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Valerie Quioc Lim
Clerk
Standing Committee on Social Policy
Room 1405, Whitney Block
Queen's Park
Toronto, ON
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Dear Ms. Quoi Lim:

RE: The Ontario Retirement Pension Plan

We are writing to provide comments on behalf of the members of The Investment Funds Institute of Canada with respect to the proposed Ontario Retirement Pension Plan (ORPP) and respond to the proposals contained within the ORPP Consultation Paper ("the Paper").

Canada's retirement savings framework has been subjected to a barrage of analysis in the last several years and has been found to be structurally sound. Like any complex system, there are some elements that could be improved upon. We propose that better public policy options exist for addressing the gaps than that offered by the ORPP.

Retirement Security in Ontario – A Targeted Issue

In advancing the ORPP, the government has relied on the simple premise that Ontarians, in general, are not saving enough for retirement. The reality of retirement savings is considerably more complex than this statement suggests. The current, balanced retirement savings framework is widely-recognized as being among the best in the world. Comparatively few Canadian seniors live in poverty, and across all age groups and income levels, the majority of Canadians are able to replace a healthy level of their pre-retirement income.¹ Genuine challenges of under-saving among certain cohorts do exist, however, and some existing retirement savings options could be strengthened. Ontario's, indeed Canada's, retirement savings challenge is a targeted issue rather than a universal crisis.

Successfully addressing the gaps requires solutions that strengthen rather than undermine the solid structure created by the existing retirement income pillars. The ORPP, as proposed, would fundamentally disrupt the current system, causing particular harm to workers that already participate in workplace savings plans and voluntary retirement savings programs.

¹ McKinsey & Company. *Are Canadians Ready for Retirement? Current Situation and Guiding Principles for Improvement*. 2012. Available at: http://www.mckinsey.com/~media/McKinsey%20Offices/Canada/Latest%20thinking/PDFs/Are_Canadians_ready_for_retirement.ashx

Targeted Solutions to Improve Retirement Security in Ontario

Throughout the Paper, the government alludes to a number of targeted measures that could improve the retirement security of Ontarians. These measures would more effectively address the gaps in the current broader retirement savings framework while avoiding the risks and unintended consequences that the ORPP would engender. We provide our comments on each of them below:

1. Pooled Registered Pension Plans (PRPPs)

Concurrent with its ORPP proposal, the government released its proposed framework for PRPPs in Ontario. Although these two initiatives are thematically linked, mandatory participation in the ORPP would mean that few, if any, workplaces would be likely to adopt PRPPs as an additional pension obligation.

However, a well-constructed PRPP framework in Ontario would directly address the gaps in the options currently available to employers who do not offer a recognized workplace retirement savings plan. Ontario's proposed PRPP framework follows the federal voluntary model; however, as other provinces have demonstrated, PRPPs can be easily adapted to achieve provincial public policy goals. Examples of potential enhancements include: a mandatory requirement that employers with a minimum number of employees offer a recognized retirement savings plan, allowing employers to auto-enroll employees, and narrowly limiting employee contribution withdrawal options.

Ontario has the opportunity to take a comprehensive approach to its retirement savings system through targeted design of its PRPP legislation. The PRPP can constitute a truly complementary product. Furthermore, as PRPPs are introduced across Canada, they will facilitate worker mobility and enable national employers to offer cost-effective and comparable benefits to employees across the country. The ORPP will not be portable.

2. Improving Group RRSPs

In the Paper, the government notes its concern that short-term financial pressures can compromise long-term retirement goals if funds are not "locked-in". We share this concern. That is why we have consistently recommended to the federal government that employer contributions to Group RRSPs be locked-in, much as they are for other workplace plans, thereby ensuring they are available for retirement as intended. This small change would further strengthen the pension plan-like features of Group RRSPs. Ontario should work with the federal government to bring this change about.

3. CPP Enhancement

We recognize that the government's preferred approach to public pension reform remains CPP enhancement rather than the introduction of a stand-alone ORPP. We support this approach and encourage the government to direct its energies to working with its provincial and federal counterparts toward a modest enhancement of the CPP.

Commentary on the ORPP framework

While we are not supportive of the ORPP, should the government choose to proceed, the criteria for assessing 'comparability' for the purpose of exempting workplaces from the requirement to participate in the ORPP should be revised. The current draft criteria exclude the majority of existing workplace retirement savings programs – measures which appear to be designed to create economic efficiency for the ORPP rather than provide broad options for Ontarians and encourage employers to provide the best programs possible.

For some two million Ontarians, workplace savings plans provide a reliable, cost-effective and flexible way to save for retirement. These plans allow workers to save in secure, pooled funds that can provide adequate income replacement in retirement, while also preserving individuals'

option to invest in ways that best reflects their personal goals and circumstances. Many workplace retirement savings plans include generous employer contributions, which act as an incentive for employee participation, and provide employees with access to financial advice, which has been demonstrated to positively and significantly contribute to the accumulation of financial wealth.²

We have participated in some of the consultation sessions that the government hosted across the province. We heard significant feedback from employers – both large and small - advising that the ORPP not only may displace some current pension plan offerings, but potentially result in lower savings and reduced employer contributions for some employees as some employers choose to eliminate current DC or Group RRSP plans that enjoy significantly higher employee/employer contribution rates. Independent research conducted by Environics on behalf of the CLHIA supports these views. The research found that more than three-quarters (78%) of the 401 workplaces surveyed were likely to reduce contributions under their existing workplace plan with the introduction of a mandatory ORPP. Furthermore, two-thirds (66%) also indicated that they would consider eliminating their existing plans altogether. It is clear that if the definition of comparable plan is not broadened, the government can expect the introduction of the ORPP to cause many employers to discontinue their current workplace programs – negatively impacting individual savings habits and permanently reducing the financial assets that will be available to individuals at retirement.

We urge the government to broaden its definition of “comparable” plan to include all existing workplace savings plans, including Group RRSPs, DC pension plans, Pooled Registered Pension Plans (PRPPs), Deferred Profit Sharing Plans (DPSPs) and Group TFSAs. By making the provision of a work-place retirement savings plan mandatory, Ontarians will have a broad and competitive choice of plans to choose from.

Impact Analysis

It is clear that the ORPP will have a significant impact upon Ontarians and all aspects of the province’s economy. We recommend, therefore, that the government conduct a thorough analysis of its costs, benefits and consequences. This analysis should be empirically rigorous and consider the full range of potential impacts of the ORPP, including its displacement effect upon existing retirement savings vehicles.

Conclusion

We appreciate the opportunity to comment on the proposed ORPP. We look forward to working with the province to advance our shared goal of strengthening retirement security for Ontarians. Should you have any questions or desire to discuss these comments, please contact me directly or Graham Smith, Senior Policy Advisor at 416-309-2328 or by email at gsmith@ific.ca.

Yours sincerely,

THE INVESTMENT FUNDS INSTITUTE OF CANADA



Joanne De Laurentiis
President & CEO

² Montmarquette, Claude. *An Econometric Analysis of the Value of Advice in Canada*. July 2014. Summary available at: <https://www.ific.ca/wp-content/uploads/2013/08/New-Evidence-on-the-Value-of-Financial-Advice-November-2012.pdf/1653/>