

Getting the Design Right on the Ontario Retirement Pension Plan (ORPP)

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Why an ORPP is necessary

The current generation of Ontario workers faces greater challenges in saving for retirement than previous ones. This generation enters the labour market with more student debt and faces a longer transition into the labour market after their education. They are also less likely to be a member of a workplace pension plan.

They are participating in retirement income system that was developed when their parents and grandparents were working. The labour market has shifted dramatically over the course of a generation, especially in Ontario.

Canada's retirement income system was developed when a much larger share of private-sector employers offered workplace pensions; when Ontarians were more likely to work with one employer for their entire working life; and when corporations saw benefit in holding multi-generational retirement security in their hands.



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All of that has changed.

A recent Statistics Canada study explored the differences in pension plan coverage rates by age. As Table 1 shows, pension plan coverage rates in Canada are higher for older workers as compared to younger workers. Coverage rates consistently fall by age: 25-34 year olds are less likely to be members of a workplace pension plan than 35-44 year olds who are, in turn, less likely to be members of a plan than 45-54 year olds.

Table 1 – Pension Coverage Rates by Age, 2012

Age %	RPPs		Defined benefit RPPs		Defined contribution or hybrid RPPs	
	Men	Women	Men	Women	Men	Women
25 to 54	35.6	41.2	24.3	32.6	11.4	8.7
25 to 34	24.1	33.0	16.2	27.7	7.9	5.3
35 to 44	39.1	42.0	25.5	33.2	13.6	9.1
45 to 54	43.5	47.9	30.8	36.5	12.7	11.4

Source: Statistics Canada, New Facts on Pension Coverage in Canada, 2012.
http://www.statcan.gc.ca/pub/75-006-x/2014001/article/14120-eng.htm?WT.mc_id=twf#a4

Private savings for retirement has not filled the gap left by declining workplace pension coverage. As Table 2 below shows, recent research from Statistics Canada shows that families who do not hold assets in a workplace pension plan are less likely to hold assets in a Registered Retirement Savings Plan (RRSP) or a Locked-In Retirement Account (LIRA). In other words, workers without a workplace pension also tend to be unable to save through alternate routes such as RRSPs.

What's more: the share of households that do not hold workplace pensions who have RRSPs shrunk by five percentage points between 1999 and 2012 – down from 55 per cent to 50 per cent. That means one in two households between the ages of 30 and 54 do not have assets in a workplace pension nor an RRSP.

Table 2 – Retirement savings of families with and without Registered Pension Plan assets

Assets %	1999 RPP		2012 RPP	
	No	Yes	No	Yes
RRSPs/LIRAs	55.7	81.1	50.7	75.3

Note: Includes family units where the major income recipient is aged 30 to 54 and employed as a paid worker. Family units with business equity of \$1,000 or more (in 2012 dollars) are excluded.

Source: Statscan Employer pensions and the wealth of Canadian families..
http://www.statcan.gc.ca/pub/75-006-x/2015001/article/14134-eng.htm?WT.mc_id=twf#a1

The public policy reliance on the hope that private savings through measures such as RRSPs would fill the gap from the loss of workplace pensions is proving to fall far short of the reality, which is why this initiative to create an Ontario Retirement Pension Plan (ORPP) is timely and necessary.

Retirement savings have very long timelines. It's kind of like a figure skater: you have to see the triple axle coming a long time before you can actually land it. For workers, the sooner they can start saving for retirement, the more sufficient their retirement savings will be.

It is, therefore, crucial that the Ontario government is acting now to increase retirement security for the next generation of Ontario workers. It is also crucial to get the design of the ORPP right, so that it is successful in its objective of increasing retirement income security for future generations of Ontarians.

Getting the Design Right

1. Definition of an equivalent pension plan

The best solution to the question of how to define an equivalent pension plan is to expand the coverage of the ORPP to include all Ontario workers, regardless of their membership in a workplace pension plan. Why? Because membership in a workplace pension plan at any particular point in time, no matter how good that plan might be, does not provide for retirement security. Trends in job turnover rates reveal that workers will have an average of about five employers over their working life.¹

Each time an employee's membership in a Defined Benefit (DB) or Multi-Employer Pension Plan (MEPP) is terminated, that employee will be likely to transfer the commuted value of their DB/MEPP pension to an RRSP. The province's ORPP discussion paper correctly recognizes that Defined Contribution (DC) plans and RRSPs are insufficient as pension plans because they do not provide a stable benefit for the lifetime of the retiree. That is why the portability and comprehensive coverage of public pension plans are so important.

Including all workers in the ORPP would have a number of positive impacts: It would allow the government to meet its objective of mirroring the Canada Pension Plan (CPP). It would enhance the retirement income system and the ORPP in a number of ways: improving pension benefits for plan members; strengthening the pension plan; reducing administrative complexity; and supporting workplace pension plans by providing them with more flexibility.

- It would enhance retirement benefits for ORPP members through increased portability of benefits. This means that all their earnings in all their jobs would be pensionable. This will increase their ORPP pensions making it a stronger base for their retirement savings and security.
- It would reduce administrative complexity both for employers and for the plan itself, since all employers would participate. The rules and administration of the plan would mirror the CPP, with which employers are familiar.
- It would strengthen the plan's finances by spreading investment and longevity

risk across a wider pool of individuals. Mandatory participation would enable the ORPP to better predict the plan's contributions and benefits. The ORPP would be in a more secure position to deliver on the pension promise.

- It would support and provide more flexibility for existing pension plans. Individual plans could, at their discretion, redirect contributions to ancillary benefits or reduce contribution rates.

The ORPP should do what the CPP did when it was introduced – allow for employers who offer pension plans to modify their plans to reflect the arrival of a new plan on the scene. Most employers did that. And it meant that one of the fundamental advantages of the CPP – seamless portability – was preserved.

2. Minimum threshold

The minimum threshold for the ORPP is a crucial design element to provide good pension benefits.

Using the minimum threshold to address working poverty and/or the impact of the plan on low-income seniors' incomes would absolutely be the wrong policy choice. It would be the equivalent of doing surgery with an axe rather than a scalpel. As the consultation document clearly illustrates, a higher threshold would have a negative impact on retirement incomes of all plan members, and would have a particularly negative impact on lower-income workers who have to piece together their employment with multiple part-time jobs.

There are a number of ways in which to address working poverty, including: increasing the minimum wage, implementing living wage policies, enhancing enforcement of employment standards, and increasing access to unionization for low-wage workers.

The Ontario government has taken some important steps in this direction. There is much more that it could do to support low-income workers.

Prohibiting low-income workers from participating in the ORPP, which will increase the chances of living in poverty at retirement, is not the appropriate policy solution.

The consultation paper identifies the impacts that the ORPP can have on low-income seniors in retirement. These impacts result from high tax back rates for the Guaranteed Income Supplement (GIS). It also provides data showing that not all low-income earners end up low-income in retirement and not all higher-income earners are high-income in retirement.

The potential impact of the ORPP results from the design of the GIS. It is not a problem created by the ORPP. And, therefore, the design of the ORPP cannot solve the problem. The best solution is to make changes in the GIS to reduce the tax back rate.

An Ontario solution could ensure that low-income earners would not be contributing during their working lives to a pension plan that would be taxed back from them in retirement. It could take the form of a refundable tax credit payable to low-income

individuals. Employers would continue to contribute on all pensionable earnings. Low-income employees would get contributions back at tax time. An existing mechanism that could be enhanced would be the working income tax benefit.

The biggest challenge for this recommended mechanism would be the federal/provincial financial implications. For low-income earners, the tax credit would result in the premium being paid to and credited back by Ontario and then taxed back in retirement by the federal government through the GIS. As a result, Ontario revenues would be reduced to offset the sharp tax back of a federal program. This is why a reduction in the GIS tax back rate is the preferred option.

Self-employment

The Poverty & Precarious Employment in Southern Ontario (PEPSO) study documented the widespread experience of precarious work in southern Ontario, and its extension beyond low-income workers.² It also documented how precarious work is not equally distributed across that population, and that women and racialized workers are more likely to be precariously employed.

One of the indicators of precarity is self-employment and, in particular, the form described as “own account with no paid workers.” That category of employment has increased its share of total employment over the last 10 years and has grown more quickly than total employment.³ The consultation paper described some of the insecurity faced by self-employed workers in terms of fluctuations in their incomes. The competing demands on reinvesting earnings or saving for retirement is a further argument for mandatory participation in the ORPP. We would therefore recommend that the Ontario government approach the federal government to amend the income tax rules to allow self-employed individuals to participate in the ORPP.

Conclusion

The Ontario government is taking an important step to increase retirement security by introducing the ORPP. For the plan to be effective, and truly increase retirement security, it must be designed to maximize portability and comprehensive coverage.

This includes:

- Ensuring participation for all Ontario workers, whether or not they are members of a workplace pension plan.
- Establishing the minimum threshold for participation in the plan at \$3,500, which mirrors the CPP threshold.
- Approaching the federal government to amend the Income Tax Act regulations to allow self-employed individuals to participate in the plan.

Notes

1. Conference Board of Canada **What are the overall voluntary and involuntary turnover rates for Canadian organizations?**

www.conferenceboard.ca/topics/humanresource/questions.aspx#Q1 and authors' calculations

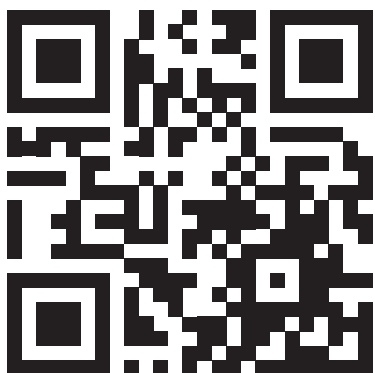
2. Poverty and Employment Precarity in Southern Ontario. (2013). It's More than Poverty: Employment Precarity and Household Well-being. Poverty and Employment Precarity in Southern Ontario. McMaster University and United Way.

3. Statistics Canada. Table 282-0080 - Labour force survey estimates (LFS), employees by job permanency, North American Industry Classification System (NAICS), sex and age group, annual (persons)

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