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Ontario Retirement Pension Plan: Key Design Questions
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Delivered via e-mail

Re: Ontario Retirement Pension Plan: Key Design Questions (the "Consultation Paper")

The Investment Industry Association of Canada (IIAC) is pleased to respond to the Consultation Paper to convey concerns about the Ontario government's decision to introduce the *Ontario Retirement Pension Plan (ORPP) Act* in December 2014. The proposed ORPP, a provincial strategy to narrow the perceived gap in the retirement savings of Ontarians, will have substantial startup and administrative costs and could have serious unintended consequences, in terms of the negative impact it could have on small Ontario businesses and investment in Ontario. We are disappointed at the haste in moving forward with the ORPP, before an adequate response is provided to important questions that have been raised. The answers to those questions will have a bearing on the optimal decision for improving retirement savings.

1. ***What is the true scope of the retirement savings "gap" in Ontario, and how effective would the ORPP be in closing this gap?***

The Ontario government should conduct a thorough analysis into the extent the ORPP will reduce the real retirement savings gap. Numerous studies indicate that retirement savings shortfalls are not uniform across all income classes, making a "broad-brush" policy approach inappropriate. As described in the Consultation Paper, lower income earners have almost full income replacement under the existing system given access to Old Age Security (OAS) and the Guaranteed Income Supplement (GIS). Higher income individuals will also likely have adequate income replacement in retirement. Moreover, the retirement savings shortfall will likely affect only middle income individuals without a workplace pension plan and those that have not accumulated savings in a tax-assisted plan, such as an RRSP. Even here, it is important to consider the age of the individual and amount of savings held in other assets. For example, younger individuals have time to accumulate retirement savings later in life, once mortgage debt is retired or earnings increase. Finally, an assessment of savings shortfalls should take into account other assets held by individuals, such as real property and non-registered holdings, often supplementing retirement savings.

Furthermore, the effects of recent changes in federal retirement savings policies and plans on the behaviour of Canadians will impact the savings shortfall, including the introduction of PRPPs, and possible future increases in TFSA limits. Efforts of the federal and provincial governments and various other entities including industry associations, and financial and educational institutions to promote financial literacy, including the recent appointment of a Financial Literacy Leader and Financial Literacy Task Force will have a long-term positive impact on the savings behaviour of Canadians.

In addition to the anticipated changes mentioned above, the Ontario government needs to assess savings behaviour among working Canadians in response to longer life spans, which is cited in the Consultation Paper as a reason to introduce the ORPP. Canadians will be living longer, and working later in life, both requiring *and accumulating* more retirement savings. It is not yet clear what the overall impact will be of this general shift in demographics and behaviour, if any.

2. ***What are the costs and potential unintended consequences of introducing the ORPP?***

Before taking steps to implement the ORPP, the Ontario government must assess the direct and indirect costs and benefits of the ORPP, including the full costs incurred by the Ontario government to establish the ORPP (not addressed in the Consultation Paper), and the impact of increased payroll taxes on small business expansion and job creation in Ontario and the economic effects of displacing existing programs such as group and individual RRSPs.

Organizations representing Ontario businesses have already expressed their concerns about the significant challenges the mandatory implementation of the ORPP is expected to pose for the economy and small businesses generally. In effect, the ORPP will create a new payroll tax for employers and employees. Existing savings plans for employees will not in most cases be deemed "comparable", precluding an opt-out from the ORPP.

The Ontario government has not clarified employer and employee contribution costs of the ORPP and how these contributions compare with other saving programs. Many Ontario employers will be unable to sustain the costs of both the mandatory ORPP as well as existing group RRSP plans, and be forced to abandon group RRSPs that often meet the needs of employers and their employees. Based on the popularity and reliance on group RRSPs for retirement savings, we recommend, if the ORPP is implemented, existing group RRSP programs should be included in the definition of "comparable plan" – thereby making participation in the ORPP optional among employers with existing group RRSP plans. This would provide employers and employees with a choice between the ORPP, invested according to a standardized allocation of assets, and group RRSPs, which allow for customized portfolio allocation that take into account differing individual circumstances, risk tolerance, and investment/savings objectives.

Effectively, if the ORPP is implemented as proposed, Ontario will be creating a retirement savings program monopoly favouring one savings option (and as proposed, one provider) over group and individual RRSPs. The ORPP will displace these private tax-assisted plans and channel investment dollars into the ORPP. The ultimate result will be reduced flexibility and choice for employers and investors, and overall weakening of the Ontario financial services sector that provides wealth management services to Ontarians. This outcome will have a negative economic impact that will be felt across all of Canada.

3. ***What impact would reform of existing retirement savings programs have on improving the retirement income of Ontarians?***

We believe targeted reforms to existing federal tax-assisted savings programs will have a more positive impact on the retirement savings shortfall than the ORPP. The Ontario government would need to consult closely with the federal government to agree on those appropriate reforms. Targeted reform of tax-assisted savings instruments could be the most cost-efficient way to reduce the savings gap.

- Currently, exemption from Canada Pension Plan (CPP) and Employment Insurance (EI) tax withholding on company and employee contributions to defined benefit (DB) and defined contribution (DC) pension plans, and Pooled Registered Pension Plans (PRPPs) does not extend to Ontarians saving in group RRSPs. The rationale for this unfairness is seriously flawed and discourages their introduction and employer contributions to group RRSPs. Persuading the federal government to eliminate this longstanding inequity will be an immediate benefit for both key target audiences – middle-income individuals and small businesses using group RRSPs that will be able to invest tax savings in new products and services, new jobs and growth. The gross cost to the government is limited as yearly maximum pensionable earnings cap CPP and EI contributions and the net cost will likely be considerably less. This will leave more money in the hands of Ontarians and Ontario businesses for savings and re-investment.

- Ontarians and other Canadians who lose their jobs, individuals on maternity or paternity leave and people with highly variable incomes from year to year (for example, freelance, seasonal or contract workers) are penalized severely under the current RRSP regime. Using a salaried worker who is terminated as an example, he or she suffers not just an incremental loss of their source of income, but also (i) the accumulation of RRSP room, (ii) any matching from a company retirement plan and (iii) any inside-RRSP tax sheltering should he or she need to withdraw from their RRSP for current living or hardship reasons. We recommend correcting for lost RRSP accumulation room because of job loss or income fluctuations by allowing use of an average of preceding working years' income as the basis of RRSP room calculation for years an individual in the work force may not be working, and for the selfemployed to be allowed annual RRSP contribution room based on average income with a carry-forward or back into years of leaner earnings.

- As pointed out in the Consultation Paper, Canadians are living longer and may be earning lower returns on their investments now than when RRSPs and RRIFs were first introduced. This means Canadians may outlive their retirement savings, or they may choose to remain in the workforce longer and retire at a later age. Requiring individuals to save and receive income from savings on a mandated schedule (as the ORPP would) based on outdated life expectancy trends does not seem like a reasonable way to address these permanent demographic and behavioural shifts. It effectively robs individuals of income that could be best used during an earlier portion of life (to build a small business, purchase a home or invest in education), and transfers it to an "extended retirement" phase, even if the individual intends to stay in the workforce beyond the age of 65. A simpler and more flexible way to address potential shortfalls in savings is to relax or remove the rules requiring minimum annual withdrawal from RRIFs. These rules force individuals to drawdown assets at an accelerated rate, eroding savings that could be used in later years. Since the assets in RRIFs are taxable on the death of the account holder (or spouse/partner), eliminating minimum withdrawals from RRIF only means a tax deferral, not a full loss of tax revenue to the government.

- TFSAs and RRSPs are popular savings vehicles, and increasing annual contribution limits for TFSAs and RRSPs could significantly reduce the retirement savings gap for certain groups. Recent studies indicate RRSP participation and contribution rates are substantially higher among middle-income earning groups, and that participation and contribution rates increase with age (i.e. as individuals earn higher income and/or pay down mortgage debt). The federal government has committed itself to doubling the annual contribution limit for TFSAs, and we would recommend modest increases in RRSP contribution limits to complement these increased TFSA savings, providing Canadians with more scope to build retirement savings.

We believe the Ontario government should undertake the required analysis as described above before implementing the ORPP and the accompanying narrow definition of what constitutes an acceptable "comparable" alternative retirement savings arrangement. We appreciate the opportunity to provide our views and would be pleased to provide further input on this matter.

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