November 23, 2015

The Honourable Charles Sousa
Minister of Finance
7th Floor, Frost Building South
Toronto, ON
M7A 1Y7
csousa.mpp@liberal.ola.org

The Honourable Mitzie Hunter
Associate Minister of Finance (Ontario Retirement Pension Plan)
6th Floor, Frost Building South
7 Queen's Park Crescent
Toronto, ON
M7A 1Y7
mhunter.mpp.co@liberal.ola.org

Dear Honourable Ministers:

Re: The Ontario Retirement Pension Plan and Canadian Pension Reform

The Portfolio Management Association of Canada ("PMAC"), through its Industry, Regulation & Tax Committee, is writing to reiterate our concerns with regard to the **Ontario Retirement Pension Plan** ("**ORPP**") and to provide our recommendations on Canadian pension reform.

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. For more information about PMAC and our mandate, please visit our website at www.portfoliomanagement.org.

GENERAL COMMENTS

PMAC supports retirement savings and pension reform solutions that are aimed at strengthening our retirement income system, particularly, where there are gaps that need to be addressed. 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. We believe that the ORPP does not adequately address retirement savings in Ontario and more specifically, it undermines a broader and more appropriate, targeted national approach to pension reform and retirement savings for all Canadians, where gaps exist in their retirement savings.

PMAC does not support the ORPP for the following reasons:

- It would force over-saving on many Ontarians who are already on track for retirement. Most Ontarians already demonstrate through personal contributions to Registered Retirement Savings Plans (RRSPs) and Tax Free Savings Accounts (TFSAs), an acceptance of the fundamental responsibility for ensuring adequate personal savings.

- The ORPP would destabilize existing successful programs such as employees participating in deferred compensation (DC) plans and group registered retirement savings plans (GRRSPs).[1]

- It would undermine the Pooled Registered Pension Plan (PRPP) in Ontario before it has even been implemented, to the detriment of small business and the self-employed. The ORPP duplicates the policy objectives of the broader PRPP legislation already in place in other provinces and does so in a fashion that diminishes the concept of personal responsibility towards retirement.

- The ORPP is Ontario-only and is not coordinated with other retirement savings initiatives in Canada. We oppose a non-national, non-targeted approach.

- 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.

- The ORPP is unaffordable in the current economic environment and could have significant economic long term consequences for the province's fiscal management and for the private businesses operating in Ontario.

- It mandates forced savings on segments of the population such as younger individuals who must prioritize saving for post-secondary education and require more disposable income during this phase in their lives. The ORPP does not have clear minimum thresholds to address this issue. The ORPP makes these low-earners transfer more resources from now, when most needed, to the future.

- There is no clear integration mechanism for the ORPP and the Guaranteed Income Supplement (GIS) resulting in a future claw back of accrued benefits in retirement. This is particularly problematic for low-income seniors.

- It eliminates individual choice in savings and redirects savings into an investment vehicle that may not be in the best interests of the individual.

- Conflicting Ontario platform approaches: the ORPP will be publicly administered at arm's length from the government but at the same time, the government has stated that the ORPP will be able to invest the premiums it collects in Ontario business and infrastructure.

For the reasons cited above, PMAC urges the Ontario government to reconsider the implementation of the ORPP. A summary of our key recommendations is included below.

[1] 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 employee benefits or collective bargaining arrangements.

KEY RECOMMENDATIONS

1. **Abandon or Delay ORPP Implementation**

Given the Ontario government's original policy preference was to enhance CPP, it would be prudent to pause the ORPP plans and delay ORPP implementation. The Ontario government should reignite the dialogue on CPP and explore potential CPP adjustments. PMAC supports targeted pension and retirements savings reforms which could include minor tweaks to the CPP to ensure high risk Canadians have adequate coverage but these discussions need to take place sooner rather than later so that an Ontario-only ORPP solution isn't rolled out prematurely and hastily. 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.

2. **Pursue Targeted Pension & Retirement Savings Reforms**

PMAC does not believe that all Canadians are facing a potential under savings retirement crisis. We do believe, however, that certain Canadians are at more risk than others of not adequately saving and planning for retirement and therefore, support a targeted approach to address this segment of the population. Pension reforms that force middle to higher income earners to participate in mandatory pension plans are not necessary (like the ORPP does). A dual-income family earning $180K combined annually should not be forced to participate in a mandatory savings plans. For these high income earners, we do not believe the government needs to ensure a social safety net is in place for individuals earning at this level. Targeted reforms should instead focus on Canadians that are most at risk of under saving: low income families, single seniors, vulnerable resource works, new immigrants, etc.

As a more viable and low cost alternative, PRPPs would be sufficient to fill the gap for Canadians that are not in an employer sponsored retirement savings or pension program. We are pleased that Ontario has recognized the advantages of a PRPP program and has moved forward with PRPP legislation. We recommend the Ontario government continue to focus on and implement 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.

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 the ORPP program. We also 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.

Similarly, the Target Benefit Plan Framework (TBP) provides another opportunity to address retirement savings options which 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. 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.

We strongly recommend the government utilize a targeted approach and pass PRPP legislation in Ontario quickly to address the current gaps. The government may also wish to consider the PRPP model adopted in Quebec, the Voluntary Retirement Savings Program (VRSP), which is mandatory for all employers to offer to employees. Finally, there also 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. PRPPs, registered pension plans, group registered retirement savings plan, corporate contribution to employee RRSP of choice, etc.) so as to ensure that employers can offer employees adequate opportunities to prepare for retirement.

3. Promote and Recognize Other Already Available Pension & Retirement Savings Options

There are a multitude of other savings options in addition to traditional pension plans that are available to investors. The unused room for RRSPs now looks to be over $900 billion and many policy objectives could be achieved if the government could incentivize Canadians to utilize this unused asset.[2] As stated above, both PRPPs and the TBP offer savings options to all Canadians and would increase workplace plan coverage in Ontario. We recommend the Government focus its efforts on promoting the various currently available pension and retirement savings options available to Canadians.

4. Provide Tax Incentives to Encourage Saving and so Employers Increase Their Benefit Levels (Retirement Programs)

We recommend the Ontario government consider offering incentives to Canadians to obtain professional investment advisory services in order to be fully informed of savings options to meet short term and long term (i.e. retirement savings) goals. We believe the government should stress the importance of objective, independent and tailored financial planning and retirement portfolio management tailored to individuals based on their own circumstances, particularly as financial decisions have become more complex and the choice of available financial products and services has grown dramatically.

Similarly, we suggest the 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 also be actively explored. Finally, as a general comment, a onetime increase to the RRSP contribution limit might spark a boost in retirement savings and should also be considered.

5. Streamline the Savings Process - Intergovernmental Coordination

We believe better coordination between the various levels of government could improve the savings programs and pension plan options available to Canadians and increase the effectiveness of some of these options. Provincial jurisdictional differences impede on the efficiency and coordination of pension regulation in Canada. Enhanced cooperation and dialogue on retirement savings policy development would benefit all Canadians.

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[2] http://www5.statcan.gc.ca/cansim/pick-choisir?lang=eng&id=01110040&p2=33

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We urge the Ontario government to abandon its plans to move ahead with the ORPP. PMAC recommends a targeted approach to retirement savings and pension reform and that promoting PRPPs and TBPs coupled with more employers matching and employee awareness of savings options is a better solution for Ontarians who are under saving. We believe that Ontario should work collaboratively with the newly elected Federal government to ensure a national targeted pension and retirement savings solution is adopted.

We would be pleased to discuss the recommendations above in more detail. 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

Katie A. Walmsley
President, PMAC

Scott Mahaffy

Scott Mahaffy
Vice President & Senior Counsel
MFS Investment Management Canada
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