# CARP Submission the Ontario Ministry of Finance: Ontario Retirement Pension Plan Key Design Questions

Ontarians are not saving enough for their own retirement. Two-thirds of workers in Ontario do not have a pension plan and personal savings have not kept pace with income replacement needs for retirement. If the right steps are not taken to provide Ontarians with a robust and safe way to plan and save for retirement, many will be financially unprepared and may experience a significant drop in their standard of living in retirement.[i]

With the introduction of the Ontario Retirement Pension Plan (ORPP), the Ontario government has an opportunity to address many of the inadequacies of the current pension and retirement savings landscape in Ontario. The ultimate design of the ORPP, however, will matter in determining how well Ontarians are served by a new pension plan.

CARP's longstanding call for pension reform targets middle-income earners who are especially unlikely to have workplace pension plans and to have saved sufficiently for retirement on their own.[ii] But low-income earners should also have the opportunity to save for their own retirement, despite the fact that most people who earn lower wages throughout their working lives can generally expect to replace a sufficient amount of their pre-retirement income through CPP, Old Age Security (OAS), and the Guaranteed Income Supplement (GIS). That does not suggest that they have adequate retirement income, rather that pensions may be a more desirable income source than income support programs. The self-employed should also have access to the ORPP as they do to the CPP and the Income Tax Act (ITA) may have to be amended to facilitate this. The ORPP should be designed such that pension coverage is made mandatory and widely available across the workforce, and especially for lower and middle-income earners.

**Modelling the ORPP on CARP's on Universal Pension Plan Proposal**

CARP first proposed the creation of a supplementary Universal Pension Plan (UPP) in 2009. CARP's UPP, modelled on the CPP, would provide Canadians a large pool of funds that is robust enough to withstand market volatility and shocks and produce higher investment returns than small, individual savings accounts, PRPPs, and other retail investment options. A UPP would provide predictable benefits allowing Canadians to better plan for retirement. Such a plan would provide Ontarians true portability across jobs and provinces, similar to the CPP.

The core goal of any pension system should be to provide adequate retirement savings to prevent poverty in old age. It must be affordable to contributors and robust enough to withstand major shocks, including economic, demographic and political volatility.[iii] Universal access and widespread enrolment in any new retirement savings vehicles should be a primary goal of pension reform. CARP's recommendations for the design of the ORPP are based on these principles:

1. **Independence and accountability**: It should be independent of government or single employers and should provide a governance role and accountability to plan members;
2. **Use existing enrolment and administration mechanisms:** It should include employer contributions, with mandatory enrolment using the existing payroll deduction mechanism;
3. **Professional management**: It should be managed professionally with a focus entirely on optimal performance, along with low management and administration fees;
4. **Large, pooled funds:** It should be large enough to increase investment returns and ensure greater fund stability;
5. **Portability and predictable benefits:** It should be available to all working Ontarians and citizens of participating provinces, with full portability across jobs and provinces and provide target benefits to help people prepare and plan for retirement.

While the ORPP would only be available in Ontario and other participating provinces, modelling the ORPP on CARP's recommended features of a large pension plan – and the CPP - would help ensure that Ontarians will have access to a robust pension plan that would help further close the savings gap in retirement.

**Recommendations:**

1. **No Exemption for "Comparable" Plans:** The ORPP should be mandatory for all eligible workers. Eligibility and enrollment for the ORPP should mirror the CPP. There should be no exemption for "comparable" plans.
2. **Mirror CPP Low-income Earnings Exemption:** The low-income exemption threshold should mirror the $3,500 provided by CPP. Government should mitigate the loss of present income contributed towards ORPP for very low-income workers.
3. **Include Self-employed:** The Ontario government should work with the federal government to ensure that the ORPP will be registered under the ITA and participation is made available to the self-employed.

**Issue 1: Definition of Comparable Workplace Pension Plan**

**CARP Recommendation: The ORPP should be mandatory for all eligible workers. Eligibility and enrollment for the ORPP should mirror the CPP. There should be no exemption for "comparable" plans.**

CARP agrees with the Ontario government that CPP enhancement is the preferred approach to the retirement savings inadequacy. The CPP is an actuarially sound national pension plan, it provides predictable benefits, portability, and enrollment is mandatory for all working Canadians. CARP therefore recommends that government not allow for any exemptions to ORPP enrollment.

Universal, mandatory coverage, portability, the large pooling of funds and predictable income replacement are features of the CPP that make it a sound pension plan.

Allowing exemptions based on "comparability" may undermine the goal of creating a large pension fund that has the ability to remain actuarially sound, create adequate investment returns and provide fund stability. In fact, if the ORPP is modelled on the CPP or CARP's UPP, no private pension plan will be truly comparable.

Defined Contribution (DC) plans have many notable weaknesses – no mandatory employer contributions, greater vulnerability to market cycles, and weaker investment returns due to individual accounts rather than pooled investments. DC plans should in no way be considered comparable to the promise of the ORPP. The only privately available pension plans that might reasonably be called "comparable" to the proposed ORPP are Defined Benefit (DB) plans. But exempting DB plans from ORPP enrollment may also undermine the goal of increasing retirement income security for working Ontarians.

***Defined Benefit plans are disappearing***

DB pension plan enrollment is waning and expected to decrease further over time. In 2013, there were approximately 1.3 million Ontarians enrolled in DB plans, down from 1.5 million in 2009.[iv] Exempting individuals who belong to DB plans could lead to lower income replacement in retirement for those individuals if the downward trend of DB plans continues.

There are also notable examples of companies – namely Nortel – that entered bankruptcy unable or unwilling to pay pension liabilities. An exemption for private pensions could put qualified individuals at greater risk of losing some or all of their private pension should the sponsoring company go bankrupt, leaving the exempted without additional ORPP coverage. A mandatory, universal ORPP would cover all workers and be more able to ensure payment of prescribed benefits.

***Few workers will have access to DB plans for duration of career***

The number of DB plans isn't static at the individual level. It is unlikely given current employment trends, that many of the people enrolled in DB plans today will remain covered by a DB plan at other stages of their career. Most people, and especially younger generations of Canadians, can expect to have multiple employers over the span of their careers. And unlike the CPP and CARP's proposed UPP, employer provided DB plans are not portable across jobs. Few people working today will have the benefit of belonging to a DB plan for the duration of their career. Like most lower and middle income Ontarians, even people who now have some form of DB coverage will need consistent pension coverage for the duration of their working life - and the portability available now in the CPP – in order to achieve much needed additional income replacement in retirement. Only CPP and now the ORPP can provide that universal, portable pension coverage that follows workers from one job to the next.

***ORPP coverage is needed to close income replacement gap in retirement***

The recommended income replacement needed to maintain a standard of living in retirement is 50-70% of pre-retirement income. Even individuals who have had the benefit at some point of DB membership will likely fall short of this goal.

CPP currently replaces up to 25% of up to approximately $53,000 of yearly income. The ORPP could replace another 15%, up to $90,000 of yearly income. Together, the 40% income replacement up to YMPE with CPP and 15% above YMPE without CPP is still below the recommended level.

Even those with some DB coverage - especially those who can't expect to have full DB coverage for the duration of their career - may still fall short of the goal. Making the ORPP mandatory for all workers would ensure that everyone has an opportunity to further close the retirement savings gap.

***Mandatory enrollment creates larger, more stable fund***

Exempting "comparable" pension plans may also hamper the ability of the ORPP fund to achieve the scale and stability required to produce returns sufficient to pay benefits down the line. Like the CPP, and CARP's proposed UPP, large, pooled funds are necessary to the stability and investment success of a pension plan. Mandatory enrollment is a key factor in achieving fund scale and stability.

The expressed preference by the Ontario government for CPP enhancement and now for the ORPP suggests that the government recognizes the scale and severity of the retirement savings gap. Creating an exemption category for the ORPP would undermine the important step forward the government made in proposing the creation of a new, large-scale pension plan.

***Employers are already able to integrate private pensions with CPP – ORPP should be no different***

Employers that currently offer pension plans are already familiar with and able to integrate those plans with the CPP. The mechanisms for integration and administration of a mandatory public plan with private plans are well known by employers. Insofar as the Ontario government prefers the ORPP to mirror the CPP – and possible future integration with the CPP – making the ORPP contributions mandatory would facilitate that transition without adding new administrative burdens on employers and employees. It would also ensure that all working Ontarians participate in a large and stable pension plan.

If some employers, employees or unions become concerned about the added contributions to the new ORPP, they are well able to adjust, negotiate, and structure current private pension plans according to their respective needs. The current retirement savings gap and the future implications of wide-spread financial insecurity in retirement pose considerable personal and economic challenges. If the ORPP is modelled on the CPP, it stands to become one of the most robust and safe ways for people to further secure their retirement.

**Issue 2: The Right Minimum Earnings Threshold**

**CARP Recommendation: Low-income threshold should mirror the $3,500 exemption provided by CPP. Government should mitigate the loss of present income contributed towards ORPP for very low-income workers.**

It is generally accepted that life-long low-income earners can expect to replace a sufficient amount of their pre-retirement income through CPP, OAS, and the GIS. This line of reasoning assumes that life-long low-income earners grow accustomed to living on low income and can persist with low-income even in retirement. It also ignores the personal importance and dignity entailed in saving for one's own retirement.

At the same time, there are legitimate concerns that low-income earners may not be able to forego present income for pension contributions. But, for someone earning only $20,000/year – the approximate low-income cut-off - ORPP contributions would amount to about $300/year or only $25/month, assuming a CPP-like $3,500 exemption.

Every dollar of income is important to low-income earners, but $25/month is not a prohibitively unaffordable contribution going toward greater self-sufficiency and financial stability in retirement. Exempting low-income earners from contributions would deprive them of the opportunity of belonging to a robust pension plan. Exemptions for low-income earners would also deprive them of the financially powerful benefits of mandatory employer contribution matching, which effectively doubles contributions and future retirement benefits.

***Government can mitigate loss of present income for low-income earners***

Rather than exempt low-income workers from the ORPP with a higher earnings threshold than the current $3,500 provided by the CPP, the government should consider ways of mitigating the loss of present income for the pension contributions of lower-income workers.

One method of doing so would be to provide a refundable tax credit covering some or all of the pension contributions paid by workers earning less than the low-income threshold of approximately $20,000 of yearly income. Similarly, existing financial supports for low-income Ontarians can be increased to replace the income lost to pension contributions.

Doing so would ensure that low-income earners can work towards greater retirement income security while also preventing the potential negative consequences of lost present income. Exempting low-income earners would not only deprive them of an opportunity to save for their own retirement, it would effectively create a two-tiered pension system that could lead to low-income workers having to rely on government benefits throughout retirement. And public pensions and income support such as OAS and GIS were once thought to be dependable, if insufficient, they too, are now subject to change – such as raising of the eligibility age for OAS and GIS. Pensions, whether the CPP, ORPP or private sector pensions have greater insulation from political changes.

*Low-income exemption may lead to perverse labour practices*

Exempting low-income workers from participation in the ORPP may also lead to perverse hiring practices, whereby employers could avoid paying pension contributions by hiring more contract and part-time employees who are paid below the low income threshold for coverage. Such practices are already the norm in jurisdictions such as the U.S. where employers can evade paying insurance premiums for employees who are not full time or who earn less than a stipulated amount. This could lead to a two-tiered pension system whereby people with low income or precarious employment are further hampered in their ability to secure their retirement.

*Reducing Administrative Costs and Complexities*

CPP enhancement is the stated government preference for pension reform and the government has also stated that the ORPP could eventually be merged with the CPP. Consequently, the ORPP should be designed to mirror the CPP as closely as possible.

Setting the ORPP income threshold at the same level as the CPP's $3,500 would, as the ORPP consultation a document acknowledges, reduce administrative complexity and costs. It would also make it easier to merge with the CPP, should the federal government consent to CPP enhancement.

**Issue 3: Self-employed and the ORPP**

**CARP Recommendation: The Ontario Government should work with the federal government to ensure that the ORPP will be registered under the ITA and participation is made available to the self-employed.**

Given the current rules of the Income Tax Act, self-employed Ontarians will not be able to join the ORPP. But, as the ORPP consultation document notes, the self-employed are often less prepared and able to financially secure their retirement. Changing labour dynamics also suggest that many Canadians will at some point in their careers be self-employed. This important class of workers should not be excluded from ORPP participation.

CARP recommends that the Ontario Government work with the federal government to ensure that the ORPP will be registered under the ITA and participation is made available to the self-employed. Amending the ITA should not be a barrier to including an entire category of people from participation in the ORPP. As it is with the CPP now, self-employed individuals would then pay both the employer and employee contributions into the ORPP.

**Conclusion**

The Ontario government introduced the ORPP with the goal of mirroring the CPP and helping close the retirement savings gap. In designing the ORPP, the government should ensure that it mirrors the established strengths of the CPP and be made available to all workers, including those with private plans, low-income earners, and the self-employed. The ORPP should be designed such that pension coverage is made mandatory and widely available across the workforce.

[i] Wolfson, Michael C., *Projecting the Adequacy of Canadians' Retirement Incomes*, IRPP April 2011: www.irpp.org/assets/Uploads/Wolfson-No17.pdf

[ii] Ambachtsheer, Keith: The Canada Supplementary Pension Plan (CSPP) Towards an Adequate, Affordable Pension for All Canadians. C. D. Howe Institute May 2008.

[iii] Old-Age Income Support in the 21st Century: An International Perspective on Pension Systems and Reform

[iv] Statistics Canada, Registered Pesnion Plans – Ontario, accessed at: http://www.statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/famil117g-eng.htm