February 4, 2015

The Benefits Alliance Group welcomes the opportunity to respond to the ORPP discussion paper.

The Benefits Alliance Group consists of 36 Benefit Consulting firms across Canada. We represent the interests of over 5,700 employers in the small to medium size market place. Our combined client base exceeds that of all the major benefit and pension consulting firms combined.

One of our unique strengths is the engagement level our advisors have at the member level. Most of our firms will also provide financial planning and/or investment advice to plan members. We like to say we operate on the "shop floor", not the 52nd floor.

The principles of our member firms have on average over 25 years' experience in the group retirement market and a firm understanding of the issues surrounding the need to strengthen our current retirement savings system. We have surveyed our member firms and would like to offer the following comments regarding the ORPP proposal.

THE NEED FOR ORPP IS OVERSTATED.

Studies by McKinsey & Stats Canada show that 80% of Canadians are saving sufficient funds for their retirement. The ORPP is targeting the wrong group. The CD Howe Institute points out that stats used to support the need for the ORPP fail to account for those who participate in a company "structured" RRSP arrangement or Deferred Profit Sharing Plan. It also points out that people earning less than $50,000/year will have enough income through personal savings & government plans. "RRSP utilization may still be considered lower than some would consider socially optimal but not to the extent widely believed…"

The Ontario Government has greatly under estimated the number of employees participating in Employer sponsored Cash Accumulation Plans (DC pension, RRSP, DPSP, savings plans, TFSA's). This paper suggests that 400,000 workers are participating in DC plans while in fact that number should be 850,000 according to CLHIA.

All of the statistics used do not include personal savings which again severely underestimates the funds average Ontarians will have for retirement. This includes equity in their homes and other non-registered investments.

Registered plans typically would generate 50% of a person's retirement income, with government plans and other investments accounting for the other 50%.

HOW ORPP WILL REDUCE THE AMOUNT THE TARGETED GROUP WILL SAVE

When CPP was introduced in 1966, many defined contribution & defined benefit plans moved their contribution/benefit formula to integrate the CPP benefit which then reduced or removed the impact of CPP from an employer's cost perspective. As the cost of CPP increased, these formulas remained unchanged further reducing the effect of the employer sponsored plans.

If DC pension plans are not considered a "comparable" plan, this will likely result in a similar outcome.

As previously mentioned, people who are using RRSP's to supplement their retirement plans are typically earning $50,000/year or more. If these folks are required to contribute 1.9% to the ORPP they will likely reduce the amount they contribute to RRSP. If their ORPP contribution adds to their pension adjustment calculation it will reduce their ability to contribute to RRSP's.

Retirement savings typically becomes a priority for people 45 – 50 years of age when other financial commitments are lessened and incomes are generally higher.

When we consider the factors that affect the growth of funds on a cash accumulation basis, we consider the level of contribution, the earnings of the fund (investment) and the time horizon. Typically the level of contribution and the time horizon are the most significant contributors.

Defined Contribution arrangements typically favours the younger plan member where the investment time horizon is longer.

The ORPP will do very little for majority of Ontarians who are currently saving enough for retirement, other than re-direct their current savings to a plan (ORPP) where the cost of operation is not defined or understood.

It is our opinion that **the cost to fund and operate the ORPP is understated**. It costs 7.28% of payroll to fund the current CPP retirement benefit (2.62% for other benefits). It also costs $800 million to administer CPP. The CPP maximum in 2015 is $13,400/year ($53,600 x 0.25%).

The ORPP would provide a maximum benefit of $13,500 ($90,000 x 0.15%) at a cost of 3.8% of payroll. In 1966, the initial CPP contribution level was also 3.8%.

On the surface it appears that the proposed funding formula would not satisfy the funding requirements and expenses of the plan.

COMPARABLE PLANS

The proposed ORPP legislation would only recognize defined benefit plans or hybrid plans on the basis that they provide;

- Predictable income stream
- Pool longevity and investment risk
- Target 15% income replacement
- Require “locking-in”

All of the features included are available through existing DC pension plans which are required to;

- Provide a guaranteed income for the life of the pensioner and spouse
- “Locking-in” of funds
- Group Annuity investment options eliminate investment and longevity risk immediately upon enrollment
- Purchase the same pension dollar that would be available under a comparable DB or Hybrid plan (at the same cost)

Private sector employers cannot afford to operate Defined Benefit Plans that offer all the above plus indexation. With 3.8% funding, we would wonder how much of the contribution would actually be used to fund retirement benefits without increasing contribution levels or adding to the tax burden Ontario taxpayers and businesses feel right now.

It is interesting that Hybrid Plans are considered comparable plans. These plans typically eliminate the investment risk, which is assumed by the plan sponsor. They allow for a reduction in benefit to reduce funding costs in the event that liabilities exceed the assets of the plan on a going concern solvency basis. How is this any different than a DC pension plan or other cash accumulation plans?

If DB plans are the only solution, why do more employers not offer this retirement option? The answer is very simple;

- Cost and unpredictability of future fund costs
- These plans have a negative impact on the balance sheet of a corporation or a government
- Liabilities associated with the ORPP will hinder businesses ability to borrow money, which apparently is already a concern for our province
- Defined Benefit plans are the domain of public sector and unions. Their economics differ from the Private Sector where fiscal responsibility and sustainability is paramount.

RECOMMENDATIONS

1. Definition of comparable plans – include DC pension
2. Require registration of Employer Sponsored RRSP programs, including locking in provisions
3. Allow employers to automatically enroll employees in their company Cash Accumulation Plans. This may also include an auto increase function and opt out feature
4. Focus your efforts on creating an environment in Ontario where businesses can flourish without increased taxes, so employers can better afford to offer quality retirement programs to their staff
5. Focus efforts on the real problem – Financial Literacy, "teach them how to fish"

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