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Budget Secretariat
Ministry of Finance
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Submitted by email: ORPP@ontario.ca

To: The Honourable Mitzie Hunter
Associate Minister of Finance

Subject: Ontario Retirement Pension Plan: Key Design Questions

Independent Financial Brokers of Canada (IFB) welcomes the opportunity to comment on the proposed Ontario Retirement Pension Plan (ORPP). We support the government's consultative approach to gathering input in advance of finalizing the design parameters, and we share the concern that some Ontarians are not saving enough for retirement. Support for including financial education programs in our schools, and accessible training tools to improve financial literacy will help people recognize the importance of long-term savings, and feel more comfortable in engaging professional financial advice to help that happen.

Introduction

IFB is a not-for-profit trade association with approximately 4,000 members across Canada. A significant number of our members live and work in Ontario. IFB members are typically self-employed financial professionals who operate small to medium sized, community-based businesses. The majority are licensed to provide services and advice related to life/health insurance products and/or mutual funds. However, many hold complementary financial licenses, such as for mortgages, securities, property & casualty insurance, etc.

IFB supports its members by providing affordable, comprehensive professional liability insurance, compliance tools and advice, and continuing education events. An important part of the work IFB does is advocacy so that government and regulators understand the value that our members bring to the financial well-being of their clients, and to the small business community.

IFB members are at the forefront of providing financial advice to consumers every day. Collectively, they help individuals and families plan for the future, save and invest money and be better prepared, financially, for life events. They are active partners with their clients in building voluntary savings in what is referred to as the "Third Pillar of Retirement Income". Research has clearly demonstrated the link between professional financial advice and better financial outcomes for consumers.

In addition to working with individual investors, many IFB members help small businesses, not-for-profits and charities design and implement retirement savings vehicles for their employees, and they provide ongoing service and support to these plans, and plan members, in communities across Ontario.

Many small businesses are already struggling with their operational costs, including the ever-increasing burdens posed by regulation and red tape. At the same time, they are often not in a position to raise their prices to consumers to compensate for these increased costs. The end result is more money flows from the bottom line. The ORPP will add another layer to their costs, leading to a reduction in staff, salaries or other compensatory measures. Our members, for example, are largely dependent on income derived from commissions. Commission structures are set by the companies they do business with. Our members do not control this process, and have no mechanism to pass along the cost of the ORPP to their customers.

Also, we strongly encourage the government to engage in an impact analysis to be assured that the ORPP will not negatively affect the retirement savings options available to Ontarians today, or simply move savings earmarked for retirement from one vehicle to another. Conflicting views of the validity of the assumptions underlying the ORPP are emerging from experts in the field. The government must be confident that its proposed approach will benefit Ontarians for years to come and not place undue financial burden on young workers.

With this perspective in mind, our comments focus on the definition of a comparable plan. The definition is integral to the overall plan design, as it will clarify who will belong to or be exempt from membership in the ORPP.

<u>Proposed definition of a comparable workplace pension plan.</u>
The December ORPP paper states the government prefers a definition whereby only defined benefit (DB) and target benefit multi-employer pension plans (TBMEPPs) would be considered 'comparable'. Comparable plans would be exempt from participating in the ORPP. Below, we identify a number of concerns with this approach that merit greater study.

Below are our comments on the key design questions:

i) If defined contribution plans (DC) and Group RRSPs are excluded from the definition of a comparable plan under the ORPP, employers may reduce contributions to their existing plans, or discontinue these plans altogether. Our members tell us that many of their clients who are small businesses and charitable organizations are already stretched financially and simply could not afford the added operating cost of the ORPP. As a consequence, they may be forced to find cost savings elsewhere, perhaps in lower salaries or fewer staff. In a different scenario, some of these plans may today be funded by employers above the 1.9% (3.8% collectively) set by the ORPP. Transitioning to the ORPP would reduce contributions and benefits for these plan members.

ii) We are concerned the government is relying too heavily on the appearance of stability that DB funding formulas bring to plan participants. The rationale provided for restricting comparable plans to DB and TB is that the funding formula for these plans provides a predictable stream of retirement income for the life of the retiree. While this is true in theory, findings from the 2014 Ontario Auditor General's "*Report regarding Pension Oversight Reform and Transparency*", clearly indicate that this is not the case. In fact, it showed 92% of DB plans in Ontario are currently operating below their level of solvency:

"The growing level of underfunding in defined benefit pension plans in Ontario is a significant concern (underfunded plans are those that would have insufficient funds to pay full pensions to their 2.8 million members if they were wound up immediately).

As of December 31, 2013, 92% of Ontario's defined-benefit plans were underfunded, compared to 74% as of December 31, 2005. Over the same eight-year period, the total amount of underfunding of these plans grew from $22 billion to $75 billion."[1]

Today, there are many plans with an alarming inability to pay future pensions to these almost 3 million working Ontarians. In addition, employers can become bankrupt (e.g. Nortel), leaving DB plan members with a much reduced pension benefit or requiring a large government bailout to top it up. An advantage of a defined contribution plan is that employer bankruptcy is not an issue, as the money is invested in each employee's account.

iii) The design of the ORPP is to mandate employer contributions because, the paper says, "Other retirement savings arrangements, such as Group RRSPs and PRPPs, do not require employer contributions, although some employers choose to make voluntary contributions."

DB sponsors are permitted to take contribution holidays or apply for solvency relief. In recent years, solvency relief was permitted in 2009 and again in 2012, aided by the government. As the Auditor General's report notes: *"There were 471 pension plans, or 30% of all active defined-benefit pension plans, that elected solvency funding relief in 2009.*

By 2012, the solvency deficiency of defined benefit pension plans from 2008 had not improved because investment returns continued to be volatile and interest rates remained low, so the government extended the solvency funding relief by introducing additional measures on November 1, 2012.

In total, 215 pension plans elected 2012 solvency relief; of these, 134 had also elected solvency relief in the previous round."[2]

Plans that are below their solvency threshold today will be hard-pressed to make up the loss of investment income attributable to these periods of solvency relief.

The Auditor General made a number of recommendations to improve pension compliance that require government action (**our emphasis added**):

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[1]Office of the Auditor General of Ontario. 2014 Annual Report. Chapter 3, Section 3.03, *Financial Services Commission of Ontario – Pension Plan and Financial Service Regulatory Oversight.* http://www.auditor.on.ca/en/reports_en/en14/303en14.pdf

[2] Ibid.

- Expand the Superintendent's powers, under the *Pension Benefits Act,* to take action against plan administrators of severely underfunded pension plans and plans not being administered in compliance with the Act.
- Provide FSCO with the authority to issue AMPs in the pension sector. (AMPs have been shown to be effective deterrents in other sectors under FSCO's jurisdiction.) **Despite a FSCO recommendation dating back to 2010, no action has been taken by the Ministry of Finance to propose the necessary changes to the *Pension Benefits Act*.**
- The *Pension Benefits Act* was amended in 2010 to authorize the Superintendent to terminate a plan administrator and either appoint a new one or allow the Superintendent to act as the plan administrator. **The amendment is still not in force, the accompanying regulations have not been written, and no date has been set to do so.**

In light of above findings, we think the top priority should be for *Ontario to take the necessary steps to shore up confidence in the existing plans under its purview and preserve those members' contributions and future pension benefits.*

<u>TB framework for SEPPs</u>
The Ministry of Finance, in its 2013 Budget (and referenced in this ORPP paper on page 2), committed to developing a regulatory framework that would enable single employer TB plans to be set up in unionized environments. In the **B**udget, these plans were referred to "as an innovative retirement income model".[3]

We think the government should proceed with this initiative but expand it to include non-unionized workplaces. TB single employer plans, with their hybrid of DB and DC features, may well be an attractive option for employers and employees in non-unionized workplaces - whereas today, they may see only a DC arrangement as feasible.

We encourage the government to follow up on its commitment to make the changes necessary to enable single employer TB plans, and to make it a choice for any employer.

<u>January 1, 2017 implementation date</u>
As mentioned earlier in our submission, many employers currently offering retirement arrangements, if their arrangement is not considered comparable under the ORPP, will be faced with a decision to discontinue their existing plan, reduce contributions, or make staff/salary adjustments. In some cases, this may require winding up the existing plan through FSCO. Most will need to make payroll/IT changes to their internal systems, and some, if in a unionized environment, may need to negotiate participation through the collective bargaining process.

These steps take time and involve costs which employers will need to budget for, or reallocate monies from other projects. The January 2017 implementation date may not be realistic for many employers.

On page 12 of the consultation paper, the government commits to consulting with a wide variety of groups to ensure it understands and considers the views of all, in its approach and design of the ORPP.

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[3] Ontario, Ministry of Finance. 2013 Budget. *Securing Retirement Incomes*.
http://www.fin.gov.on.ca/en/budget/ontariobudgets/2013/ch1b.html#ch1b_17

The anticipated implementation date would appear to be aggressive given the early days of this consultation process.

Suggested options

Despite our reservations on the timing, IFB supports the consultative process and in that regard we offer the following options for consideration in the ORPP design:

Preferred – Recognize the prevalence of DC and Group RRSP plans in the workplace and include an exemption for these plans under the definition of 'comparable' workplace pension plans.

Alternative 1 – Grandfather an exemption from ORPP participation for existing DC and Group RRSP plans as of the ORPP inception date.

Alternative 2 – Provide an opt-out for small employers who may or may not have DC and Group RRSPs but who have less than a specified number of employees. Specific consideration may be required for small not-for-profits and charities.

Alternative 3 – Require automatic enrollment of employees (like the National Employment Savings Trust, in the U.K.) but provide an opt-out option within a specified period of time. The NEST experience shows that once enrolled, many employees do not exercise the opt-out option. A slightly different approach would provide employees with the option to opt-out initially, but permit them to opt-in, at some later date. This may be particularly attractive for younger employees just starting out, or older employees nearing retirement age who will receive little benefit from their contributions.

Alternative 4 – Provide a phased in approach permitting employers to come into the plan in designated groups, allowing for a more managed transition.

Conclusion

We believe the government should move forward on addressing the recommendations made by the Auditor General to stabilize the pension and retirement income of the millions of Ontarians who already participate in existing pension plans, with as much or even more urgency than is being placed on launching the ORPP. This would demonstrate its concrete commitment to ensuring that the Ontarians in these registered pension plans can be confident that the contributions they make today will, indeed, be available to them as retirement income in the future.

We look forward to engaging with the Ministry on workable solutions as the consultation process progresses.

Yours truly,

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