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Committee on Social Policy
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Bill 186:

How to strengthen the ORPP

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I have been involved with the pension system in Canada for more than 30 years; more than 20 years as a pension negotiator and advisor to the United Steelworkers, and for the past 14 years as a board or advisory board member with three major pension plans: the Ontario Public Service Pension Plan, the Ontario Teachers Pension Plan and the Canada Post Pension Plan.

I have had a front row seat as Canada's retirement security system's relationship to employees in the private sector has evolved from disappointment to failure. A registered pension plan system that never covered more than 50% of Canadian employees now offers a defined benefit pension plan to fewer than one in eight employees. And when you take into account that a significant proportion of those are either in multi-employer pension plans or single-employer plans that have been closed to new entrants, the proportion of employees now covered by active single-employer sponsored pension plans is vanishingly small and shrinking.

It is important to note that there isn't anyone to blame here. The structure of Canada's economy and labour market is radically different from that of 50 years ago when our current system was designed. Turnover of employees and of employers is such that the lifetime worker retiree associated with a single employer around whom the system was designed is a rarity. Retirement security for those who hold more than one job in a working lifetime — barely on the radar in 1966 — has put job-to-job portability at the centre of our needs in pension reform.

I make the point about blamelessness not because I feel particularly favourably disposed towards employers whom I have faced across the bargaining table who have abandoned their pension plans or converted them into inadequate and underperforming defined contribution plans. I say it because the experience of the

past 50 years tells us that the solution to our retirement income problem does not lie in the private employer-to-employee relationship. Nor does it lie in fanciful financial industry-created multi-employer arrangements like the so-called Pooled Registered Retirement Plans (PRRPs). The financial services industry has had 50 years to develop an efficient vehicle for the delivery of retirement pensions to employees who do not belong to a workplace-based plan, and they have not done so. And nothing that has been said in support of PRRPs suggests that is going to change.

The yawning retirement income security gap left by our inadequate system is reflected in the most sophisticated projections of Canadians' retirement incomes – published in a series of important papers by former Statistics Canada Deputy Chief Statistician Michael Wolfson – which make it clear that there is a retirement income crisis looming.¹

Canadian workers need an expanded public pension system to support their retirement income needs.

Ideally, that would take the form of a meaningfully expanded Canada Pension Plan (CPP). But as we head towards the latest attempt to find consensus among the CPP/QPP partners, meaningful expansion of the CPP faces very long odds.

The Ontario Retirement Pension Plan (ORPP) is a second best. But before I get into the areas in which I think it should be improved, I want to stress that it is a very good second best. Even as it currently stands, as an imperfect model applicable only to Ontario, the ORPP is the most significant positive development in Canada's retirement income system since the CPP/QPP took effect in 1966. The ORPP is a great start towards evolving our retirement income system towards one consistent with the needs of today's employees.

Having said that, I want to address two issues which, if dealt with, would not only make the ORPP better but would give us a plan that could be easily integrated into a future CPP expansion: universal coverage and portability.

The two key problems with the current workplace-based pension system in the private sector are low and declining coverage and the lack of continuity in the system within a rapidly changing labour market.

That observation leads directly to universal coverage as a fundamental principle for the design of the ORPP. Despite this principle, apparently persuaded by current pension plans' concerns about the complexity of integrating their plans with the ORPP, the government decided to exempt what would be deemed to be "equivalent plans." Sponsors of defined benefit pension plans could apply to exempt their employees from ORPP coverage provided they offer a retirement pension that accrued at a minimum of 0.5% of income for each year of service.

¹ Michael Wolfson, *Projecting the Adequacy of Canadians' Retirement Incomes*, IRPP No. 17 April 2011 (<http://irpp.org/wp-content/uploads/2014/05/Wolfson-No17.pdf>); Michael Wolfson, *Not-So-Modest Options for Expanding the C/QPP*, IRPP, July 2013 (<http://irpp.org/research-studies/study-no41/>)

While I don't agree with the government's decision, I at least understand the logic behind enabling Defined Benefit plan sponsors to avoid the complexity of integration. But in a bizarre and illogical move, the government decided to extend its "equivalent plan" exemption to Defined Contribution plans with a total contribution rate of 8% of earnings or more. While the equivalency ratio drives home the point that Defined Benefit plans are superior to Defined Contribution plans from the perspective of plan members — the 8% equivalency to a Defined Benefit plan that costs 3.8% of pay implies that DB plans are 2.2 times as efficient as Defined Contribution plans, the exemption for those "equivalent" plans makes no sense. For a Defined Contribution plan, accommodation of the ORPP is breathtakingly simple. A Defined Contribution plan sponsor who wishes to avoid an increase in costs can do so simply by reducing employee and employer contributions to the Defined Contribution plan by 1.9% of pay. This would also be one of those rare instances in employment relations in which employees are unquestionably better off and employers are no worse off. Employees get a significantly better benefit for the same cost and employers' costs remain the same.

In my view, it is difficult to justify not eliminating the equivalent plan exemption for Defined Contribution plans. It is even harder to justify a system which, as it currently stands, allows Defined Contribution plan sponsors to keep their employees out of the ORPP without their consent.

On this issue, my specific recommendation to the Committee is that it amend Bill 186 to remove any reference to the granting of "equivalent plan" status to Defined Contribution plans, and to mandate a regulatory regime for target benefit and multi-employer plans.

Even without universal coverage, the critical problem of portability can be fixed. Eliminating the equivalent plan exemption for Defined Contribution plans — a change that could be accomplished with no inconvenience to employers whatsoever — would broaden coverage under the ORPP.

For Defined Benefit plans, the issue of portability arises specifically from circumstances in which a pension plan member's employment relationship with the plan sponsor ends. In rare circumstances, it can be in the interest of such plan members to remain plan members and receive a deferred benefit at the plan's normal retirement age. This may arise, for example, where the deferred benefit is indexed to the cost of living. But in most cases, a terminating employee will elect to transfer the commuted value of his or her pension to an RRSP or other locked-in retirement income vehicle.

A change in the Pension Benefits Act could require that when an employee elects a commuted value transfer, the commuted value of the ORPP benefit that would

have been earned while the employee was a member of the exempt plan be transferred to the ORPP to purchase that missing ORPP benefit. Again, this change would cost the sponsor of the equivalent plan nothing. The commuted value payment has to be made in any case and would ensure that service in an exempt plan will lead to a meaningful retirement pension, regardless of a worker's employment pattern.

On this issue, my specific recommendation to the committee is to amend the legislation to require that sponsors of exempt plans maintain shadow accounts showing the ORPP benefit that would otherwise have accrued in the course of their membership in an exempt plan. I also recommend an amendment to the Pension Benefits Act that requires the division of commuted value payments between the ORPP for the ORPP equivalent portion and a locked-in plan for the remainder.

As a second best alternative, the ORPP legislation could be amended to permit members to elect to purchase missing ORPP benefits by transferring the commuted value of those benefits to the ORPP upon ceasing to be active members of any exempt plan. This amendment would also require the ORPP to establish a process through which such transfers and credit purchases would take place.

The ORPP is the most significant improvement in our retirement income system in 50 years. A few simple amendments that would cost employers nothing and provide significant additional benefits to employees would make it even better.

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