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Ontario Retirement Pension Plan: Key Design Questions
Budget Secretariat
Ministry of Finance
95 Grosvenor Street
3rd Floor, Frost Building North
Toronto, ON M7A 1Z1

**Re: Proposed Legislation for an Ontario Registered Pension Plan (ORPP) and an Ontario Pooled Registered Pension Plan (PRPP)**

We are writing in regard to the above-noted pieces of proposed legislation, and in response to the Ontario government's consultation paper of December 2014 entitled *Ontario Retirement Pension Plan: Key Design Questions*.

In Ontario, the problem of pension reform has acquired a new urgency; indeed, it is now an important issue across the western world, given the anticipated impacts of aging populations on the provision of old age pensions. Across Canada but particularly in Ontario we have entered into an extensive debate on the most appropriate measures we must take as a society to ensure suitable post-retirement lives for our citizens. We therefore commend the Ontario government for its recognition that the retirement futures of Ontarians are a major public policy issue both for today and for well into the future. We appreciate the opportunity to comment on the design and structure of the proposed ORPP and its integration with a provincial PRPP system, as well as with existing workplace savings and pension plans.

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## EXECUTIVE SUMMARY


Advocis supports government policies that will assist Ontarians in saving for their retirement futures. We believe that the province's government and the private sector must work in harmony to ensure the best outcome for all Ontarians.

### PART ONE: ADVOCIS AND OUR POLICY POSITION ON PENSION REFORM

Pension policy is exceptionally complicated, involving issues relating to taxation, labor markets, actuarial science, behavioral finance, and law. While this is a complex set of sources from which to develop policy proposals, potentially requiring familiarity if not expertise in a range of disciplines, Advocis believes that public discussion of pension reform is necessary to ensure any changes are understood and supported by as large a segment of the Ontario population as possible.

Advocis also believes that pension reform is generally justifiable if it will produce a measurable improvement in risk sharing among the population, or an increase in the total welfare of the province, or result in noteworthy efficiency gains, such as in aggregate savings or employment. In evaluating any give pension reform proposal, we believe that the following principles must be brought to bear as analytical tools: the cost-benefit of the proposal, including its impact on the jurisdiction's aggregate levels of savings and labour markets; the fiscal and financial stability of the jurisdiction and its ability to implement and sustain the reform, including its impact on public finances; and the level of political commitment to and degree of political sustainability for the reform, including whether future generations will wish to support it.

### PART TWO: THE PROPOSED ONTARIO REGISTERED PENSION PLAN

Advocis believes that governments should implement reforms to the existing private sector pension and retirement savings system (the third pillar of Canada's retirement system) before implementing any major new retirement savings structure. Advocis is not in favour of a mandatory supplemental provincial pension plan as described in the consultation paper that does not allow for a level playing field with the private sector's long-established group RRSPs and DC plans. Indeed, at present it seems that such plans are to be excluded from being deemed comparable plans under the ORPP legislation. As a result, these capital accumulation plans will surely be crowded out over time by the new ORPP, along with other existing employer-offered retirement savings options currently utilized by Ontario's pension plan participants.

**Partnering with stakeholders, conducting a comprehensive cost-benefits analysis, and identifying and understanding Ontario's at-risk groups**

Advocis would like the Ontario government to partner with stakeholders and conduct and publish an impact analysis of the proposed ORPP, including how it would work with an Ontario PRPP, but, above all, to identify for pension income support those persons who will be most at risk when in retirement – that is, those Ontarians who are at present not being adequately

served by the province's public and private sector pension plans. Indeed, identifying the sub-population of Ontarians who, 20 to 25 years from now, will be most in need of tangible, beneficial results from the pension reforms of *today* – this strikes Advocis as a top priority. We believe that an urgent goal of the Ontario government should therefore be to delineate the demographic features of Ontarians who are currently "mis-saving." The availability of the tax-free savings account may very well prove to be an answer to potential and as-yet unseen pension issues to be faced by, for example, the "Millennial Generation," but the immediate focus of pension reform in Ontario must include those persons who will be retiring in the relatively near future to face the consequences of inadequate levels of retirement savings. .

At this stage, Advocis would note the concerns voiced by many stakeholders that the costs to businesses and taxpayers of establishing and administering the proposed ORPP will almost certainly prove to be significant, including to those employers who do not wish to participate in such a plan. For example, a February 2015 report from Morneau Shepell, entitled *Retirement Security for Everyone: Enhancing Canada's Pension System*, asserts that many Ontarians will not have enough to save for retirement if the ORPP, as currently proposed, begins operation in 2017.[1] The report also emphasizes the need for government and pension reform stakeholders to work together.

Advocis believes that a comprehensive cost-benefit analysis would be exceptionally helpful in guiding Ontario's various pension reform efforts. Such an examination is necessary to ensure that the electorate can fully assess the costs and benefits of the ORPP proposal from financial, fiscal and social perspectives. An impact assessment of the ORPP on Ontario's fiscal and business competitiveness, on its investment and employment levels, on the continued viability of thousands of the province's employer-offered capital accumulation plans, and on the savings behaviours of Ontarians, is absolutely necessary for stakeholders to be able to judge the merits of the ORPP and Ontario PRPP proposals. In the absence of the gathering and interpretation of key data, forecasting and metrics, Advocis believes that the potential costs associated with an ORPP-style reform simply should be incurred at this time. Instead, the government's focus should be on implementing tactical refinements and discrete reforms to existing pension and tax legislation.

**Issue One: Defining "Comparable Plan"**

The government has stated that Ontarians who have a comparable pension plan will not be required to enroll in the ORPP. Accordingly, to understand who will be required to participate in the ORPP, one must review the definition of what should constitute a "comparable plan." In its *Consultation Paper*, the government identified its "preferred approach" as one which restricts the term "comparable plan" to DB pension plans, target benefit pension plans, and multi-employer pension plans as the savings vehicles sufficiently comparable to the ORPP. The plan design features which the government flags as necessary to fulfilling the definition of

[1] Public Policy Forum in partnership with Sun Life Financial and Morneau Shepell, *Retirement Security for Everyone: Enhancing Canada's Pension System*, February 2015. At http://www.ppforum.ca/sites/default/files/Retirement%20Security%20for%20Everyone%20-%20Final%20Report_0.pdf.

"comparable plan" include reduced longevity risk, indexing to inflation (at least in some instances), mandatory employer contributions, pooling of investment risks and locking-in of retirement funds. This means that employers who sponsor – and also participate with a matching contribution – DC pension plans, group RRSPs, pooled registered pension plans and deferred profit sharing plans would not be exempted from mandatory ORPP participation.

Advocis believes that other retirement savings vehicles, such as DC pension plans and group RRSPs, should be considered comparable to the ORPP. For example, we believe that a group RRSP with employer and employee contribution rates of at least 2% each should qualify as a comparable plan, as should a DC plan with mandatory annuitization upon retirement. Regardless of the particulars, we are confident that there is a tremendous range of plan design features which can make the province's current capital accumulation plans sufficiently comparable to the proposed ORPP. We also believe that harnessing the private sector's expertise in plan design and containing operating costs and management fees seems a necessary ingredient in any major pension overhaul.

**Issue Two: Minimum Earnings Threshold and Assisting Ontario's Low Income Workers**

The government has indicated that Ontarians with earnings below a prescribed threshold will not be required to contribute to the ORPP. Again, the government's "preferred approach" is to mirror the CPP's $3,500 minimum earnings threshold, in the interests of reduced administrative complexity for employers who, after all, already have systems in place to deduct CPP contributions. Such an approach would also allow for easier integration of the ORPP with the CPP, should the latter be enhanced in the future.

The *Consultation Paper* concedes that a low earnings threshold may not be beneficial for low earners, as the ORPP benefits could reduce their GIS benefits. However, the paper also points out that many low earners have received higher earnings in other years, or have a spouse whose earnings boost substantially their household income, thereby reducing the potential impact of this problem. Advocis believes that in the event an ORPP is to become a reality, the issue of a minimum earnings threshold cannot be determined until: (1) the definition of "comparable" plan is settled; and (2) a robust analysis has been undertaken – and then shared and evaluated publicly – of the potential effects on Ontario businesses of mirroring the CPP's minimum earnings threshold.

**Issue Three: Ontario's Self-Employed**

The *Consultation Paper* states that self-employed Ontarians will not be able to participate in the ORPP, given current rules under the federal *Income Tax Act*. Indeed, research indicates that self-employed individuals are less likely to be financially prepared for retirement when compared with paid employees. One reform option proposed by the Ontario government regarding the self-employed would have the province engage with the federal government with the aim of amending the federal *Income Tax Act* to allow self-employed individuals to participate in the ORPP.

In the event that a modified ORPP is eventually established, and its enabling legislation deems employer-led capital accumulation plans such as DC plans and group RRSPS to be "comparable plans," then Advocis believes that the self-employed individual should be able to voluntarily participate in an ORPP, in the same manner that he can do so with the CPP. Amending the federal *Income Tax Act* to permit the self-employed individual to enrol in and contribute to a future version of the ORPP would be laudable; we would suggest the government consider a voluntary opt-in provision. Ontario should therefore engage in discussions with the Government of Canada to amend the relevant provisions of the *Income Tax Act* to allow individuals who are not in an employment relationship and who do not report income from salary and wages to participate in any future ORPP, in the same manner as voluntary CPP participation.

In addition, Advocis is pleased to note that the government suggests that financial literacy initiatives tailored to meet the needs of self-employed individuals may have a helpful impact by ensuring they have the knowledge to save sufficiently for retirement. This has been the experience of many of our member advisors, who provide pension advice and retirement planning advice to small business owners, including the self-employed.

**PART THREE: THE PROPOSED ONTARIO POOLED REGISTERED PENSION PLAN LEGISLATION**

On December 8, 2014, the government introduced Bill 57, the *Pooled Registered Pension Plans Act, 2014*, which then passed first reading. Bill 57 is similar to the federal PRPP legislation already passed, as well as the PRPP legislation in Alberta and Saskatchewan. Canada's federal system of government and constitutional division of powers mean that provinces – working independently or together – can play an important role in the development of pension policy.

Depending on the final details of Ontario's PRPP legislation and its attendant regulations, PRPPs may prove to be of special importance to Ontario's small businesses, to their employees, and to self-employed Ontarians, many of whom will have access to a private pension plan for the first time. In principle, Advocis therefore supports the Ontario government's intention to introduce PRPPs; as an example of how the private sector can work with government to develop solutions to pressing long-term financial challenges that affect all Canadians. Further, Advocis strongly believes that both employers and consumers should have access to professional financial advice when they participate in PRPPs. Ontario is taking a leadership position in innovative "experimentation" in pension policy; thus the efforts of the Ontario government to engage with the federal PRPP framework and its emerging provincial counterparts are to be lauded.

**LOOKING AHEAD: PENSION REFORM AND THE PROFESSIONALIZATION OF FINANCIAL ADVICE**

The further professionalization of financial advisors is crucial for several aspects of Ontario's proposed pension reforms, including for the maximization of wealth accumulation for the province's self-employed. It will be recalled that the Ontario Ministry of Finance proposed tailored regulation of advisors in its *2013 Fall Economic Statement* and recommitted to it again as recently as November 17, 2014, in the Ontario government's *2014 Ontario Economic Outlook and Fiscal Review*, when the Finance Minister, Charles Sousa, announced that the Ontario government plans to appoint an expert committee tasked to look into more tailored regulation of financial advisors and in the coming months to develop a mandate in consultation with key stakeholders. Advocis commends the Ontario government for this, as such professionalization will effectively raise the profile of advisors and enhance assist in the ability of the self-employed to access professional-quality retirement advice.

To conclude: Advocis believes that Canada's three-pillar system of retirement income has, on the whole, proven very successful – and will continue to do so, with measured and prudent modifications of its existing tax and regulatory apparatus – and with the necessary recognition of the key role to be played by the private sector in working with government to provide viable pensions and savings plans which are also efficient, low-cost retirement solutions.

Part One of this submission describes Advocis' general expertise in pension matters and outlines our own policy framework for the evaluation of pension reforms. Part Two tracks the Ministry of Finance's issue-by-issue format for evaluating the ORPP as set out in its *Consultation Paper*. Part Three offers our comments on Bill 57, the recent PRPP legislation. The final section reviews the issue of enhanced advisor professionalism in the context of pension reform more generally.

## PART ONE: GENERAL COMMENTS AND CRITICISM

### A. Advocis: Our Pension Experience and Expertise

Advocis, The Financial Advisors Association of Canada, is Canada's oldest and largest voluntary professional membership association of financial advisors and planners. Our 11,000 members provide comprehensive financial advice to Canadians through all stages of their lives including estate and retirement planning, wealth management, risk management, tax planning, employee benefits, critical illness and disability insurance. In particular, our members provide retirement planning and investment advice to both employers who offer and employees who are enrolled in defined benefit (DB) plans, defined contribution (DC) plans, capital accumulation or CAP plans, as well as individual and group registered retirement savings plans (group RRSPs) and tax-free savings accounts (TSFAs). Advocis has established a Retirement Income Adequacy Committee, whose mandate is to identify retirement and pension issues that are of concern to Canadians and to promote a sound retirement income system, including reforms to improve retirement income adequacy for Canadians now and in the future.

What follows reflect the priorities of Advocis' members and their clients.

### B. Our Policy Approach to Pension Reform: A Better Public Discussion of Plan Design, Costs and Sustainability Concerns

Advocis believes that employees and employers should be encouraged to participate in retirement savings plans. Barriers to participation should be removed and incentives put in place which will facilitate employers offering retirement savings plans for their employees and, in the aggregate, result in more employees being members of a suitable pension plan.

Advocis believes that the majority of Ontarians currently have most, if not all, of the necessary tools and means needed to save effectively for retirement (e.g., through group RRSPs, TFSAs, CAP plans, DB plans, etc.). We therefore believe that the first step in any comprehensive pension reform must include amending or otherwise strengthening these existing savings plans and tools – and access to them – and in providing incentives which will mean that Ontarians are both more able and more inclined to save for their retirement years. Accordingly, Advocis believes that effective pension reform must reflect the following principles of public policy:

1. Preservation and promotion of the individual's capacity to choose his or her own economic goals and outcomes: .Advocis believes that as unique individuals all Ontarians should enjoy the ability to choose *how* they accumulate savings for their retirement. A primary goal of pension reform should be to target those at risk of not being able to meet their non-discretionary expenses in retirement. Then, to achieve a standard of living that is similar to that experienced during pre-retirement, an acceptable measure of replacement rate of income should be set as a *de minimus* standard. It should be stressed that this "correct" replacement rate is not a one-size fits all answer and depends on what the individual's standard of living was pre-retirement, and what that person's goals, expectations and plans are for their retirement years. Policy should also be flexible enough to recognize that people may choose to retire "early" or may choose to continue to work beyond the traditional retirement age of 65.

2. Support for a wide array of savings plans: This is a corollary of the first principle. Preserving and promoting breadth of choice for economic actors in the pension system – especially for small businesses who will provide pension platforms to their employees, and the individual Ontarians who will enrol in them – dictates that pension reform should encompass as many types of retirement savings plans as possible, especially the province's well-established and successful capital accumulation plans, such as defined contribution plans. Ontario's employers and employees need to be encouraged to participate in retirement savings plans and barriers should be removed and incentives put in place which will facilitate employers offering retirement savings plans for their employees. For its part, the Ontario government should continue to work to reduce barriers to savings and provide appropriate incentives so that more of the province's citizens will save for their retirement through private sector, employer-sponsored pension and savings plans.

   Providing Ontarians with flexibility and choice in respect to private savings options is critical; employers have proven that they can afford to offer their employees the ability to save through DC plans, or other CAP plans, as opposed to DB plans. Advocis strongly supports reforms to the regime for CAP plans, as our members' experience tells us that these plans are the best type of pension plan for small- and medium- sized enterprises. In recent years Ontario has of course seen an increase in the percentage of DC plans and other CAP plans and most of the substantial loss of membership in DB plans has occurred because of plan conversions.

3. Coordination of Ontario's pension reforms with the rest of Canada's: Ontario should continue to engage with the federal and other provincial governments to help shape a national approach to the goal of lessening regulatory costs and compliance burdens for participant firms who operate in more than one province, as well as for Canadians who need pension portability.

4. Recognition of the role of professional financial advice: In addition, Advocis strongly believes that professional financial advice is needed by the majority of Ontarians in order to lead to good consumer financial outcomes, not only in the areas of retirement income savings, but in a whole host of other areas, as well such as planning for a child's education and for properly addressing potential long-term health care needs. Public policy needs to foster an expansive role for professional financial advice in order to ensure that Canadians can meet their retirement income and other financial goals. Ontarians should not be expected to serve as their own financial experts but should have the ability to obtain professional financial advice so that they have safe and adequate retirement savings.

5. Prioritizing for reform specific, discrete and measurable aspects of Ontario's pension system, including through the use of tax amendments: Advocis believes that prior to a major overhaul of the Ontario pension system, efforts should be made to strengthen the existing means of accumulating retirement savings through certain "tactical" reforms, such as a combination of higher and more flexible tax-assisted contribution limits, longer accumulation phases, deferred and reduced requirements for income commencement and substantially more "user friendly" rules for employer sponsors. Another area of reform could include allowing employers to auto-enroll employees in a CAP plan, with the ability of the employee to opt out, should they choose to do so.

6. Pragmatic recognition of existing fiscal and financial realities: Advocis does not, at this time, support expansion of the Canada Pension Plan as a way to improve retirement income adequacy for future Canadian retirees. A corollary of this is that Advocis does not support the establishment of the ORPP as it is currently conceived in the December 2014 *Consultation Paper*. Instead, Advocis recommends the Ontario government adopt an inclusive, harmonized approach which will allow private sector pension reforms to be implemented and given a chance to succeed, prior to any attempt to implement what is in effect an Ontario-only "piggybacking" on the "Second Pillar" of our retirement income system – i.e., the Canada Pension Plan. In addition, the debt and deficit situations of the federal and Ontario governments, as well as the existing tax burden for Ontario employees and employers, quite possibly preclude the imposition of an additional tax burden on employers or employees that would be required to introduce an ORPP – as it is currently

envisioned – at this time. Finally, the argument is often advanced that only a public sector solution can be low-cost vis-à-vis the profit-seeking private sector options: as will be seen below, this assumption is often at odds with the evidence. Advocis believes that it is necessary to carefully ascertain what will be the total costs of building and implementing the ORPP's massive infrastructure and conduct a thorough cost-benefit analysis of the proposed ORPP regime.

7. De-politicization of Ontario's pension debate: In today's Ontario, both employers and employees face a business environment prone to periods of financial volatility and economic uncertainty. Firms have felt compelled to respond to changing economic pressure by reducing benefit programs, with the result that DB plans are disappearing in the private sector and face a manifold set of fiscal pressures in the public sector. The result is a heated and politicized public debate. Ontario has seen the rise of a new breed of pension reform specialists who advocate various proposals based on their own political, social, and economic biases.

   As a result, much public discourse on pension reform now turns into a heated debate marked by extreme positions. The result is that widely divergent views have blurred the critical distinction between: (i) policy differences based on values and political affiliations, and (ii) policy differences based on varying schools or styles of legal and economic analysis. All of these forms of policy differences are equally legitimate and should be brought into the open. Advocis believes that informed public debate and decision-making requires that public discourse on pension reform in Ontario be reframed, with a focus on:

   (i) a clear delineation of the pension problems in Ontario's current pension model;

   (ii) a determination of what Ontario's pension system should look like in the future, through a determination of what sort of benefit offering will best address each individual element of Ontario's pension problem. This is turn will require an evaluation of the plan's coverage and eligibility conditions and general actuarial design, as well as its potential impact on behavioral and efficiency concerns; and

   (iii) how to transition from (i) to (ii), given Ontario's present and anticipated economic and political realities. These realities include a dispassionate analysis of the fiscal sustainability of the Ontario government's proposed pension scheme. State pensions have to be fiscally sustainable over both the medium- and long run in order to meet their central policy goal of maintaining an acceptable standard of living for pensioners. Regardless of political debates about the effects of taxation on economic growth, it is indisputable that beyond a certain point the effects of high levels of taxation will prove counter-productive to that policy goal.

Also crucial is the political sustainability of the proposed pension reform: the government must assure itself that there is sufficient political will to carry through to completion the reform process. Given that pension reform is a process which requires ongoing technical adjustments (even long after the legislation has been passed), it must be determined if there is durable, ongoing political support. Pension reform "cannot be regarded as a single, once-and-for-all event runs the risk of neglect, discredit and eventual reversal."[2] The depth of political support must be sufficient for the reform project; "it is not enough for the top echelons of government to understand the reform proposal. The idea and its implications must be shared and understood throughout government *and* administration. Without that depth of shared understanding, the original plan risks being implemented badly."[3]

Lastly, the achievement of the fiscal and political sustainability needed to underwrite the pension reform process also requires the presence of effective and continuous regulatory capacity. How will the Financial Services Commission of Ontario be retooled in order to supervise the ORPP? To date, both the government and regulator have been silent on this matter.

## PART TWO: THE PROPOSED ONTARIO REGISTERED PENSION PLAN

The government has invited feedback on the ORPP generally, and in respect of each of three design issues outlined above. In addition, the consultation paper includes a list of specific discussion questions relating to each design issue. For your ease of reference and review, the *Consultation Paper*'s set of "key issues" and a number of key questions are reproduced below. Advocis has inserted its comments and concerns in the appropriate locations.

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

The ORPP proposal is clear that that all employers will be required to implement an ORPP unless they already offer a "comparable" plan.

Advocis believes that nearly all existing workplace-based, tax-assisted investment or savings plans, typically captured by the term "capital accumulation plans," including group RRSPs, DC plans and, at some point in the future, PRPPs, should qualify as "comparable" plans for the purposes of the ORPP. In support of this position, we note that in these plans average employee contributions are already significantly in excess of the proposed ORPP's 1.9% mandatory employer contribution: see, for example, the discussion below of the results of the recent surveys of capital accumulation plans conducted by Great-West Life and Sun Life Financial.

[2] Nicholas Barr, "Reforming Pensions: Myths, Truths, and Policy Choices," *International Social Security Review*, Volume 55, Issue 2, April-June 2002, pp. 3–36, at p. 33.
[3] *Ibid*.

**Partnering with stakeholders, conducting a comprehensive cost-benefits analysis, and identifying and understanding Ontario's at-risk groups**

Advocis would like the Ontario government to partner with stakeholders and conduct and publish an impact analysis of the proposed ORPP, including how it would work with an Ontario PRPP, but, above all, to identify which groups in Ontario will be most at risk in retirement when the ORPP would "go live," and indicate how the ORPP would assist them.

We believe that the Ontario government should focus more tightly on the sub-populations of the province's most vulnerable citizens. In the absence of a cost-benefit analysis, it is not clear whether amendments to Old Age Security, the Guaranteed Income Supplement and various provincial support programs would not be more helpful to those likely to be most at risk in retirement than the ORPP. A tactical reform such as granting low-income GIS recipients income exemptions on their RRSP withdrawals could very well be a more effective way to help those truly in need.

In fact, it is not clear that most Ontarians need a new mandatory saving plan. One recent study suggests that 83 per cent of Canadians are on track for comfortable retirements.[4] Given such research findings, the Ontario government should determine how to most effectively identify for pension income support those persons who will be most at risk when in retirement – that is, those Ontarians who are at present not being adequately served by the province's public and private sector pension plans. Identifying the sub-population of Ontarians who, 20 to 25 years from now, will be most in need of beneficial results from the pension reforms of *today* strikes Advocis as a top priority. We believe that an urgent goal of the Ontario government should therefore be to delineate the demographic features of Ontarians who are currently "mis-saving." The availability of the tax-free savings account may very well prove to be an answer to potential and as-yet unseen pension issues to be faced by, for example, the "Millennial Generation," but the immediate focus of pension reform in Ontario must include those persons who will be retiring in the relatively near future to inadequate levels of retirement savings.

We now turn our analysis to several of the consultation paper's specific questions.

**Discussion Questions**

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| 3. Are there circumstances under which other retirement savings vehicles such as DC plans should be considered comparable? |

Yes. It must be emphasized those circumstances – which include low levels of job creation and levels of personal and business taxation which leave little "tax room" from which governments may draw – are believed by a wide range of well-informed stakeholders to be present in Ontario today, and will continue to be present for the foreseeable future. Indeed, a major stumbling block for the Ontario government's ORPP proposal lies in its definition of the term "comparable plan." The Ontario

[4] McKinsey & Company, *Building on Canada's Strong Retirement Readiness*, February 2015, p. 2.

government's consultation paper on ORPPs clearly states that the government's "preferred approach" is that DB and multi-employer target benefit plans be the only plans to be considered "comparable plans," thus excluding all of the province's existing DC plans and group RRSPs. Advocis believes that not including the group RRSPs or DC plans which so many Ontario companies have implemented to help employees save for retirement – even though the employer contributes a regular sum each year, is problematic. The result is that employers who for years, even decades, have taken on a degree of responsibility for the pension welfare of their employees, will now be obligated to participate and contribute to the ORPP as well.

If employer-led CAP plans are not to be considered comparable, and those employers currently offering CAP plans are then required to implement ORPPs, there is a very real risk that they will be forced to drop their existing plans. Ontario workers and their families will clearly be disadvantaged in these cases for generations to come.

Concerns with the Ontario government's "preferred approach" to restricting of the definition of "comparable plan" to DB and multi-employer target benefit plans may be broken down as follows:

1. Ontario's go-it-alone efforts to mirror the Canada Pension Plan may lead to a jurisdictional "race to the bottom among firms": The reasons Ontario adduces for the exclusion of DC plans and group RRSPs from its "preferred definition" of "comparable plan" reflect the province's express desire to recreate the Canada Pension Plan in Ontario; those plans which do not meet the following indicia are judged inadequate on an *ex ante* basis:

    a. the employee receives a pre-defined and wholly predictable stream of retirement income;
    b. the employee is protected from outliving his or her savings;
    c. the employee's contributions are always equally matched by the employer; and
    d. the employee – unlike employees enrolled in CAP plans – is not exposed to the risk of lower-than-expected returns.

    Ontario's proposed ORPP will require employers to adopt these stringent funding requirements. In other words, Ontario wants to offer a government-backed DB plan, despite the fact that in a federation, it is often the *federal* government which is best positioned to offer such a plan, due to its larger national tax base. Canada's own history of pension development and reform supports this observation. But in an era of a globalized economy and ongoing market uncertainty and financial volatility, Canada's federal structure practically guarantees the possibility that a significant portion of citizens may decide to "vote with their feet" and move to Ontario, while employers will be forced to move out of Ontario simply in order to stay in business. If the ORPP goes ahead, employers will likely be forced to cut back the benefits offered under their group RRSPs or DC plans or abandon them altogether. Such an outcome would undermine the retirement planning and future well-being of hundreds of thousands of Ontarians, leaving them and their families worse off in retirement.

In spite of the Ontario government's characterization of DC plans, such plans have proven to be an effective way for Ontario workers to save for retirement: more than 600,000 Ontarians have DC plans at their workplace and many more will be offered this opportunity through the proposed PRPPs.

2. Ontario's capital accumulation plans are performing well and feature increasingly robust levels of employer contribution: Several recently published surveys on Canada's capital accumulation plans indicate surprising strength in Canada's group RRSP and DC plans. One report states that 97% of DC plan sponsors and 90% of group RRSP sponsors are satisfied their plan is achieving its original planned objectives.[5] As well, the average employer contribution for DC plans is 6.5% and the average employee contribution is 4.5% – significantly higher than the ORPs combined 3.8% employer/employee contribution. Two of the recent reports reveal that roughly 80% of CAP plans for salaried employees include employer contributions, and that the majority of employers who have a matching program contribute at least 75% of what the employee contributes. According to the Sun Life report, *Design for Savings: Highlights from the Benchmark Report on Capital Accumulation Plans in Canada,* the most common contribution rate expected of employees to receive the full employer-matching is 5% of earnings; 6% is the next most frequent rate.[6] The numbers break down as follows:

   - for DC plans: the average employer contribution to a DC plan is 6.5% (and this has grown significantly, from 4.6% in 2009); the average employee contribution to a DC plan is 4.4%; this means that, on average, the total annual employer and employee contribution is 10.9% of the employee's salary[7]; and

   - for group RRSPs, the average employer contribution is 3.9%; the average employee contribution is also 3.9%, which means that, on average where there is matching, the total annual employer and employee contribution is 7.8% of the employee's salary. Further, for group RRSPs, 70% of organizations with fewer than 500 employees made employer contributions; 49% of organizations with more than 500 employees made employer contributions (the larger organizations were also more likely to have additional plans which might include employer contributions).[8]

[5] Great-West Life, *2014 CAP Benchmark Report: Staying the Course, With an Eye on the Future* (2014), p. 3.
[6] Sun Life Financial, *Design for Saving 2014 Summary Reports: Highlights from the Benchmark Report on Capital Accumulation Plans in Canada* (2014), p. 5.
[7] *Ibid*., p. 8.
[8] *Ibid.*

3. DC plans are now cost-competitive with large DB plans: It should be borne in mind that defined contribution plans in Ontario have gone through a long process of maturation and have now realized significantly economies of scale, which enables them to operate on a total fees basis that is on par with the large DB plans. This is a direct result of Ontario's highly competitive DC plan market.[9] In contrast, the Fraser Institute recently compiled a detailed review of the "all-in" costs of operating the Canada Pension Plan, and found the reported operating costs to be 28 basis points, up from 11 basis points in 2007, and that investment management and research fees were $782 million, up from $25 million in 2007. Moreover, the 28 basis points figure is contested by the Fraser Institute, which calculated that the Canada Pension Plan Investment Board actually runs the Canada Pension Plan for 115 basis points – a cost decidedly higher than the reported figure of 28 basis points.[10]

   It should also be noted that the Canada Pension Plan's "true fee" is therefore comparable to or even higher than those charged by private sector providers offering the Quebec version of the PRPP, the Voluntary Retirement Savings Plan or VRSP. The VRSP legislation mandates that a VRSP be administered in a relatively inexpensive fashion: the legal fee threshold is 125 basis points (including tax). A recent survey of VRSPs' default options – typically, a life-cycle investment option – revealed that the average default option fee was 118 basis points. Optional investment vehicles available with the VRSPs showed fees between 46 and 138 basis points.[11]

   Finally, no publicly-funded pension reform project should go ahead without first examining quite carefully set-up and operating costs of the United Kingdom's recently established National Employment Savings Trust (NEST) program. NEST is an automatic enrolment DC pension scheme, with employees having a right of opt-out.[12] NEST is the result of a 2006 government decision to require all U.K. employers, regardless of size, to provide a workplace pension plan. Its goal is to provide a back-up option for employers, particularly smaller employers, who do not and cannot offer a viable pension plan. NEST's set-up costs have been reported as approximately $500 million (U.S.) to date, and are covered by a U.K. government which says these costs will take decades to retire. Current costs for participants are 180 basis points on each contribution, plus a 30 basis points annual administration fee[13],

[9] In 2009, Jack Mintz's report to federal and provincial ministers of finance noted that the operating costs of capital accumulation plans administered by Canada's life and health insurance companies were usually between 60 and 70 basis points. But in recent years the operating costs for mature defined contribution plans with over 1,000 employees have come down significantly. See Jack M. Mintz, *Report on Retirement Income Adequacy*, December 18, 2009.

[10] Philip Cross and Joel Emes, *Accounting for the True Cost of the Canada Pension Plan*. The Fraser Institute: *Fraser Research Bulletin*, September 2014. See also the 2012 presentation by the CPPIB, as reported in Janine Bandcroft, "Taking in the CPP Investment Board Public Hearing (Victoria)," *Pacific Free Press*, June 12, 2012.

[11] Francois Bernier, "Understanding PRPPs and VRSPs," *Advisor.ca*, October 31, 2014.

[12] Steven A. Sass, "The U.K.'s Ambitious New Retirement Savings Initiative*," Center for Retirement Research Newsletter*, March 2014, Number 14-5.

[13] Jean Berthon et al., *Pension Savings: The Real Return - 2014 Edition*, pp. 174 ff. Published by the European Federation of Financial Services Users.

though a composite maximum fee of 75 basis points is slated to be introduced (optimistically, according to critics) after 2015.[14]

4. <u>The ORPP comes with a funding mandate which will be competing with many other benefit programs in the years to come</u>: As is well known, Canada Pension Plan costs have risen dramatically over the last few decades. In analyzing the ORPP's estimated costs, one has to wonder if the projected costs are reasonable; after all, the Ontario taxpayer will be underwriting all of the risks. The ongoing debate over the sustainability of all government plans – including healthcare – needs to be considered carefully before adding to the province's future open-ended spending commitments. Many jurisdictions in North America now understand all too well the problems associated with open-ended legacy liabilities. Throughout Western economies, DB plans are being replaced with DC instruments to allow employers to offer plans with manageable costs and to assist their workers in creating pension wealth that they themselves can help select and manage.

5. <u>The ORPP's impact on and integration with other retirement and pension plans will be complex, and potentially drastic</u>: While ongoing benefits are portable for workers who change jobs within Ontario, there can be no provision to earn future benefits elsewhere in Canada unless there is a uniform transnational structure. Further, there will be the obvious disruption to the infrastructure of the province's existing RRSP, DPSP, and DB plans. Coverage for employer-sponsored retirement funding through capital accumulation plans, which include group RRSPs, DPSPs and DC pension plans, has increased dramatically in the last decade. These plans are offered primarily through life insurance companies. The president of the Canadian Life and Health Insurance Association, Frank Swedlove, has succinctly stated the industry's concerns: the disruption to these existing plans will be damaging to the retirement futures of hundreds of thousands of Ontarians: "Employers who took the responsible approach and established these types of plans for their employees would now also be obliged to participate and contribute to ORPPs. In too many cases we fear that they will either cut back the benefits of their DC plans or abandon them entirely."[15]

   One illustration of the complexity of gauging the ORPP's impact on existing plans is the case of the firm with employees in multiple provinces. The company may have to abandon its existing CAP plan for its Ontario-based employees in order to pay for the ORPP's 1.9% match. Or it may attempt to revise its matching contribution formula downward to account for the 1.9%. In either case, the result is the firm will have differing tiers of matching contributions for employees, based on their province of employment. The administrative and legal complexities and impracticalities alone will represent an additional cost burden on

[14] Taha Lokhandwala, "UK pensions industry cautiously welcomes charge-cap proposal," *Investments and Pensions Europe*, March 28, 2014.
[15] "CLHIA Pans Ontario's Stance on DC plans," *Benefits Canada*, December 22, 2014.

the employee – an expense to be absorbed through downward pressure on wages and other costs.

6. <u>Any evaluation of Ontario's proposed pension reforms must also account for their impact on the areas of asset allocation, freedom of choice (particularly for individual retail investors and small business owners) and job creation</u>:

   (i). <u>what will be the impact on asset allocation by investors, firms and the government?</u> The ORPP will mandate the selection of a very large part of Ontario's new pension investment pool, which raises problems in terms of the management of the ORPP's assets. The ORPP's capitalization will be very large, which means that its investments will be distributed across fewer areas of concentration than if individual investors and smaller DC plans were conducting their allocations on their own. This over-concentration will expose the ORPP to the risk of a spectacularly poor investment decision, as happened to the Quebec Pension Plan in 2007. Such an outcome would potentially offset any efficiencies gained from lower management costs.[16]

   ORPP premiums will deliver a maximum unit of pension entitlement at age 65 equal to approximately $30 per month for each year of participation. It is important to recognize that the "true cost" is the sum of the employee *plus* the employer premium. Many stakeholders argue that the ORPP will not produce a competitive outcome for Ontarians as compared to that which would arise if the same premium was used for other wealth creation objectives. Fourth, by exempting those employers with comparable plans — defined benefit and target plans — labour markets will be distorted in favour of unionized employers where such plans are typically found. Also, capital markets will be distorted in favour of financial firms that can provide comparable plans.

   While the Ontario government has stated that the ORPP would be operated in accordance with market-based principles, in the absence of a statutory policy on how the fund's assets may be invested, the ORPP could be used to underwrite an Ontario industrial policy to finance Ontario infrastructure. The use of, for example, government-guaranteed bonds, would mean that the Ontario taxpayer is in effect purchasing his or her pension twice, and is clearly more in the interests of Ontario politicians than in the interests of ORPP participants. Indeed, such a scenario occurred during the early years of the Canada Pension Plan.

[16] Philip Cross, *Evaluating the Proposed Ontario Pension Plan*. The Fraser Institute: Fraser Research Bulletin, May 2014, p. 5.

(ii). What will be the impact of restricting the decision-making capacities of individual firms and pension plan members? At this stage, there is no analysis or evidence to suggest that Ontarians will be better served by an ORPP which will restrict their freedom of choice with regard to the type of plan offering and the accompanying investment selection. An ORPP will likely reduce the level of choice currently enjoyed by most Ontarians – who at present can choose from a range of capital accumulation plans, each with a different array of investment options, if they are forced to participate in a government-mandated DB plan which will likely present investors with fewer investment options. What will be the impact on Ontario's small businesses if management's freedom of choice in business decision-making, such as whether to re-invest in one's own business or to engage in debt reduction, is severely curtailed by a mandatory ORPP?

A mandatory ORPP will have unwanted consequences for those individuals and firms who do decide that they do not need such a plan. Younger persons and families in their twenties and early thirties who are attempting to save for a home will find themselves having to pay into a pension plan that – at their stage of their investment life cycle – is a relatively less important retirement asset than the accumulation of home equity.

(iii). What will be the impact on wages and job creation? Regardless of which government account ORPP premiums are directed into, in practice they will function as a new and significant payroll burden. Ontario's economy is already struggling with higher than acceptable levels of unemployment and underemployment. The response from employers to the ORPP's mandatory 1.9% employer match can only be to seek savings through downward pressure on wages and benefits. The Canadian Federation of Independent Business (CFIB) study on ORPPs indicates that 86% of small businesses are opposed to a new mandatory pension plan, and 70% state that they would freeze or reduce wages, with 53% cutting jobs. It is estimated that these cuts alone would lead to a 0.5% increase in Ontario's unemployment rate by 2020.[17] More recently, the CLHIA released a January 2015 survey of Ontario DC plans or group RRSPS. Of the 401 plans surveyed, 78% reported that they were likely to reduce contributions under their existing workplace plan in the event that a mandatory ORPP was introduced, and 66% indicated that they would even consider eliminating their existing plans.

(iv). A multi-dimensional analysis of the proposed ORPP and PRPP reforms is desirable. The final impact of pension reform on future economic variables (i.e. growth, poverty, inequality, financial sustainability) cannot be fully estimated by using the standard tools of economic theory and the lessons of previous policy experience. Such a

[17] Canadian Federation of Independent Business, "Déjà-vu: Ontario Budget Fails Small Business: Mandatory Provincial Pension Plan Will Be a Job Killer," July 14, 2014.

calculation also requires the ability to try to anticipate and quantify the net effects of several interacting variables, such as jurisdiction-specific demographic, economic and institutional trends. Accordingly, we believe that the Ontario carefully model the costs and benefits of its proposed pension reforms, for both the ORPP and the PRPP and share with the public the results and the methodologies used.

4. Employers may have multiple and complex retirement savings arrangements.
a. How would employers currently offering non-comparable plans expect their plans to work alongside the ORPP?

As noted above, such employers would likely be forced to abandon these plans due to having to contribute an additional 1.9% of salary they would pay for every employee, up to $90,000 *per annum*, as proposed under the ORPP.

## ISSUE 2: THE RIGHT MINIMUM EARNINGS THRESHOLD

**Discussion Questions**

4. Are there other potential implications of a $3,500 minimum earnings threshold that are not addressed in this paper?

Yes. As the Federal Minister of State for Finance, Kevin Sorenson, recently observed, many Canadians don't want to pay higher payroll taxes or, in the case of the ORPP, what will in effect function as a payroll tax for the purposes of their paychecks. The proposed ORPP could force a two-worker family to pay up to $3,200 in premiums each year.[18] With a $3,500 minimum threshold, hundreds of thousands of workers will be caught by the ORPP – workers for whom employers will have to contribute 1.9%. The mirroring of the ORPP's minimum threshold and resulting broad capture of Ontario workers is a main reason why the CFIB referenced above study indicates that 86% of small businesses are opposed to a new mandatory pension plan.[19]

5. Are there other ways that Ontario could help address concerns about the ability of persistently low-income workers to contribute and accumulate benefits?

Yes. The Ontario government may wish to consider encouraging small and medium-sized businesses to establish capital accumulation plans or PRPPs for their employees. Public policy should focus on how to improve the regulatory environment for DC plans as the focus has been, to date, on DB plans. Regulations for DC plans, including locking-in rules, should be harmonized between provinces and federally, to reduce complexities and costs for employers and employees. The simplicity and transparency of DC plans could be fostered for small- to medium-sized businesses through various

[18] Honourable Kevin Sorenson, Minister of State (Finance), "CPP Boost Would Kill Jobs," *National Post,* December 4, 2013.
[19] Canadian Federation of Independent Business, *supra* note 14.

measures such as having a limited range of investment options for most members of the plan and safe-harbour protection for employers or groups who follow such procedures.

Before introducing what in its immediate effects would be tantamount to a 1.9% payroll tax under the ORPP, the province should consider less intrusive intervention in the workplace, such as:

1. requiring private sector retirement savings plans to have mandatory enrollment for employees, with voluntary opting-out provisions: this would ensure that more employees are members of an employer-sponsored plan.

2. requiring contributions to retirement savings plans to be calculated on a life-time average basis: this would avoid penalizing those individuals with fluctuating incomes and individuals whose income increases rapidly later in their working lives. Doing so would allow any earned income in excess of the contribution limit in a year to be carried back or forward to create additional contribution room for years where earned income was below the limit. Any taxable withdrawals from an RRSP or CAP plan in a year would create future RRSP contribution room. This would allow individuals with career interruptions to make up for years with little or no income by permitting extra contributions in subsequent years of high earnings;

3. introducing the ability to make past service contributions to DC plans: employees and employers should be all owed to make past service contributions based on prior year's earnings up to the limit of the individual's unused RRSP contribution room. This would also allow individuals to draw down their pension savings to finance other needs (as is currently allowed with RRSPs) without permanently impairing their ability to save for retirement; and

4. increasing the age limit for contributions to retirement savings plans: given the fact that people are living longer and continuing to work post-retirement, the age limit for contributions to retirement savings plans should be increased from age 71 to 75, implemented over a four year phase-in period.

6. Should Pillar 1 supports, including the GIS and GAINS, be changed so that future low-income seniors do not experience reduced benefits as a result of higher ORPP benefits?

In the event that an ORPP goes ahead, modifications, including to the Guaranteed Income Supplement (GIS), would be needed, in order to ensure that lower-income seniors do not end up with lower retirement benefits as a result of the ORPP.

## ISSUE 3: ADDRESSING THE NEEDS OF THE SELF-EMPLOYED

**Discussion Questions**

1. Self-employed individuals will not be able to participate in the ORPP, given the current rules under

the federal *Income Tax Act* (ITA). Should Ontario engage in discussions with the Government of Canada to amend the ITA rules in order to allow the self-employed participate in the ORPP?

The self-employed occupy a unique position in Ontario's labour market. As demonstrated repeatedly in the last several decades, a self-employed Ontarian's income fluctuates from one year to the next, occasionally drastically. The result is that the self-employed individual may conclude it is more prudent to invest in his or her business, for reasons of immediate or short-term income security, than contribute to a savings or pension plan.

The *Consultation Paper* notes that self-employed Ontarians too often under-saving for their retirements. The government points to recent research which indicates that, in comparison to employees whose income derives from a third party, self-employed persons are on the whole less prepared for their retirement.

Accordingly, Advocis believes that self-employed individuals should be able to participate in any future ORPP. While the current *Income Tax Act* prohibits participation, we believe that the possibility of a voluntary opt-in should be considered, as it is the case with the Canada Pension Plan. Ontario should therefore engage in discussions with the federal government to amend the relevant provisions of the *Income Tax Act* to allow individuals not reporting income from salary and wages and are not in an employment relationship the option to participate in a future ORPP.

2. What more can be done with regards to improving financial literacy among the self-employed?

The provision of special tax incentives for self-employed persons to consult with a professional financial advisor regarding the best use of various pension and retirement strategies and tools is, we believe, worth consideration.

What role can the financial services sector play in educating the self-employed?

Advocis strongly believes that professional financial advice is needed by the majority of Ontarians in order to lead to good consumer financial outcomes, not only in the areas of retirement income savings, but in a whole host of other areas as well.

Public policy needs to foster an expansive role for professional financial advice in order to ensure that Canadians can meet their retirement income targets and other financial planning goals. Ontarians should not be expected to serve as their own financial experts but should have the ability to obtain professional financial advice so that they can benefit from adequate, secure levels of retirement savings.

3. How else could the government assist self-employed individuals in achieving a secure retirement future?

See the answer to question 2, above.

## PART THREE: ADVOCIS' RESPONSE TO THE ONTARIO GOVERNMENT'S PROPOSED PRPP LEGISLATION

A Pooled Registered Pension Plan (PRPP) is a voluntary retirement savings tool to enable members to benefit from lower costs, which are to be achieved through simplicity of plan design and the realization of economies of scale from the pooling of plan assets. In December 2010, Canada's finance ministers agreed on a framework for PRPPs to provide Canadians with a new, low-cost and efficient way to help Canadians meet their retirement objectives. The then Government of Ontario endorsed the framework, stating that PRPPs are the "type of targeted solution Ontario has been advocating to address concerns that many middle-income Canadians are not saving enough for their retirement."[20] While the federal government has passed legislation that outlines a framework for federal PRPPs, the constitutional division of powers in Canada requires that provincial legislation is required to implement PRPPs for workers employed in sectors under provincial jurisdiction.

On December 8, 2014, the Ontario government introduced Bill 57, the *Pooled Registered Pension Plans Act, 2014*, which passed first reading. Bill 57 is similar to the legislation already passed by the federal government and has been proposed in several provinces. Alberta and Saskatchewan have laws establishing PRPP legislation, although in both provinces the relevant legislation has not yet been proclaimed; in British Columbia's Bill 9, the *Pooled Registered Pension Plans Act*, received first reading on February 19, 2014. So far Quebec is the only province that has an operation provincial version of a PRPP – the Voluntary Retirement Savings Plan (VRSP).

The purpose of Bill 57 is to provide a framework for the establishment and administration of a pooled registered pension plan which would allow Ontario businesses to offer PRPPs to their employees, as well as to make PRPPs available to the self-employed. The Superintendent of Financial Services appointed under the *Financial Services Commission of Ontario Act,* 1997, would have regulatory authority over PRPPs. (The bill also contains consequential amendments to the *Pension Benefits Act*). Bill 57 will require further enabling legislation for PRPPs to be passed by 2017.

Advocis welcomes the development of PRPPs at the provincial level. Depending on the specifics of plan design, which as yet are largely unavailable, these DC, privately-administered pension arrangements have the potential to provide Ontarians with additional choice in retirement tools and strategies, thereby promoting the province's aggregate levels of individual pension coverage and retirement savings assets.

The enabling legislative framework for the establishment and administration of PRPPs is necessarily vague at this stage, but it is clear from the text of the bill that pooled participation would be voluntary for both employers and employees, and Ontario's plan will allow employers and the self-

[20] Lauren Den Hartog, "Provinces Reach Agreement on Pooled Pension Plan," St. Albert Gazette, December 25, 2010.

employed to opt into PRPPs. Ontario's PRPP program is therefore explicitly intended to offer Ontario employees and the self-employed a voluntary, low-cost, tax-assisted option to build their retirement savings. The Government's stated goal for PRPPs are to give businesses, in particular small- and medium-sized businesses, a new way to offer a pension plan that meets the following criteria:

- voluntary: employers would decide whether to offer a PRPP; once an employer decides to offer a PRPP, enrolment would be automatic for employees, with the choice to opt out;
- low-cost and easy to offer: PRPPs would involve fewer administrative responsibilities for employers than a traditional pension plan and administrators would be required to provide PRPPs at a low cost to members by pooling the funds of members' accounts for investment purposes;;
- tax-assisted: similar to registered pension plans, employers' tax deductible contributions would not be subject to Canada Pension Plan contributions or Employment Insurance premiums. For employees, the PRPP would be similar to registered retirement savings plans, because members would not pay tax on their PRPP contributions and investment returns until they withdraw their funds;
- portable: members could transfer their PRPP assets to a new employer's PRPP if they change jobs; and
- locked-in: typically, contributions would be locked in until a member reaches the age set out in regulations.

Advocis believes that all of these plan design features would be of benefit to Ontarians and would be of greater utility than the currently proposed version of the ORPP.

**At present there is strong support for Pooled Registered Pension Plans in Ontario**

With regard to the Ontario government's proposed PRPP legislation, Advocis welcomes Ontario's support for a private-sector administered plan which can provide a low-cost option to expand retirement plan coverage, particularly to small business employees and the self-employed. PRPPs are in their potential of special interest and importance to employees of small businesses and the self-employed, many of whom would have access to a private pension plan for the first time. In this context, Advocis strongly believes that consumers should have access to professional financial advice when they participate in PRPPs.

Indeed, for small- to medium-sized businesses, PRPPs have the potential to become a preferred option, which is why the Canadian Federation of Independent Business (CFIB) has advocated for voluntary PRPPs. The CFIB notes that a PRPP can use a pension plan as competitive advantage to attract talent. In addition, the Ontario Chamber of Commerce (OCC) also supports PRPPs. A recent report from the OCC and the Certified General Accountants of Ontario – entitled *An Employer Perspective on Fixing Ontario's Pension Problem* – reveals that Ontario's employers do not support a made-in-Ontario version of the Canada Pension Plan. The report however does, identify PRPPs as being their employers' preferred solution to helping Ontarians better prepare for their retirement.

Most provinces are working with the federal government to complete their regulations in a timely fashion. Uniformity of PRPP legislation across provincial jurisdictions is a key policy goal. At present, there seems to be at the provincial level a cooperative spirit and desire to work with the existing federal model to ensure a degree of legislative uniformity across Canada. As well, Quebec's VRSP legislation is already in place, with firm deadlines for implementation. In conclusion, PRPPs may prove to be an example of how the private sector can work with government to develop solutions to pressing long-term financial challenges that affect all Ontarians.

## LOOKING AHEAD: PENSION REFORM AND THE PROFESSIONALIZATION OF FINANCIAL ADVICE

Ontario's various pension reforms and other initiatives intended to meet the retirement needs of the province's lower-income and self-employed citizens will have a greater beneficial impact if an understanding among the populace of their feature and benefits, as well as access to them, are facilitated by financial advisors. But retirement planning which properly takes into account a client's pension and savings plans can become exceptionally complex. This has been the experience of many of our member advisors, who provide pension advice and retirement planning advice to small business owners and the self-employed.

Our members are professionally committed to the interests of their clients. But the further professionalization of all of Ontario's financial advisors – including the enhancement of educational requirements – is crucial for the success of Ontario's proposed pension reforms, including for the maximization of wealth accumulation through an Ontario PRPP.

It will be recalled that the Ontario Ministry of Finance proposed tailored regulation of advisors in its *2013 Fall Economic Statement,* and recommitted to it again numerous times, including in its industry consultations on the subject on January 2014, in Bill 157, the *Financial Advisors Act, 2014*; in its July 2014 budget; and again on November 17, 2014, in the Ontario government's *2014 Ontario Economic Outlook and Fiscal Review*, when the Finance Minister, Charles Sousa, announced that the Ontario government plans to appoint an expert committee tasked to look into more tailored regulation of financial advisors and in the coming months develop a mandate in consultation with key stakeholders.

Such professionalization will effectively raise the service offerings of advisors. By doing so, it will assure lower-income Canadians that the advice they pay for is of professional quality and value; it will help small businesses offering pension plans the ability to access affordable, quality assistance in plan design and administration; and, by raising the profile of the advisory profession, it will help the all Ontarians, but especially the under-employed and the self-employed recognize their own need for affordable but professional advice – and the ability to access the same.

**The need for professional financial advice and the impact the ORPP**

Any introduction of an ORPP-style mandatory pension plan in Ontario would seem to also require the possible need for enhanced advisor competencies and additional educational requirements. Under the ORPP, advisors will have to factor the impact of additional pension plan participation into their client`s existing financial plan.

(1) if the client is working: an advisor will have to evaluate the impact of the ORPP with regard to the reduction in the amount of net pay on the client`s pay cheque and the resulting constriction of the client`s cash flow. As well, the advisor will have to account for potentially significant reductions over time in the amount of income directed to the client`s private sector savings plans, since the ORPP`s additional, compulsory pension plan participation will reduce the client`s capacity to save using existing DC and group RRSP plans. Since many of those plans typically deliver historical rates of return higher than government-run pension schemes, the impact on the client's retirement could be significant; and

(2) if the client is retired: the potential clawbacks on other governmental income assistance programs which the client may be receiving in retirement will have to be adjusted for.

Advisors will need to be able to explain to their clients these and other impacts of the ORPP. Ensuring that advisors have the ability to plan for proper sources, levels and management of the client`s retirement cash flow can become quite complicated. The ability to accomplish that task entails a detailed identification of all sources of present and future income for the client, as well as accounting for inflation; modeling in various interest rate assumptions; the timing of cash flows; the numerous tax impacts on the client; the possible use of the client's home equity, if necessary; calculations of longevity risk; the role of life insurance and the use of annuities in various scenarios, and so on.

As pension and retirement income reforms continue to be implemented in the province, we encourage the Government of Ontario to engage Advocis and other stakeholders on these important issues. Advocis would be pleased to lend its expertise to help ensure that any proposed pension reform achieves its objective of seeing that Ontarians are financially prepared for retirement. Advocis would welcome the opportunity to work with the Budget Secretariat to provide further input regarding our recommendations. To discuss any of the issues that we have raised, please contact the undersigned, or email Ed Skwarek at eskwarek@advocis.ca.

Sincerely,

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