Fedeli **Focus on Finance**

A look into the Ontario Retirement Pension Plan

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Ontario

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A look into the Ontario Retirement Pension Plan

When the ORPP was first proposed by the government in 2013, its real purpose was immediately clear. It was a political tool (many would call it a wedge) to be used in the 2014 provincial election and the 2015 federal election. It's no surprise $600,000 was used to advertise the ORPP in the middle of the federal election campaign; a questionable use of taxpayer dollars, as the Auditor General outlined. It was more or less a threat to the federal government of the day – enhance the Canada Pension Plan or we're going it alone. In fact, only a week before the last federal election, Kathleen Wynne announced, "A majority win for Justin Trudeau ... could absolutely negate the need for an Ontario pension plan."

The ORPP is a mandatory pension plan that will see employers and employees contribute 1.9% each (3.8% combined) of an employee's annual earnings up to $90,000. That works out to $1,643 per year, for both the employee and the employer. The ORPP will mirror the Canada Pension Plan (CPP) with money paid out to the employee once they reach age 65.

Once again, thanks to the Gas Plant Scandal Hearings, we have obtained confidential internal government documents. One document entitled 'Confidential Advice To Cabinet – Not Recommended' warned the Premier that the province will lose 18,000 jobs for every $2 billion collected. As this is now a $6 billion plan, that's 54,000 job losses. The government was told the long-term behavioural impact would be lower business investment, relocation of business to other jurisdictions, reduced work effort, and an out-migration of people. In fact of all the 'revenue tools' the government was considering, the payroll tax had the largest negative economic impact.

The government also commissioned EKOS, a prominent public affairs and polling company, to assess the impact of the ORPP. They found that 54% of businesses are considering a hiring freeze, and two-thirds of businesses would make operating cuts. Large businesses are considering layoffs as well as cancelling existing pension plans. Small businesses have suggested they will redefine employees from full-time to contract workers. In total, 60% of businesses expect to be hurt by the ORPP. This information was released only because the Canadian Taxpayers Federation filed a Freedom of Information request. They concluded, "It's remarkable the Ontario government didn't walk away from the ORPP when they saw this research. The ORPP is being sold as a benefit to Ontario employees, when in reality it will mean many of them will end up worse off."

In addition, the government released a Cost Benefit Analysis from the Conference Board of Canada, commissioned by the Ministry of Finance. It admits it will take 20 years before the economy recovers from the shock of the ORPP. They calculate job losses will peak at 23,000 in 2023. Real disposable income and consumption spending will remain lower until 2040. This will lead to a fall in real private investment that peaks at $939 million in 2024. When does the report say the good news kicks in? That would be in 2093 ... 75 years from now!

The Canadian Federation of Independent Businesses (CFIB) stated in their pre-budget submission that the ORPP would lead to a loss of 160,000 person-years of unemployment, and a 0.5% increase in the unemployment rate in Ontario. They also noted that 90% of their members do not support the ORPP (up from 86% last year), 69% say they'll freeze or cut salaries, and 53% would cut jobs if the ORPP goes ahead. In fact support for the plan has dropped from 8% to 5%. They concluded the ORPP will significantly undermine the competitiveness of Ontario businesses. The CFIB also quoted recent polls by Forum Research and Mainstreet Technologies which indicate more employees (future ORPP plan members) oppose this pension tax now, than a year ago.

The Ontario Chamber of Commerce presented a letter to the government, opposing the ORPP. They urged the government to expand the definition of comparable plans, thus exempting many of those businesses from participating. It was signed by 150 key stakeholders, including some of Ontario's largest corporations, including Magna, Chrysler, Ford, GM, Canadian Tire, GE, Walmart, Maple Leaf Foods, along with 57 local Chambers and industry associations. Remember, it was the Fiat Chrysler Chair who talked about Ontario being an expensive jurisdiction, partly due to the ORPP. And the day the ORPP was first announced, Magna declared this would cost them $36 million annually, and they would never open another plant in Ontario. For this number of high-profile companies to band together is simply unprecedented. The Chamber has stated that only 26% of its members can afford the increased cost of an ORPP and 44% of its members will reduce employees or hire fewer staff. The key thing to remember is this – *it's impossible to save for retirement if you don't have a job.*

The Canadian Manufacturers & Exporters (CME) group warned the introduction of the Ontario Registered Pension Plan will lead to more layoffs and wage freezes. The CME represents manufacturers who account for 750,000 jobs in Ontario. A survey of their members say as many as 35% will lay off staff to cope with additional costs associated with the ORPP. About 68% said they would eliminate wage increases or bonuses to pay for those additional costs.

Let me end this section on a slightly political note. Back in 2014 Premier Wynne announced she had appointed former Prime Minister Paul Martin as a special adviser. Martin, who once famously called payroll taxes a "cancer" on the economy, joined the Premier to advocate for a provincial pension plan that would require employer and employee contributions. And current federal Finance Minister Bill Morneau co-authored a book entitled *The Real Retirement: Why you could be better off than you think and how to make that happen*. In it he argues there is no pension crisis for many of the current retirees, but there are challenges for a "significant swath" who haven't saved enough.

What is a comparable plan?

On August 11, 2015 the government released the long awaited details of the ORPP. The announcement featured two key details: the definition of a comparable plan, and the expected phase-in period. During the media availability the Premier admitted she did not know how much it will cost to administer the ORPP. Two types of pension plans would be deemed comparable and thus exempt: Defined Benefit (DB) and selected Defined Contribution (DC) plans.

In order for a defined benefit plan to be exempt it must have a minimum accrual rate, the rate at which a plan builds up income, of 0.5% of one's annual income. For defined contribution plans to be exempt, they must have a minimum annual contribution rate of 8% and employers must match employee contributions. Unlike defined benefit plans, this definition is fairly restrictive and most current defined contribution plans will not meet this definition. Because of the restrictive definition, employers whose plans do not qualify have told us they may have to lay off workers in order to fund an enhancement of their plan, or cancel their plan altogether, leaving just the ORPP in place for workers. Some large employers, including the Ontario Public Service, have a comparable DB plan, meaning they will be exempt. However, many small businesses provide DC plans which are not exempt. The CFIB sees this as directly targeting small business in the province.

Group RRSPs, TFSAs, and RRSPs are not deemed comparable. The government also did not exempt Pooled Registered Pension Plans, but did leave the door open to an exemption in the future. The government wants to include self-employed Ontarians but cannot yet, as amendments must be made to the Federal Income Tax Act. To date there are about one million employees in Ontario with a comparable plan.

In addition to the definition of comparable, the government originally announced a four-wave phased-in start of the pension plan (which they later altered):

Wave 1: Starts in 2017 – businesses with 500 employees or more

Wave 2: Starts in 2018 – businesses with 50-499 employees

Wave 3: Starts in 2019 – businesses with 50 or fewer employees

Wave 4: Starts in 2020 – businesses with existing non-comparable plans

Half a year later, in February 2016, the Premier announced the first wave of implementation for the ORPP would be pushed back one year, to January 2018. The changes only affect Ontario's large employers – those with more than 500 employees. They will now have to enroll on January 1, 2017 but won't have to begin contributing until one year later. This was done for two main reasons – one logistical, the other political. First, the province had not properly informed businesses of their expectations or exemptions in a timely manner. And, because they've failed to implement it, the government is now trying to buy time to push for enhanced CPP reform, over a new ORPP system.

Within these timelines, the first payments will be issued to employees in 2022, but the first employees to receive full payments will not be until 2057. Therefore, based on current life expectancy figures, ***anyone who is currently about 45 years or older will never receive a full payment from the ORPP.***

Future fallout

Here are just some of the key consequences of the ORPP that you'll never hear the government talk about.

Cash grab under the guise of infrastructure?

Right from day one, we realized this tax was never about the retirees; it was always about infrastructure. The government continues with their denials, but evidence – and media stories – continues to surface.

In a pre-budget speech this year, in one breath the Finance Minister promised that decisions on where to invest ORPP funds collected would be arms-length, then in the next breath stated his expectation that money would go to infrastructure projects. That's hardly a hands-off approach. And the Associate Finance Minister's denials caused me to write this rebuttal Letter to the Editor to the Globe and Mail, last July:

> *I was disturbed with the Letter (to the Editor) from Ontario's Associate Finance Minister Mitzie Hunter.*
>
> *Referring to the Ontario Retirement Pension Plan, she states, "The government will not determine where and how contributions are invested" and that the government is establishing an independent body to manage and administer the ORPP, and develop an investment strategy.*
>
> *That is NOT what the government told the Legislature.*
>
> *The 2014 budget states, "By unlocking value from assets and encouraging more Ontarians to save through the new ORPP, new pools of capital would be available for projects such as building roads, bridges, and transit. Our strong Alternative Financing and Procurement model, run by Infrastructure Ontario, will allow for efficient deployment of this capital in job-creating projects."*

I am offended because what was presented to us in the Legislature is the complete opposite of what the public is being told.

In case there's still any doubt about the government's intended use for this pension money, one need only look at the regulatory posting dated March 14, 2016 that proposes to eliminate the 30% rule for Pension Investment (Regulation 909, Pension Benefits Act). The posting states "eliminating the 30% rule could open up new investment opportunities and tap the capacity of the pension sector to contribute more to economic growth." It's clear the government is being less than forthright about its real plans for the money it will require you to shell out for the ORPP.

National Post columnist Andrew Coyne summed it up with, "The Wynne government keeps letting slip references to the ORPP being harnessed, not to earning the best risk-adjusted return for fundholders, but to financing provincial projects – more on the lines of the Quebec Pension Plan than the CPP. Which is to say, a tax increase."

Are we under-saving?

The entire ORPP rests on the premise that Ontarians are not saving enough for their retirement. However, a McKinsey Consulting group report shows that 83% of Canadians are saving adequate amounts for their retirement. Under-saving is actually only a problem for the middle to upper middle class, and McKinsey found this is because they commonly do not take advantage of pension plans already available to them. It also didn't take into account the nearly $9 trillion of wealth Canadians hold (such as real estate) outside of formal pension plans.

In addition, Jack Mintz, economist and fellow at the University of Calgary, suggests it's far from clear as to what problem is trying to be addressed. He states that well-documented, large-sampling analysis has been done by McKinsey (above) and Statistics Canada, concluding almost four-fifths of Canadians have sufficient income at retirement.

Finally, Malcolm Hamilton, an actuary and pension expert, and Senior Fellow at the C.D. Howe Institute, says that reports that we're under-saving for retirement are based on faulty assumptions. Young people are saving enough for retirement, he reports, by "choosing to buy a house, which becomes a big asset later." He concludes, "They are at the beginning of their work life … (and) have substituted saving for some vague retirement date for spending on a home."

Fewer retirement savings options

One of the impacts of the ORPP is companies may eliminate their existing savings plans for employees – plans that pay better than the ORPP. It would make more sense if the ORPP wasn't mandatory, and employers had a choice instead. No employer will carry two plans. The Canadian Life & Health Insurance Association said that 78% of their members would be likely to reduce contributions to existing pensions, and 66% may consider eliminating existing plans if the ORPP goes ahead. They called for a one-year delay of the ORPP, and for the immediate adoption of regulations to facilitate Pooled Registered Pension Plans to enhance retirement income security.

The Portfolio Management Association of Canada (PMAC) made a pointed case against the ORPP, recommending the government delay or ditch the plan altogether. The PMAC represents over 200 investment management firms and is responsible for more than $1 trillion in assets. "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," stated president Katie Walmsley and VP Scott Mahafffy. Furthermore, PMAC alleges the

ORPP would harm small- and medium-sized businesses; the plan is unaffordable in today's precarious economic environment; it narrows individual choice in saving for retirement; and it penalizes low-income earners.

Further to that point, not only does the plan take money from those who can least afford the loss in pay, if affects the people who will benefit the least. Upon retirement, this additional income will raise them beyond set thresholds, and their Old Age Security and their Guaranteed Income Supplements will be clawed-back by 50 cents out of every dollar. Therefore, the ORPP will actually see very little given out to the poorest of Ontarians who, arguably, need the most money in retirement.

People need to realize this isn't government money they will receive. It's the government taking their money and promising to pay it back, later!

Conclusion

It's surprising the government is forging ahead, when disapproval has come from so many diverse groups, associations, businesses, and individuals, highlighting the negative impact the plan will have on our economy. When you have skyrocketing energy prices and ever-growing red tape, the ORPP will only make matters worse, creating more uncertainty at a time when companies need stability in order to invest.

Key Questions

Considering the govnerment's own research and reports indicate tremendous job losses as a result as the ORPP, will the government abandon this new tax?

Will the government listen to Ontario employers who advise of major job losses as a result of the ORPP?

Will the government acknowledge the ORPP revenue will actually be used to fund infrastructure, as outlined in their 2014 budget.

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