statistics indicate that 500,000 Canadians miss work each week from stress-related issues. Forty-seven per cent of individuals indicate that work is the most stressful part of their life.

Consider that work-related stress cost the Canadian workplace approximately \$20 billion per year – isn't it time that that your business made every effort to reduce stress within the workplace and positively enhance the bottom line? ♦



Training for the Future

New technology makes training easier and more effective.

Training is an essential part of building and maintaining any successful business. Technological advancements have increased the amount and types of knowledge required to perform a task. There is still a need for some traditional skills, but gone are the days when a new employee learned a fixed body of knowledge and applied that knowledge for their entire career. New training methods are making the training process faster, more efficient and less expensive.

Sending employees off to training courses used to be the only means by which a business could keep workers up to date. But that too appears to be ending as faster, more efficient, less expensive means of upgrading employees flood the work world.

Technological advancements have made work less demanding but have extended the knowledge base required to complete a task. Employers need to realize that access to information on a “need-to-know” basis is an essential attribute that they must embrace if they wish to survive. Management should take advantage of new methods now available within most industries.

Online Training

Online training is a starting point. This type of training is much like the old classroom approach where the employee watches and listens to experts explain problems and methods. Like classroom training, however, it assumes a “full vessel” (instructor) pouring information into an “empty vessel” (student). This method of instruction, known today as “sage on the stage”, is teacher-centred instead of student-centred. The “sage on the stage” method of instruction does not always provide practical or in-depth discussions of issues because there are often too many participants and not enough instructors. In the “guide on the side” model the instructor draws on the students' work and life experience and guides them to finding their own solutions. The focus of this model is on the process of problem solving through critical thinking but also fully recognizes the role played by raw knowledge. Unfortunately, unless the instruction takes place in real time, online training does not allow much interaction.



Training for the Future - continued

Real-Time Information

Augmented reality (to be distinguished from virtual reality) was developed in the 80s and 90s for military application. Augmented reality enhances selected environments or aspects of them to enrich perception; it does not create an artificial reality. The need to train astronauts and pilots in real time became cost prohibitive, but replicating reality with computer-generated situations trained individuals to deal with potential issues via simulation. The gaming industry has demonstrated how inexpensive it is for computers to generate information perceptible by all the senses. As such, it will not be long before heads-up displays will incorporate augmented reality to guide workers step by step in real time as they learn how to diagnose and fix a specific problem.

New technology will reduce training time.

Remote Solutions

The implications of this ability to identify a problem and find a solution are that workers no longer need to retrain every time information becomes outdated or obsolete. This technology will enable employees to learn incrementally and advance at their own pace. Incorporating augmented reality hardware within the workplace will reduce training time, encourage younger workers to join your business and increase productivity. The ability to impart knowledge, experience and skill without the expense of transporting individuals to the job site is a massive cost savings and a step to providing the best possible service to clients in a fraction of the time required to send in a team to fix the problem. This is the model of the call centre in India or the Philippines: technology permits remote solutions to technical problems without the need to send someone to the site of the problem. The fact that a remote expert can solve the problem within a short time today means you can operate your business more efficiently and meet tighter deadlines.

Transformation

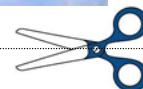
Clients want instant fixes to their problems. Employers should consider investing in the new approach to training if they wish to stay in business. Owner-managers should consider the following sequence of a transformation process:

1. Examine their existing business model to determine whether there will be a future market for their service or product.
2. Phase out services and products that will become obsolete within the foreseeable future.
3. Determine how to provide improved services or products for existing customers.
4. List the equipment or process that must be replaced or updated and research the appropriate replacements.
5. Set a timeline for financing, acquiring and integrating the upgraded equipment/process, training staff and reconfiguring the workplace (if necessary).
6. Establish a hands-on training schedule to deal with real issues rather than hypothetical ones presented in a classroom environment. Employees learn faster if they can apply new processes to familiar problems. Once they are up to speed, employees can apply the new knowledge in the existing work environment and expand its application going forward.
7. Engage all employees right from the start in the employer's vision of the business and encourage them to adopt the new skills they will need to prepare them for a future in the organization.

8. Promote the expectation that training will increase productivity and personal satisfaction, reduce turnover, and increase job security.
9. Investigate external training facilities that provide recognized certificates of achievement through formalized training that emphasizes the need to complete or pass a training program. This approach allows your business to evaluate the results supplied by an independent source and to identify those employees who should be set on a career path and those who exhibit sufficient competence to evolve with current and future changes.

The Future Is Now

Owner-managers need to understand the inevitable changes occurring in their business. Perhaps a complete re-think of the business and a five-year plan will be worth the time. Planning and skills development today will build your future business. And, the future is now. ♦



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**Prentice Yates & Clark,
Chartered Professional Accountants**

Phone: 416-366-9256 / Toll Free: 1-800-265-7818

Fax: 416-366-9171

CONTACT

Partners

	<u>EXT.</u>	<u>E-MAIL</u>
Tom McGivney.....	233	tom.mcgivney@pyc.net
J.J. Pauze.....	230	jj.pauze@pyc.net
Paul Jaroszko.....	227	paul.jaroszko@pyc.net
Dionne Reid.....	232	dionne.reid@pyc.net

visit our website

www.pyc.net

We hope that you find *info@pyc* a useful source of information. If you should ever have any specific questions or concerns regarding your own business or personal finances, please call us. We will gladly help in any way that we can.

If you would like to contact us by e-mail, we can be reached at *info@pyc.net*. Some of the articles appearing in this issue of *info@pyc.net* were prepared by the Chartered Professional Accountants of Canada for the clients of its members.