February 13, 2015

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: Ontario Retirement Pension Plan Consultation

The Portfolio Management Association of Canada ("PMAC"), through its Industry, Regulation & Tax Committee, is pleased to have the opportunity to participate in the consultation process (the "Consultation Paper") regarding the proposal for an **Ontario Retirement Pension Plan** ("**ORPP**").

As background, PMAC represents investment management firms registered to do business in Canada as portfolio managers. PMAC members manage investment portfolios for private individuals, foundations, universities and pension plans. PMAC was established in 1952 and currently represents over 200 investment management firms that manage total assets in excess of $1 trillion. Our mission is to advocate the highest standards of unbiased portfolio management in the interest of the investors served by Members. Member firms are in the business of managing investments for clients in keeping with each client's needs, objectives and risk tolerances. For more information about PMAC and our mandate, please visit our website at www.portfoliomanagement.org.

GENERAL COMMENTS

We support proposals that are aimed at strengthening our retirement income system. As we have stated in previous pension consultations both provincially and federally, we believe in the importance of balancing government responsibility for retirement savings with individual responsibility and believe that the proposed ORPP tips the scale irresponsibly to the burden resting with government and sends the wrong message to Ontario residents most of whom already demonstrate through personal contributions to RRSPs and TFSAs, acceptance of the fundamental responsibility for ensuring adequate personal savings.

The ORPP is not coordinated with other retirement savings initiatives in Canada. It would be detrimental to small and medium sized businesses in Ontario, at a time where Ontario needs to be the engine of growth in Canada. Given that 47% of Ontario registered plans are Defined Contribution (DC) plans[1], the ORPP is punitive to these employers who have invested in setting up very effective, well designed DC or group RRSP programs for their employees who will now have to contribute over and above what they already have committed to as part of their

[1] See CANSIM Table 280-0009, Statistics Canada.

employee benefits or collective bargaining arrangements. ORPP also duplicates the policy objectives of the broader PRPP legislation in place in other provinces and does so in a fashion that diminishes the concept of personal responsibility towards retirement. Ultimately, as an advocate for flexible retirement savings and low cost options, we prefer a retirement savings landscape that offers multiple options for investors with flexible features such as transferability and portability embedded in the plan. As a result, for these reasons and others detailed below, we do not support the proposed ORPP.

As a more viable alternative, Pooled Registered Pension Plans (PRPPs) would be sufficient to fill the gap for Canadians that are not in an employer sponsored retirement savings or pension program. We recommend the Ontario government continue to focus on and move forward quickly with PRPPs, which are low cost and administratively-simple pension plans that will help employers, their employees and the self-employed to save more for retirement.

Similarly, the Target Benefit Plan Framework (TBP) provides another opportunity to address retirement savings options. PMAC is supportive of the Federal TBP Framework and believe the TBP Framework provides a workable alternative to current plan options (Defined Benefit (DB) and DC plans) and provides a more long term sustainable option for retirement savings that provinces should move forward with. Both PRPPs and the TBP offer savings options to all Canadians and would increase workplace plan coverage in Ontario.

Given the Ontario government's original policy preference was to enhance CPP, and an upcoming Federal election in the Fall, it may be prudent to delay ORPP implementation with the hopes of reopening the CPP debate.

CHALLENGING THE UNDERSAVINGS ARGUMENT: RECENT DATA

The Consultation Paper makes reference to various studies and research reports from the period between 2010 and 2012[2] to support the position that Canadians are not saving enough for retirement and this gap will likely worsen over time. We note that the quoted studies reference data collected during the financial crisis and post-financial crisis period. Since then, the macroeconomic context has evolved significantly with Canada's recovery from the financial crisis strong and steady.[3] The economic period of reference in various studies supporting the government's undersaving's argument was at a time of unprecedented market volatility[4]; as an example the TSX dropped almost 50% between February 2008 to February 2009 and didn't recover to the 2008 level until February 2014. We suggest that given the volatility of the markets during this period of study, the government should revisit the basic assumptions made in concluding the need for an across the board, mandatory government pension plan. We are not suggesting there are not segments of the population for which an undersavings issue exists. We are suggesting that given the recent data (see below) that a smaller proportion of the population than some of the earlier researched suggested is at risk of undersaving for retirement.

We would like to highlight the following more recent studies and reports that contradict the perception that there is in fact a widespread retirement undersavings problem.

- According to a February 2015 report published by **Towers Watson**, during the last 10 years, Canada has been one of the most rapidly growing pension markets (7.3% growth) when measured in US dollar terms.

[2] See p. 3 of the Consultation Paper.
[3] GDP growth at 2.2% annually between 2011 and 2014 and equity market returning to above 10% in most years following 2008.
[4] http://www.theglobeandmail.com/globe-investor/markets/indexes/chart/?q=tsx-i

- A recent report by **McKinsey & Company**, finds that four out of five Canadians are financially on track for a fine retirement. The report considered at a combination of government programs like the Canada Pension Plan and Old Age Security, company pension plans, personal retirement savings like RRSPs, and the value of other assets to develop a 'Retirement Readiness Index (RRI).' It did not include real estate because McKinsey made the assumption that most people would not liquidate housing assets to fund their lifestyle. Based on that, 83% of Canadians are on track for a comfortable retirement. This study's findings suggest that policy makers should aim for targeted reforms rather than creating retirement programs that are either unnecessary or come with negative unintended consequences.[5]

- According to **Investor Economics**, investment funds in Canada have grown from $916 billion to approximately $1.1 trillion in the last two years (nearly a growth of 18.5%), the vast majority of funds being comprised of RRSPs.[6]

- Another example of recent data that rebuts the presumption that Canadians are not prepared for retirement is the **Sun Life Canadian Unretirement Index 2014 Canadian Unretirement™ Index Report**.[7] The Sun Life Canadian Unretirement™ Index tracks how workers' attitudes and expectations about retirement are evolving in response to economic, health and personal forces affecting their lives. "Unretirement" is the growing trend away from early retirement – by choice or economic necessity – and towards continued work past the traditional retirement age of 65. The Report indicates that this year's data suggest an emerging sense of optimism among Canadians with regards to their retirement plans. Clearly, it is premature to call it a trend, but answers to several questions point to an easing of the anxiety many have expressed since the 2010 report. There are other examples of growing optimism.
    - When respondents were asked how satisfied they are with their retirement savings. Thirty-eight per cent are satisfied (eight per cent very satisfied and 30 per cent somewhat satisfied). That's up from 34 per cent in last year's study.
    - Eighty per cent say they are confident that they will be able to "take care of basic living expenses" in retirement (30 per cent very confident and 51 per cent somewhat confident). That compares to 78 per cent who said the same a year ago.
    - Seventy-one per cent are confident about their ability to "take care of medical expenses" in retirement (18 per cent very confident and 53 per cent somewhat confident). Last year, 69 per cent said the same.

  The report also notes that the percentage of Canadians who say retirement is their top financial priority is higher than the percentages who say the same about saving or paying for housing.

- In an April 2014 publication by the **Fraser Institute** titled "The Reality of Retirement Income in Canada",[8] it is clear that the first important fact to establish is that there is no crisis for the current generation of retirees. The current retirement income system serves the vast majority of Canadians very well. Building on the three pillars of Canada's pension system, the problem of poverty among the elderly, which drove many of the reforms in the 1970s and 1980s, has largely been eliminated. Seniors are living

[5] See Globe and Mail article by Janet McFarland, "Majority of Canadians saving enough for retirement, survey says" dated February 10, 2015. See also McKinsey & Company Report titled "Building on Canada's Strong Retirement Readiness" dated February 2015.
[6] See Investor Economics, Canada's Managed Money Advisory Service, 2014.
[7] Available at: http://cdn.sunlife.com/static/canada/sunlifeca/About%20us/Canadian%20Unretirement%20Index/2014_Sun_Life_Canadian_Unretirement_Index_Report_en.pdf
[8] Available at: http://www.fraserinstitute.org/uploadedFiles/fraser-ca/Content/research-news/research/publications/Reality%20of%20Retirement%20Income_web%20final.pdf

longer, healthier, wealthier, and more productive lives. This is one of our society's great achievements in recent decades.

- The Report also notes that households are already saving more than 10 percent of their income, with the majority of this saving clearly ticketed for retirement. Government-mandated saving for retirement is increasing, even without an expansion of CPP benefits. CPP contributions went up again on January 1, 2014 due to an increase in the contributory earnings ceiling and more contributors crossing the minimum earnings threshold, and further increases will likely be needed just to sustain the current level of benefits when it becomes evident that its projected rate of return is unrealistic. Government workers across the country are being asked to contribute more to their gold-plated pension plans. At some point, you have to ask whether Canadians on average are saving too much for retirement. Is the goal of working just to have a secure retirement? These are important questions, as all saving represents a reduction in the current standard of living.

The ORPP proposal is in our view, motivated by an unsupported shortfall of assets and retirement income years from now as well as a politicized platform to reassure voters that they will provide secure retirements. However, it is far from clear that Canadians will have insufficient resources at their disposal for a comfortable retirement. Canadians already have amassed trillions in wealth inside and outside of pension plans. Nor is it clear that saving currently is too low. For this reason, we believe that by bolstering the retirement savings options in pillar 3[9] and including PRPPs and TBPs coupled with more employers matching and employee awareness of savings options is the right solution for Ontarians and for the Province. Moreover, past experience suggests that attempts by government to impose higher saving on persons will not succeed, but only lead to an offsetting drop in voluntary personal saving.[10] Canadians seem to respond positively to properly-structured incentives, like TFSAs, but not to mandatory regimes.

Given the conflicting information and data evidencing both an undersavings issue and retirement readiness, we would suggest the ORPP is not an appropriate solution and that a more targeted approach such as PRPPs and financial planning education targeted to communities with clear undersavings issues should be considered.

Set out below is a summary of our comments and key recommendations for the government's consideration.

SUMMARY OF COMMENTS AND KEY RECOMMENDATIONS

1. **ORPP, in Principle not the Right Solution**
    - *"Comparable work plan" definition problematic*
    - *Misaligned with current employer programs*
    - *Ontario-only initiative*
    - *Unaffordable in current economic environment*
    - *Impact on small to mid size employers*
    - *Focus on Ontario PRPP offering*

2. **ORPP Design Feedback**
    - *Expand "comparable work plan" definition*
    - *Self employed individuals*
    - *Short–term and long–term impact of ORPP implementation*

[9] Pillar 3: Private retirement savings including registered pension plans (RPPs), and registered retirement savings plans (RRSPs) and other personal savings.
[10] *Ibid at* note 4.

- *Employee mobility issues and plan portability*
- *Funding adequacy*
- *Diversity in management of plan assets*
- *Minimum enrollment period*
- *Proposed timeline*

3. **Other Solutions to Consider**
    - *Consider making PRPP mandatory for employers without a DC or DB plan in place or if voluntary, incorporate incentives for participation*
    - *Remove provincial portion of tax on retirement savings*
    - *Focus on more early financial literacy and small subset unprepared for retirement*
    - *Provide tax break for financial planning*
    - *Provide tax breaks or incentives for employers to increase their benefit levels (retirement programs)*
    - *Re-open discussion on CPP enhancements*
    - *Education on current pension & retirement savings options*
    - *Similar plans in other jurisdictions*
    - *Target Benefit Plans*

1. <u>ORPP is Not the Right Solution</u>

- ***"Comparable work plan" definition problematic***

DC plans, PRPPs, deferred profit sharing plans and group RRSPs (GRSSPs) would not be considered comparable work plans and the government's "preferred approach" is to impose the ORPP on Ontario employers who already have in place DC plans, group RRSPs, PRPPs and DPSPs as savings solutions for employees. DC plans have proliferated in recent years because they allow employers to provide a retirement benefit without the unmanageable risk and costs associated with a defined benefit program. DC programs offer many benefits that should be given consideration including allowing for inevitable volatility in the market, offering portability for employees who are likely to have multiple employers throughout their lifetime and the potential for a higher standard of living and quality of life in retirement. The exclusion of DC plans will have a significant impact on employees that are part of a DC plan. Employers, who offer group retirement savings plans, tax-free savings account and DC plans, will have to participate in the ORPP, which could prompt them to reduce contributions to these arrangements or abandon them altogether. We also believe that the growth and prospects of GRRSPs in Ontario would be severely dampened if excluded from the definition of comparable plan. Similarly, as PRPPs would also not be included as a comparable work plan, we strongly believe the take up of PRPPs would be undermined as a result.

Additionally, we note that presence of a perceived longevity hedge underscores the government's proposal to include DB, and exclude DC, programs as comparable work plans. We believe this is a misguided assumption; a substantive number of DB plan members will elect to cash out their DB savings upon retirement thus eliminating their longevity hedge. The common theme for achieving a comfortable retirement, regardless of the structure of the savings vehicle, is saving throughout your career. Fairly constructed DC and Group RRSP plans are often exceptional vehicles for achieving this goal and should not be excluded for the absence of a longevity hedge (which arguably is tenuous even for DB plan members).

Excluding these plans from the definition would have a very punitive and consequential result on employees and employers.

- ***Misaligned with current employer programs***

It is undeniable that the pension environment in Canada has shifted in recent years with the proliferation of and conversion to DC arrangements from DB plans. Between 1986 and 2010, the proportion of the Canadian labour force covered by DB pension plans shrank from 39 per cent to 29 per cent.[11] Virtually all of that shrinkage was in the private sector.[12] Most large provincial and municipal level plans have already moved towards more risk sharing with plan members. It is clear that employers are moving away from the risks and costs of DB plans.[13] We note that 47.9% of all registered plans in Ontario in 2013 were DC plans.[14] This is consistent with new research from Towers Watson on the 6 largest pension markets (US, UK, Australia, Netherlands, Canada and Japan) that reveals that 46.7% of the $32.9 trillion of assets are in DC Plans (up from 38% of pension assets in 2004).[15] The Towers Watson study[16] also shows that DC assets grew rapidly for the 10-year period ending in 2014, with a compound annual growth rate of 7%, versus a rate of over 4% for DB assets. Thus, the ORPP proposal is not aligned with this shifting pension landscape. The move away from DB plans has arisen as a result of factors such as issues with DB mobility, cost, employer paternalism, and lack of employee/employer decision making.

- ***Ontario-only initiative***

The ORPP is an Ontario-only initiative that does not take into account the broader Canadian retirement savings issue. We have concerns with this unilateral approach because it fails to address the fact that many Canadians are employed by national organizations or frequently move between provinces during the course of their working careers. An Ontario-only provincial plan will pose a significant challenge for national employers who have retirement solutions for all employees and need to be equitable and administratively efficient. It will add complexity and costs for employers who operate in more than one province. The Consultation Paper does not address this issue and the impact ORPPs will have administratively and cost-wise to large multi-provincial employers. We believe there is other less costly and more practical solutions to pursue such as PRPPs (discussed in more detail below).

- ***Unaffordable in current economic environment***

Given the economic state of the Province of Ontario and the deficit the province is facing at over $10 billion[17], we do not believe Ontario is in a current economic position to create such a costly program nor fund it in the short term and long term. Although we respect the government's attempt to take a leadership role in addressing the pressing issue of under saving for retirement by introducing an Ontario-only solution such as the ORPP, we believe this is a hasty and impulsive response to a unilateral Federal decision to not address CPP enhancements at this time and could have significant economic long term consequences for the province's fiscal management and for the private businesses operating in Ontario.

We have concerns around the necessity for mandatory contribution retirement pension plans as the costs associated with running such plans remain elusive and under reported. We also

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[11] See Statistics Canada, CANSIM, table 280-0016: Registered pension plans (RPPs) and members, by type of plan and sector (Total public and private sectors).
[12] See study titled: "Shifting Public Sector DB Plans to DC: The experience so far and implications for Canada October 2014", By Robert L. Brown, and Craig McInnes. October 2014.
[13] See Globe and Mail article by Fred Vettese, "The biggest myth about defined benefit pensions is how much they cost", dated September 6, 2014.
[14] *Ibid* at note 1.
[15] See article "U.S., Global Pension Fund Assets Reach New Highs, Study Finds, dated February 9, 2015. Available at: http://annuitynews.com/Article/US-Global-Pension-Fund-Assets-Reach-New-Highs-Study-Finds/592258
[16] Towers Watson, Globa Pensions Asset Study, 2015 dated February 2015. Available at: http://www.towerswatson.com/en/Insights/IC-Types/Survey-Research-Results/2015/02/Global-Pensions-Asset-Study-2015?utm_source=email&utm_medium=Outlook&utm_content=GBL-GPAS&utm_campaign=RFS-INV
[17] We also note that Ontario has the highest net debt of any province.

acknowledge the question of whether government-run pension plans are significantly more efficient than private plans. We believe that the cost to implement an ORPP and the cost of the required infrastructure to set up and maintain the program would be prohibitive for the government and punitive on employers and employees. For example, a recent report by the Fraser Institute indicates that the total cost for running the CPPIB has grown from $0.6 billion to $2.0 billion over the last seven years.[18] In addition, the report indicates that the Government of Canada explicitly identifies some of its direct costs related to the administration of the CPP in its Public Accounts, such as, for example, in the recent year: $405 million for pension and benefit delivery, accommodation, and corporate services provided by Human Resources and Skills Development Canada and $169 million for the collection of contributions as well as investigation services by the Canada Revenue Agency.[19] A recent financial survey of 12,000 households by consulting firm McKinsey & Co. shows 83% of Canadians are on track to maintain their standard of living after they stop working. McKinsey principal, Fabrice Morin, suggests policy makers should aim for targeted reforms rather than creating retirement programs that may not be necessary for most people or could have negative unintended consequences, such as hampering economic growth.[20]

Similarly, given the recent data above about the state of retirement savings, it has not been adequately considered that Ontarians just have less disposable income now than in previous decades due to a variety of factors, including the frail economic environment, loss of Ontario jobs and higher taxes than in previous years. The ORPP will siphon 1.9% of earnings from both employee and employer on incomes up to $90,000. There is a valid concern around the ORPP being the equivalent to a payroll tax, which would further decrease consumer disposable income and negatively impact and have further implications on the Ontario economy. For middle-income earners, it will have the effect of forcing people to transfer what they are already putting into RRSPs, TFSAs and other vehicles into the ORPP. In other words, no net gain but considerably more cost to taxpayers as a new, sizeable bureaucracy will be set up to operate this plan.[21] The corollary risk, then, is that Ontarians no longer have the flexibility of voluntary vehicles like RRSPs, which can be used for buying a home, obtaining skills training, withdrawing in case of a terminal illness, and fully transferring assets to a beneficiary upon death, etc.[22]

- ***Impact on small to mid size employers***

The ORPP will invariably disadvantage Ontario's businesses, private employers and investors and ultimately, cost Ontario taxpayers more. The ORPP approach could put further strain on the viability of many small and medium sized companies already struggling to remain competitive in the Ontario market and have a chilling effect on salaries and wages. As acknowledged in a recent article in Money Sense, most employers can't afford to pay the 1.9% as contemplated by the ORPP.[23]

In addition, Ontario's businesses would arguably be at a competitive disadvantage over businesses in provinces without a supplementary provincially mandated plan. In a recent Canadian Federation of Independent Business (CFIB) survey[24], 86% of business owners opposed a mandatory provincial pension plan. Of note, 69% indicated that they would have to freeze or cut salaries and 53% indicated they would have to reduce positions to cope with the

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[18] See Fraser Institute Report: Accounting for the True Costs of the Canada Pension Plan, September 24, 2014. Available at: https://www.fraserinstitute.org/uploadedFiles/fraser-ca/Content/research-news/research/publications/accounting-for-the-true-cost-of-the-canada-pension-plan.pdf. The Report argues that the operating expenses cited by the CPPIB cover only a select subset of the total costs involved in running the CPP.
[19] *Ibid*.
[20] *Ibid* at note 2.
[21] See "Ontarians don't need a provincial CPP" by Charles Lamman (A*ssociate director of tax and fiscal policy at the Fraser Institute),* Financial Post, January 8, 2015.
[22] *Ibid.*
[23] See "How Wynne's ORPP will change savings habits" by Stefania Di Verdi, Money Sense, February 2, 2015.
[24] See survey results here: http://www.cfib-fcei.ca/cfib-documents/on0584.pdf

added costs. Similarly, in a report published by the Ontario Chamber of Commerce titled "An Employer Perspective on Fixing Ontario's Pension Problem"[25], businesses prefer a well-targeted pension solution that provides flexibility for employers and employees, and does not increase their costs unnecessarily.

- ***Focus on PRPP offering***

We are pleased that Ontario has recognized the advantages of a PRPP program and has moved forward with PRPP legislation. PRPPs provide the opportunity to participate in a simple and straightforward pension plan. PMAC has been an active supporter of the development of the PRPP Federal framework and believe it is a better retirement savings vehicle vs. comprehensive or overhaul changes to CPP or the ORPP.

We believe that PRPPs provide more flexibility and choice for Canadians and their employers in how they save for retirement and leverage off the existing infrastructure around the administration of similar plans. By leveraging off the existing systems/staffing/training and servicing resources that many financial institutions have already developed in virtually all the cities and towns in Canada this will seemingly greatly accelerate the rollout time to launch PRPPs and ultimately improve overall cost effectiveness (i.e. same resources already in place servicing the $100 billion in the 50,000 DC and GRRSP plans and the hundreds of billions in individual RRSP plans serviced by some of these entities so these costs can be spread over this existing asset base). This will also further strengthen the three pillars around retirement funding for Canadians.

It is important for governments at the two senior levels in Canada to realize that there are other safety nets besides pension plans. In addition to the $1.6 trillion in pension assets in Canada, and the non registered savings of Canadians, the RRSP/RRIF/TFSA pool of assets now exceeds $1.4 trillion. As at 2012, these registered plans are growing almost $70 billion a year on new contributions alone.[26] Furthermore, the unused room for RRSP now looks to be $828 billion and many policy objectives could be obtained if the government could incentivize Canadians to utilize this unused asset.[27]

2. <u>ORPP Design Feedback</u>

We do not believe that the ORPP design framework as proposed is desirable or appropriate. The Consultation Paper only focuses on three design elements whereas we believe many other design elements should have been considered and addressed at the outset. In response to certain of the key design questions addressed in the Consultation Paper, we have focused our comments on the issues below and others we feel are of importance to the discussion.

- ***Expand "comparable work plan" definition***

The Ontario government has proposed that Ontarians already participating in a comparable workplace pension plan will not be required to participate in the ORPP. The discussion paper indicates that only DB plans and target benefit multi-employer pension plans (MEPPs) are most comparable to the ORPP. Therefore, PRPPs, DC plans, deferred profit sharing plans and group RRSPs (GRSSPs) would not be considered to be comparable work plans and the government's "preferred approach" is to impose the ORPP on Ontario employers who have in place DC plans, group RRSPs, PRPPs and DPSPs.

First, the exclusion of DC plans from the definition of "comparable work plan" raises a number of concerns. The exclusion of DC plans fails to capture the vast majority of new private plans

[25] See report dated May 3, 2013 at: http://www.occ.ca/Publications/An-Employer-Perspective-on-Fixing-Ontarios-Pension-Problem.pdf
[26] See http://www5.statcan.gc.ca/cansim/pick-choisir?lang=eng&id=01110039&p2=33 (for RRSPs) and http://open.canada.ca/data/en/dataset/10531a5e-b500-4842-a1b0-305802a1da28 (for TFSAs).
[27] http://www5.statcan.gc.ca/cansim/pick-choisir?lang=eng&id=01110040&p2=33

that are defined contribution – having fixed contribution with variable returns depending on market conditions. 47.9% of all registered plans in Ontario in 2013 were DC plans.[28] DC plans have proliferated in recent years because they allow employers to provide a retirement benefit without the unmanageable risk and costs associated with a defined benefit program. DC programs offer many benefits that should be given consideration including allowing for inevitable volatility in the market, offering portability for employees who are likely to have multiple employers throughout their lifetime and the potential for a higher standard of living and quality of life in retirement. The exclusion of DC plans will have a significant impact on employees that are part of a DC plan. Employers, who offer group retirement savings plans, tax-free savings account and DC plans, will have to participate in the ORPP, which could prompt them to reduce contributions to these arrangements or abandon them altogether.

While we appreciate that too much exclusion from the definition of comparable plan would impact the scale of ORPP adoption, we do not believe the exclusion for DC plans is appropriate. According to the 2014 Towers Watson North American Defined Contribution Plan Sponsor Survey Report, DC plans have come a long way in helping workers build adequate retirement savings. The increasing use of mandatory contributions, target-date funds (TDFs), customized investment lineups and more transparent fees are creating a better environment for employees to build and protect their retirement savings. If the government proceeds with an ORPP, we recommend expanding the definition of comparable plan to include alternatives such as DC plans with a contribution rate sufficient to provide a similar benefit to the ORPP.

We also believe that the growth and prospects of GRRSPs in Ontario would be severely dampened if excluded from the definition of comparable plan. We note that many GRRSP have incentive matching by employers. We disagree with the approach to exclude GRRSPs and believe the definition should be expanded so that employer matched plans be included.

Similarly, as PRPPs would also not be included as a comparable work plan, we strongly believe the take up of PRPPs would be undermined as a result. There has been vast progress and national momentum building for the adoption of PRPPs. The majority of provinces[29] have either passed or are on their way to passing legislation that will see this new, low-cost workplace savings plan, designed especially for small to medium-sized businesses, come into effect. If Ontario adopts a mandatory ORPP, we believe this would likely prove to be incompatible with a PRPP offering.

If the Ontario government does move forward with an ORPP, we urge it to consider a less prescriptive approach to what constitutes a comparable plan and expand the definition of comparable work plan so that the negative impacts on employees and employers can be minimized and investor choice in retirement savings vehicles may be preserved.

- ***Self employed individuals***

Given the growth of self-employment and entrepreneurialism in the Ontario labour market, we do believe self employed individuals should have pension coverage. However, we believe that PRPPs would adequately fill the gap for self-employed individuals.

- ***Short–term and long-term impact of ORPP implementation***

The Consultation Paper addresses key design questions but does not include any information on the post-implementation issues that will inevitably arise on a short term and long term basis. We urge the Ontario government to consider the long-term impact of mandated a new pension plan in the province on both employees and employers. Ultimately, we believe more analysis and consultation is required to understand what the impact of the ORPP proposal

[28] *Ibid at 11.*
[29] British Columbia, Alberta, Saskatchewan, Ontario, Quebec and Nova Scotia.

would be on Ontario employees and employers. We don't believe a thorough long term cost/benefit analysis with due consideration to the coordination and mobility issues with other provincial programs was adequately undertaken or undertaken at all.

- ***Employee mobility issues and plan portability***

The ORPP would not apply in other provinces. Recognizing that many Ontario employers may have national operations with multiple and complex retirement savings arrangements, more analysis needs to be undertaken to determine how the ORPP would work alongside offerings available in other provinces. The Consultation Paper indicates that the Ontario government will continue to work with the provinces to examine whether the ORPP could be expanded outside of Ontario. However, a key area of concern remains as to what would happen to ORPP contributions of employers and employees if the employees relocate out of province or if they transfer to another Ontario employer that already offers a registered workplace plan (i.e. PRPP)? All of these likely and common scenarios need to be considered carefully as there would be significant administrative burdens on businesses trying to manage these issues. While the Consultation Paper proposes the ORPP to be available in a broader range of workplaces, resulting in more portable plans, the paper does not address the issue of portability in respect of employers with non comparable plans.

- ***Funding adequacy***

Ontario has not yet set out a specific benefit formula for the ORPP. The Consultation Paper states that the assumptions provided to determine the contribution rate and benefit level are based on the latest CPP actuarial report but that contribution rates and benefit levels could be affected if the ORPP's assumptions are different. Also, these assumptions will need to be periodically reviewed and adjusted to determine whether the ORPP's benefits are sustainable.[30]

- ***Diversity in management of plan assets***

Similarly, in regard to Ontario's intent on using in-Ontario expertise to administer and manage the ORPP, we believe that a variety of asset managers should be involved and chosen through public request for proposal process. We note the importance of having professional portfolio management involved in any proposed ORPP, and a concern that the money be managed internally by the Province. This has not been addressed in any detail in the Consultation Paper or other publications relating to the ORPP.

- ***Minimum enrollment period***

The government must consider a minimum enrollment period for vesting similar to employer sponsored plans to address the needs of a more mobile working force. The administrative costs associated with people invested in plans for short periods of time would be inefficient to administer. A review of the issues relating to provincial mobility of funds moving out of province should be undertaken as well as a consideration of the administrative practical issues (for example, should there be a minimum residency).

- ***Proposed Timeline***

Finally, the proposed 2017 implementation date provides insufficient time for employers to react, particularly given the current volatile economic environment.

[30] See Towers Watson Client Advisory: "Ontario Takes Further Steps toward Creating the Ontario Retirement Pension Plan" dated January 20, 2015.

If the government proceeds with the ORPP, the implementation timeframe should also consider that the ORPP will add administrative complexity and costs to employers, even where employees may be eligible to join a "comparable" plan. For example:

- Payroll systems will require adjustment to remit ORPP contributions. This would include programming ORPP contribution remittances for relatively short periods during a waiting period for employees who eventually become members of a comparable plan.
- The Consultation Paper states that the ORPP will be established as a multi-employer pension plan under the federal tax system, meaning that a Pension Adjustment will be reported for ORPP participants. This would reduce RRSP room for such employees, which impacts their ability to save in our DC and RRSP plans, and will require additional administration to ensure that contribution limits are respected.

3. Other Solutions To Consider

- ***Consider making PRPP mandatory for employers without a DC or DB plan in place or if voluntary, incorporate incentives for participation***

The Ontario government should consider how to make other plan options such as PRPPs and TBPs more accessible as these are both more practical and affordable savings solutions.

In our view, mandatory participation of PRPP's would achieve the targeted objective of widespread participation by employer/employees (recognizing appropriate carve outs where there is an existing pension plan (DB/DC/Hybrid/Target Benefit or Group Retirement Savings Plan). To improve participation in the absence of mandated obligations, we offer below a number of recommendations as potential tax incentives to spur employers to offer the plan:

- Introduce a temporary employer retirement savings tax credit to ensure that the roll out of such a measure would not create an unfair advantage over those employers who were previously offering RPP's, this incentive should be offered to all participating employees in an RPP;
- A transitional exemption for the first contributions into a PRPP to be included in calculating the RRSP limits; and
- Introduce an Employer/Employee Retirement Savings Grant – Similar to the RESP structure, provide a supplemental matching annual grant invested in the retirement savings vehicle.

We note that the above suggested tax incentives would cost less to administer than the cost to set up a new ORPP program. Finally, we note that employers are overwhelmingly in favour of PRPPs. We believe PRPPs will help address a gap in private savings and leave more money in the pockets of Canadians.

- ***Remove provincial portion of tax on retirement savings***

We believe further consideration should be given to the removal of the provincial portion of tax on retirement savings. The removal of all or a portion of the tax cost would lower the costs for Canadians to build their retirement savings and decrease pension plan costs as well. Taxing retirement savings is counterproductive and not, in our view, a sound policy objective. The additional cost burden imposed by HST in harmonized provinces has added significantly to the costs of investment management for Canadians. Prior to 2010, investment management fees were subject to GST only. Following the amendments to the Excise Tax Act, provinces moved to harmonizing the provincial sales tax with the GST, which resulted in an additional 7-10% tax on investment management fees, depending on province of residence. This shifted the total combined tax on investment management fees to 12% and 15%. If investment management fees were not subject to GST/HST, pension and retirement savings would benefit from the additional capital reinvested in the plans. The elimination of the this tax on investment management fees would go a long way to helping Canadians and pension plans rebuild lost capital, an issue of vital importance to both governments and the public.

We firmly believe that value added taxes are intended to be taxes on consumption, not savings, and therefore management of savings should be tax exempt. We note that we have submitted various letters to the Federal government to consider revising the definition of Financial Service (in *Section 123 Excise Tax Act*) and provide an exemption for discretionary investment management fees. Specifically we recommend complete exemption from GST/HST by including discretionary investment management in the exempt financial services definition.

- ***Focus on more early financial literacy and small subset unprepared for retirement***

Financial literacy is a critical life skill for all Canadians, as acknowledged in a report by The National Strategy for Financial Literacy released in October 2014, "*Phase 1: Strengthening Seniors' Financial Literacy" .* [31] The Report indicates that achieving significant progress in enhancing all Canadians' financial literacy will require collaborative action over several years (i.e. in different phase). Because different groups of Canadians have different financial literacy needs, consultations are being conducted using a phased approach, with each phase focusing on specific groups. We urge the Province of Ontario to get involved in early financial literacy to encourage robust retirement savings to start occurring at earlier ages. The Report also queries how can Canadians be encouraged to take charge of their financial future? To achieve this goal, the we agree that the strategy should focus on helping Canadians develop a greater interest in and an understanding of long-term saving, so that more people make saving for their senior years a priority.

As referenced above, McKinsey's latest research indicates that a strong majority of Canadians households are on track to maintain their standard of living in retirement. The McKinsey research reveals that only 17% of the nation's households are financially unprepared for retirement. This indicates that the undersavings challenge is more narrow than suggested and we maintain that the best way to address it would be a targeted approach that leaves the rest of the system intact and maintains fairness for all Canadians.[32]

- ***Provide tax break for financial planning***

There has been extensive support and a variety of initiatives by various levels of government to support increased financial literacy. We believe the government should stress the importance of objective, independent and tailored financial planning and investment advice tailored to individuals based on their own circumstances, particularly as financial decisions have become more complex and the choice of available financial products has grown dramatically. We recommend the Ontario government consider offering incentives for Ontarians to obtain professional financial advisory services in order to be fully informed of savings options to meet short term and long term (i.e. retirement savings) goals. Specifically, offering tax breaks for Ontarians on the

- ***Provide tax incentives for employers to increase their benefit levels (retirement programs)***

Similarly, we suggest the Ontario government consider how offering tax incentives to employers may increase their benefit levels and plan offerings. Tax credits for small employers to start or increase retirement plans should be actively explored.

[31] http://www.fcac-acfc.gc.ca/Eng/financialLiteracy/financialLiteracyCanada/Documents/SeniorsStrategyEN.pdf
[32] *Ibid* at note 2.

- ***Re-open discussion on CPP enhancements***

While PMAC would not support major changes to the CPP, we would however, support a small increase in contribution rate and maximum pensionable earnings to be increased accordingly. We would also encourage the Federal government to improve its communication efforts on CPP benefits and net savings required by Canadians.

In light of this year's anticipated Federal election, we believe there will be an opportunity to reopen discussions on CPP enhancements. Given the various remarks in the Consultation Paper that the Ontario government's preferred option remains CPP enhancement, something the government has advocated since 2010, we believe the timing for these renewed efforts is imminent. While we agree with committing to address the Canadian retirements savings issue, we don't believe unilateral action by Ontario will have the long term benefits to all Canadians that CPP enhancements and other retirement savings options can have. The CPP is fully portable within Canada, it allows workers who change jobs frequently (e.g., younger workers) to have ongoing pension coverage, and it covers virtually all types of employment. These are important features the ORPP would not have. We urge the Ontario government to reconsider its decision to take action now with an ORPP that could end up costing Ontarians much more than is necessary and have further negative consequences on an already precarious economic environment.

- ***Education on current pension & retirement savings options***

We believe there continues to be a need for educational information on employer options for retirement savings to help employers evaluate the multitude of retirement savings program options available (i.e. PRPP, RPP, group RRSP, corporate contribution to employee RRSP of choice, etc.). Beyond this, we also believe that more awareness needs to be generated among Canadians about saving for retirement and the array of options currently available. There must be more work done on retirement saving education and awareness. This education should also bestow the benefits of a properly diversified investment portfolio as studies continue to show that but for the largest pension plans in Canada, there is still too much home bias in portfolios (i.e. Canadian equities and Canadian fixed income) for smaller DB and DC plans, RRSP/RRIF/TFSA holdings and non registered savings.[33]

- ***Similar plans in other jurisdictions***

We recommend that the government carefully consider the experience of similar plans in other jurisdictions such as in the United Kingdom (UK) and Australia. For example, the UK experience, described below, offers some valuable learning's into creating a plan solution that still includes flexibility and control for employees and employers.

The National Employment Savings Trust[34] or "NEST" is one of the qualifying pension schemes in the United Kingdom (UK) that came into force in 2008. The Pensions Act 2008 established new duties that require employers to provide workers with access to a workplace pension scheme that meets certain minimum standards. The duties started to be introduced from October 2012 and will affect all UK employers over the next few years. It was set up as part of the government's workplace pension reforms. NEST is a trust-based defined contribution pension scheme, run by a Trustee (NEST Corporation) on a not-for-profit basis. In April 2014 NEST Corporation announced that it had over 1 million members saving in the scheme. NEST allows for an opt-out option for employees that permit employees to withdraw from the plan.

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[33] *Managed Money Advisory Service; spring 2014. Investor Economics, Consultants to the Financial Service Industry.* *www.investoreonomics.com*

[34] For more information go to: http://www.nestpensions.org.uk/schemeweb/NestWeb/public/home/contents/homepage.html

Similarly, in Australia, the government created a mandatory DC plan. Some have characterized Australia's successful experience as closing gaps in retirement savings through mandatory workplace pensions.[35] Australia, which has no CPP equivalent, requires employers to contribute to retirement savings accounts for their employees and offer tax incentives for voluntary contributions by individuals. About 90 per cent of the workforce is covered by these private pension accounts. In addition, Australia provides a basic public pension, a safety net similar to Canada's Old Age Security program that phases out as an individual's income grows. According to Sean Speer, former Associate Director of Government Budgets and Fiscal Policy at the Fraser Institute, "Australia's approach to retirement savings, which, unlike the Canadian system, requires private savings rather than public savings, has served Australia well. Since Canada and Australia share a similar history, culture and economy, Canadian policymakers should consider the pension system in Australia before making any changes to the CPP". In addition to pension reform, the study also spotlights Australian fiscal and labour reform, enacted by successive governments, which vastly improved Australia's public finances.

- ***Target Benefit Plans***

The government has also reaffirmed its intention to consult on a regulatory framework for target benefit plans (TBP), beginning with the release of a consultation paper. No timelines have been released as to when the consultation will begin. The government has indicated that the initial consultations will focus on a regulatory framework for target benefit multi-employer pension plans. PMAC is supportive of the Federal TBP Framework and believe the TBP Framework provides a workable alternative to current plan options (DB and DC plans) and provides a more long term sustainable option for retirement savings. The flexibility and hybrid nature of the TBP Framework may prove attractive to employers who are moving away from the risks of DB plans. The balanced responsibility of risk between employers and employees is an attractive model as the TBP's shared risk model provides a workable solution to the issues and costs associated with both DC and DB plans.

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CONCLUSION

We urge the Ontario government to reconsider its ORPP proposal. We do not believe it is the appropriate response to the Federal government's unwillingness to continue discussions on CPP enhancement. In our view, the proposal is an under considered response and an overreaction to a savings concern that is often misrepresented. In addition, the ORPP would impact a larger population of employees and employers than is currently necessary. This Ontario-only initiative is not only unaffordable for the government to design and implement, but unaffordable for Ontarians. Instead we believe that the Ontario government should focus its efforts on the take-up of PRPPs and TBPs, as a lower cost, flexible savings option for employees and employers. We continue to support flexible savings options for employees and employers coupled with continued investment by the province in financial literacy programs.

PMAC supports the pursuit of strengthening the retirement income system and supporting pension innovation as an essential element in any strategy to enhance retirement savings. We believe the ORPP as currently proposed will not adequately strengthen the retirement savings issue in Ontario and will stifle pension innovation and flexibility and negatively impact consumer disposable income and corporate spending. Given the dire economic outlook we are facing, we do not support the ORPP proposals for the reasons cited above.

[35] See Fraser Institute paper titled "Australian pension system offers ideas for Canada Pension Plan reform", by Jason Clemens, Stephen Kirchner and Sean Speer, published December 3, 2013. http://www.fraserinstitute.org/uploadedFiles/fraser-ca/Content/research-news/research/publications/policy-reforms-in-australia-and-what-they-mean-for-canada.pdf
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We would be pleased to discuss this submission with your further. If you have any questions regarding this submission, please do not hesitate to contact Katie Walmsley (kwalmsley@portfoliomanagement.org) at (416) 504-7018.

Yours truly;

PORTFOLIO MANAGEMENT ASSOCIATION OF CANADA

K.A. Walmsley

Scott Mahaffy

Katie A. Walmsley
President, PMAC

Scott Mahaffy
Vice President & Senior Counsel
MFS Investment Management Canada

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