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The Association of Canadian Pension Management
L'Association canadienne des administrateurs de régimes de retraite

June 2016

C/QPP EXPANSION RECOMMENDATIONS - BACKGROUND PAPER

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FOREWORD

ACPM (THE ASSOCIATION OF CANADIAN PENSION MANAGEMENT)

ACPM (The Association of Canadian Pension Management) is a national, non-profit organization acting as the informed voice of plan sponsors, administrators and their service providers in advocating for improvement to the Canadian retirement income system. Our membership represents over 400 companies and retirement income plans that cover more than 3 million plan members.

ACPM believes in the following principles as the basis for its policy development in support of an effective and sustainable Canadian retirement income system:

Diversification through Voluntary / Mandatory and Public / Private Options
Canada's retirement income system should be comprised of an appropriate mix of voluntary Third Pillar and mandatory First and Second Pillar components.

Third Pillar Coverage
Third Pillar retirement income plan coverage should be encouraged and play a meaningful ongoing role in Canada's retirement income system.

Adequacy and Security
The components of Canada's retirement income system should collectively enable Canadians to receive adequate and secure retirement incomes.

Affordability
The components of Canada's retirement income system should be affordable for both employers and employees.

Innovation in Plan Design
Canada's retirement income system should encourage and permit innovation in Third Pillar plan design.

Adaptability
Canada's retirement income system should be able to adapt to changing circumstances without the need for comprehensive legislative change.

Harmonization
Canada's pension legislation should be harmonized.

Purpose of this Paper

Over the last few years many government representatives, politicians, unions and commentators have expressed much concern that Canada is in the midst of a retirement income crisis. The suggested crisis relates to declining workplace retirement plan coverage in the private sector as well as declining personal savings rates.

ACPM believes that the 'crisis' label is not warranted – that Canadians are generally well served by Canada's 'Three-Pillared' retirement income system, which includes:

1. Pillar One – tax funded benefits for seniors. This is comprised of Old Age Security benefits (OAS) & the Guaranteed Income Supplement (GIS),
2. Pillar Two – Canada's mandatory public pension system. This is comprised of the Canada Pension Plan and the Québec Pension Plan (C/QPP), and
3. Pillar Three – workplace plans and individual saving. This includes registered pension plans and various other group and individual tax sheltered retirement savings vehicles.

Canada's retirement income system has been rated favourably internationally. Many Canadians have access to a workplace retirement plan that, in conjunction with C/QPP, provides adequate levels of income replacement at retirement. For Canadians without workplace retirement plans, those with lower incomes are already achieving satisfactory retirement income replacement levels thanks to Pillars 1 and 2, OAS, GIS and C/QPP, while most higher income earners without access to a workplace plan appear to be saving adequately on their own. However, there is an established consensus[1] that many middle income earners working in the private sector without access to a workplace plan are not adequately saving for their retirement.

To the ACPM this is not a system in crisis demanding significant universal action by government. Nor should the responding action be shouldered by one Pillar of the retirement system alone. The current Canadian system was designed to share the responsibility of adequate retirement savings in a fair and balanced way among social partners[2] - governments, employers and individuals. This sharing has depended on a diversity of various plans that make up the system.

The enhancement of Canada's mandatory public pension plans has been suggested by many as the only appropriate solution. Suggested actions include across-the-board expansions of the C/QPP as well as top up structures. Some feel strongly about the need for action. In the case of the government of Ontario, it is proceeding with its own plan to provide additional pension income in the absence of sufficient improvements to C/QPP. We have looked at the various proposals and considered the question of C/QPP changes and what changes are best for the overall system.

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[1] The decline in private sector coverage has particularly impacted middle-income earners in Canada with a resulting decline in their expected retirement income replacement ratio [C.D. Howe Institute study by Moore, Robson, and Laurin (2010) estimated that 16% of Canadians retiring today experience material declines in their standard of living. They project that proportion will increase to 44% in the decades ahead for today's 25-30 year-olds]. It is this group that ACPM believes should receive the attention in any discussions concerning expansion of mandatory public pension plans.

[2] *Innovating for a Sustainable Retirement System,* Expert Committee on the Future of the Quebec Retirement System, D'Amours Report (the "D'Amours Report").

Our proposed changes to the system focus on what we believe to be an appropriate improvement. This improvement should zero in on the problem and look for a solution that is targeted and affordable to all Canadians. The improvement should be efficient in both operation and impact. By its very nature, an appropriate improvement will be a compromise. In recommending a solution, we strove to achieve a balance of the views of the various stakeholders in the retirement readiness debate and focus on a uniform mandatory solution that would apply across all jurisdictions in Canada. To ACPM, uniformity is a crucial element of any reforms to the Canadian retirement system.

I. Executive Summary of Recommended Changes to the Canadian Retirement System

As noted above, the Canadian retirement system balances and diversifies the responsibility and risk of retirement income savings and adequacy among government, employers and individuals through Pillars 1, 2 and 3. The diversity of these plans contributes to better risk sharing. Therefore, in our view, this balance and diversity should be maintained in any proposed enhancements to the system intended to address inadequate savings by middle income earners.

With these principles and goals in mind, the ACPM recommends two changes to the Canadian retirement system:

1. Enhancement to CPP/QPP on Earnings between 50% and 100% of Year's Maximum Pensionable Earnings (YMPE), with the ability of employers to provide a comparable workplace retirement plan in lieu of the enhancement; and
2. Mandatory Workplace Retirement Savings Arrangement for Earnings between YMPE and 150% of the YMPE.

1. Enhancement to CPP/QPP

The first change is to make an enhancement to CPP/QPP. We recommend the same target benefit (15% income replacement) and contribution level (estimated combined 3.8% of covered earnings) as those of the ORPP[3]. However, instead of a minimum earnings threshold of $3500 currently applicable to CPP/QPP and the ORPP, we recommend that the threshold be raised to 50% of the YMPE (in 2016, $27,450). As such, based on 2016 YMPE, contributions relating to the enhanced CPP/QPP will be made on earnings between $27,450 and $54,900 keeping more money in the pockets of low income earners who will not be impacted by the change. We also recommend the implementation of a system for excluding employers from the CPP/QPP enhancement if they have comparable workplace retirement plans. It will be important to ensure that the opt-out/exemption system is easy and efficient, likely best achieved through the current T4 pension adjustment reporting system.

Advantages of Higher Minimum Earnings Threshold

The advantages of this higher minimum earnings threshold over the current CPP/QPP and ORPP designs are: (i) it better targets middle income earners, and (ii) it mitigates the negative effects of the Guaranteed Income Supplement (GIS) clawbacks on the enhanced CPP/QPP benefit. The latter advantage is particularly important because any solution involving greater taxable income at retirement needs to recognize that increased premiums (whether CPP/QPP or ORPP) for some Canadians during their working lives will actually deliver none, or at best only some, of the benefits to their income at retirement.

[3] Ontario Retirement Pension Plan ("ORPP").

Should Enhanced CPP/QPP Benefits be Taxable or Non-Taxable?

The current approach to federal taxation reflects the basic principle that all sources of income received by Canadian taxpayers should be taxable and reasonable expenditures to generate that income should be deductible from income. Our deliberations considered the taxable status of the proposed additional CPP/QPP contributions and the enhanced income generated from any changes to CPP/QPP in an attempt to address: (i) the GIS clawback concern described above, and (ii) the quantum of the increased contribution required to produce a gross indexed pension of 15% after a full career (e.g. a non-tax deductible contribution rate of 1 to 1.25% would suffice as compared to 1.9% on a taxable basis, for each employee and employer). The advantages of non-tax deductible additional CPP/QPP contributions and the resulting benefits are noteworthy in that this approach would neutralize the GIS clawback problem as well as require a lower contribution rate and benefit level. We recognize that the non-taxable treatment of such an enhancement to CPP/QPP would be a significant departure from the federal government's current approach to taxation, although such treatment already exists with TFSAs. As such, our proposal for a CPP/QPP enhancement assumes that the current taxable regime remains applicable.

2. ***Mandatory Workplace Retirement Savings Arrangement for Earnings between YMPE and 150% of the YMPE***

The second change we are recommending is the implementation of a requirement that all employers provide a comparable workplace retirement plan in respect of their employees' earnings between 100% and 150% of the YMPE (currently, \$54,900 to \$82,250)[4]. For a defined benefit (DB) plan to be comparable we recommend an annual benefit accrual rate of 0.3% to 0.5%, but on this narrow "corridor"[5] of earnings.

For defined contribution (DC) plans, we recommend a contribution rate of between 6% and 9% of the earnings corridor. For example, based on the 2016 YMPE, the maximum combined employer/employee DC contribution would be \$1,647 using 6% or \$2,470 using 9%. An employer plan that covers all earnings could be considered a comparable plan with combined employee/employer contributions of only 2% to 3%, since the covered earnings would be at least three times the narrow "corridor" targeted by the new rules.

The advantages of limiting contributions to this corridor of earnings is that it: (i) specifically targets middle income earners who do not currently participate in a workplace plan; (ii) does not affect low income earners, and (iii) is less costly to employers and employees than the ORPP by not requiring contributions on all income above \$3500.

Promotes the Balance and Diversity of the Canadian Retirement System

In addition to targeting middle income earners without workplace retirement plans, this implementation of mandatory workplace plan coverage promotes the current balance and diversity of the retirement system by continuing to share the responsibility for addressing the lack of middle income earners' retirement income savings and adequacy with Pillar 3 - employers and individuals. In contrast, if the

[4] For working Canadians without an employer to provide mandatory workplace coverage, we recommend mandatory contributions to retirement savings vehicle available under the *Income Tax Act* (Canada) to the self-employed.

[5] The recommended earnings "corridor" is between 100% and 150% of the YMPE.

only change made to the system was a CPP/QPP enhancement up to 150% of YMPE, the public plan would shoulder too much of the responsibility and risk forcing the system out of balance. There are risks associated with putting so many "eggs in one basket". Our proposal ensures that the private sector continues to have an important role in addressing the concern relating to middle income earners by requiring an employer retirement plan in respect of a narrow corridor of earnings above the YMPE.

Uncomplicated Comparable Plan Verification Regime

We recommend that a simple system be implemented to easily verify workplace or other comparable plan coverage. We recommend that all employers with workplace retirement plans be entirely exempted, regardless of whether their plans have waiting periods for entry or voluntary enrolment. The key requirement should be that the employer makes available comparable retirement plan coverage for all its employees.

Other Measures to Improve Pillar Three – Workplace Retirement Plans

In addition to the measures outlined above, we continue to recommend that the following equally important matters that potentially impact millions of Canadians can likewise be addressed in order to further strengthen Pillar Three of the Canadian retirement system:

- Improving and expanding the role of defined benefit formula plans; and
- Upgrading the roles for DC plans.

ACPM believes that private sector DB plans are a necessary component of a strong retirement income system and we have advocated for needed changes in the solvency funding rules in our May, 2014 paper, *DB Pension Plan Funding: Sustainability Requires a New Model*.

For employers willing to establish pension plans, but concerned about DB plan risks, target benefit style plans would offer an alternative to the current options of DC plans or group RRSPs. While the potential for benefit reduction is controversial, target benefit (TB) plans offer the same kind of longevity and asset pooling available through DB plans, while providing more benefit certainty than DCs. ACPM has provided a template for structuring these plans – *ACPM Target Benefit Plans Paper* (March 2012) and *ACPM Target Benefit Plan Supplemental Paper* (September 2014).

DC pension plans also play an important part in Canada's pension system. While employers have continued to offer DC plans and create new DC plans, the growth has been muted by the perception of over-regulation and by the need for a modern regulatory structure. Regulatory changes that can facilitate the adoption of these promising DC design options for more plans include:

- Automatic Enrolment of Pre-existing Employees with Opt- out;
- Automatic Escalation with Opt-out – ACPM paper, *Delivering the Potential of DC Retirement Savings Plans* (May 2008);
- Improve DC by including variable benefit options and "safe harbour" provisions with focus on deccumulation of assets.

II. Background: Overview of the Retirement "Problem"

Canada's public pension system has been the subject of many recent expert studies as well as political debate. For the first time in many years, Canadian retirement readiness, and in particular, retirement plan coverage and benefit adequacy issues, were among the most important issues in the 2015 federal election.

All of the major political parties appeared to agree that Canadians were not saving enough for retirement. The Conservatives encouraged the private sector to create savings vehicles, like the PRPP, to address the issue. Then, to respond to calls to address the issue through CPP, the Canadian Government issued a consultation paper on a proposed voluntary DC supplement to the CPP.

The NDP and the Liberals promised to look at ways of expanding CPP benefits as a solution to the retirement savings problem they identified. The Liberals won the election and committed to meeting with the provinces to consider how to address their concerns about Canadians' retirement readiness, and in particular, how the CPP could be expanded to address the problem. Importantly, Canada now has a Finance Minister with significant expertise in pensions and retirement policy.

Politicians, industry players and many Canadians have seized on the present as the time to ensure that the Canadian retirement system meets the needs of future retirees. However, the nature and extent of the retirement readiness "problem" is the subject of debate among commentators. From a review of the expert commentary on the issue of Canadian retirement readiness, there appears to be two main positions emerging.

The first position is that the problem is a targeted one. This view is represented in the results of a 2014 research study conducted by the consulting firm, McKinsey & Company, regarding the subject of Canadians' retirement readiness. McKinsey used its retirement readiness index to determine that 83% of Canadians are on track for retirement[6]. McKinsey's retirement readiness index is based on the ratio of funds available for consumption in retirement compared to pre-retirement expenditures. McKinsey's calculations depart from the traditional view that retirees need 70% of their pre-retirement income in retirement as people have expenses during their work lives that do not need to be replaced in retirement, such as mortgages, work-related expenses and saving for retirement.

The McKinsey study found that most low-income households are ready for retirement, with 93% being on track, due to government programs such as Old Age Security (OAS), the Guaranteed Income Supplement (GIS) and Canada Pension Plan (CPP) or Quebec Pension Plan (QPP) benefits. The study went on to find that 84% of mid-to high income households who participate in workplace retirement plans are also on track for retirement, while those without a workplace retirement plan are less prepared at 63%. As such, the McKinsey study finds that Canadians who will not be ready for retirement (determined to be only 17% of Canadian households) are either not participating in or are not contributing enough to workplace retirement plans or are not putting enough into personal savings.

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[6] McKinsey's retirement readiness index also indicates that if a small percentage (30%) of the value of real estate assets were included in the calculations, the percentage of Canadians on track for retirement would increase from 83% to 87%. Interestingly, McKinsey's findings were not in accord with their survey respondents' own perceptions of their retirement readiness, because 60% indicated that not saving enough for retirement was their main financial worry.

Based on the McKinsey study and others[7] that have considered the issue, many experts submit that this is targeted group of Canadians who will not be retirement ready and, as such, a targeted solution to the problem is required as opposed to a universal solution like the Ontario Retirement Pension Plan (ORPP) being implemented in Ontario. They argue that such a universal solution to a targeted problem would result in economic inefficiencies. Forcing Canadians who have adequate retirement savings to save more through the ORPP or CPP is inefficient. A universal solution can also have a negative impact on the Canadian economy. For example, the increase in mandatory savings through a vehicle like the ORPP results in reduced household spending[8], which impacts on GDP.

On the other hand, other experts, such as Michael Wolfson in his paper, "*What, Me Worry?: Income Risks for Retiring Canadian*s", take the position that the problem is a broad based one. In his paper, Wolfson rebuts the McKinsey study and instead finds that a substantial portion of middle-income Canadians will be worse off in retirement. Wolfson's research uses Statistics Canada's LifePaths data and suggests 50 per cent of middle-income Canadians will experience a significant drop in their living standard in retirement. He defines a significant decline as a drop of 25% or more in their net income by age 70 compared with their pre-retirement net income. As such, experts such as Wolfson argue that a universal solution is needed, in particular an expansion of governments' role in retirement by enhancing the CPP. The Ontario government has adopted such a universal approach in its design of the ORPP[9].

The differing expert views on the extent Canadians' retirement readiness demonstrate that there are many ways of measuring retirement readiness and the assumptions that are used in the calculations will not remain constant and will inevitably change, such as retirement age, impact of housing and debt at retirement. However, the ACPM is in agreement with the view that the retirement readiness "problem" in Canada is a targeted one that requires a targeted solution, one that is able to recognize and address the needs of a targeted group of under-savers – namely, those middle income earners who do not have a workplace retirement plan and do not save enough on their own to meet their retirement needs.

An alternative to fashioning a targeted solution, another strategy would be to simply "do nothing" i.e. to stay with the existing retirement system, without any changes. A "do nothing" strategy would rely on the current plethora of voluntary savings options to solve the retirement readiness problem. Many argue that Canadians will adapt to address their retirement needs using the options currently available and will likely need to work longer. However, the current retirement system, including these voluntary

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[7] See Ian Lee, "Pensions Conference 2015: No Savings Crisis, No Pensions Crisis" and Bob Baldwin, "The Politics of Pensions: What lies ahead for Canada's Public Pension System?", both papers prepared for Lancaster House's 3rd Annual Pensions Conference, December 2015; Malcolm Hamilton, "Do Canadians Save Too Little?" C.D. Howe Institute, Commentary No. 428, June 2015 (online).

[8] For a period of 20 years in the case of the introduction of the ORPP in Ontario. Economists, such as former Governor of the Bank of Canada, David Dodge, have noted that over the longer term, higher retirement income would have a positive impact on the economy.

[9] The ORPP is a new pension plan being created for Ontario employees. It will provide pension overage to Ontario employees who do not have comparable workplace pension plans, giving them extra income in retirement. The province estimates about 3.5 million workers will participate. The ORPP is similar to the Canada Pension Plan, but it is registered pension plan under the Income Tax Act (Canada). It requires contributions of 1.9% of earnings up to $90,000 from employees through payroll deductions, as well as matching contributions from employers. It will pay a benefit in retirement that will vary, depending on how many years an employee contributes to the plan and how much he or she earns. The Ontario government designed the ORPP to provide approximately 15 per cent of an employee's pre-retirement income up to a maximum cap.

options, has not made an appreciable difference in addressing the retirement readiness issue Canadians have been facing and will continue to face in future if no changes are made.

In order to develop our recommended changes to the Canadian retirement system, ACPM reviewed two different proposals for enhancing the CPP/QPP raised by certain stakeholders, a proposal for mandatory PRPP coverage based loosely on what has been put in place in Quebec, but on a fully mandatory basis, and a proposal for a "CPP bridge " that assists in addressing longevity risk as highlighted in the D'Amours Report. Below we have outlined the results of our review of these alternative proposals, including their advantages in addressing the targeted problem we have identified, and also their disadvantages.

In assessing the alternative proposals for the CPP, we developed a key set of features common to each proposal in order to ensure we compared "apples to apples" in assessing their ability to target the retirement readiness problem as we see it. These common features are set out in Schedule A. In ACPM's 2014 paper entitled, "Principles for Mandatory Public Pension Plans", we suggested ten principles to be used as a framework in evaluating proposals involving the expansion of mandatory public pension plans in Canada. In evaluating the various proposals we also took into consideration these ten principles, set out in Schedule B for reference purposes. Finally, ACPM formulated its recommended solution after reviewing these alternative proposals by taking their best features and attempting to mitigate their disadvantages.

III. Alternative Proposals Considered by ACPM for a Targeted Solution

As noted above, in developing its recommended solution, ACPM first reviewed two different proposals for enhancing the CPP/QPP raised by certain stakeholders (Alternative Proposals #1 and #2) as well as a proposal for national mandatory workplace retirement savings arrangements (Alternative Proposal #3) and proposal for a "CPP bridge " that assists in addressing longevity risk as highlighted in the D'Amours Report (Alternative Proposal #4). Below we have outlined the results of our review of these alternative proposals, including their advantages and disadvantages in addressing the targeted retirement readiness problem as described above.

Alternative Proposal #1: Targeted CPP/QPP Enhancement

Basic principle

Enhance CPP/QPP based on current design of the ORPP design and target middle income earners.

Overview of Key Design Features

The enhancement to CPP/QPP incorporates similar features as the ORPP; namely:

- the same contribution level as the ORPP (3.8% of base earnings);
- the same targeted, indexed pension benefit of 15% of earnings after a full career;
- an accrual date that corresponds with the enhancement implementation date so that no inter-generational transfer of liabilities occur;
- retirement at age 65, but the ability to retire as early as age 60 and as late as age 70 with actuarial adjustment; and
- survivor benefits of 60% after retirement; and
- the ability to opt-out for comparable workplace plans would be adopted, but with a lower threshold than 8% for DC plans (such as 5%). It will be important to ensure that the opt-

out/exemption system is easy and efficient, likely best achieved through the current T4 pension adjustment reporting system.

To ensure that this enhancement to CPP/QPP plan is a targeted solution, there is some divergence from the ORPP design. The minimum earnings threshold would be raised from $3,500 to 50% of the YMPE, while the maximum earnings would be capped at 150% of YMPE. In addition, to allow employers and the economy to adjust, implementation would be delayed to January 1, 2020. Some individuals would still be subject to the GIS claw back at retirement (due to a threshold of 50% of YMPE). To minimize this problem, contributions from low income earners should be directed to a vehicle similar to a Tax Free Savings Account (TFSA) to ensure this GIS claw back is mitigated.

Clear rules would need to be established on how contributions and benefits will be adjusted according to experience. In particular, indexing would not be guaranteed. Transfer of risk between generations should be managed with triggers leading to a change in benefits and/or contributions. Contributions could be volatile to avoid risk transfer to next generations. It would also be necessary to keep separate accounting between Basic CPP and Enhanced CPP due to this contribution volatility. It would be important to communicate clearly that benefits including indexation and contributions will be adjusted depending on funding levels.

The costs of the enhanced plan should be limited by using the CPP/QPP structure for collection of contributions, calculation of benefits, and investing the assets (current CPPIB is independent with strong governance structure).

Advantages of Proposed Targeted CPP/QPP Enhancement

There are numerous advantages to this proposed enhancement to CPP/QPP. As it is based on the ORPP design, Ontario may accept it. Implementation costs are limited, as are ongoing administration costs due to the use of the current C/QPP infrastructure. The enhanced C/QPP benefit is modest, as average earners and their employers would contribute approximately $1,100 (total of employee and employer contribution). Finally, it addresses the stakeholder concerns relating to employees' abilities to convert accumulated capital to lifetime income at retirement. It is also a solution targeting to middle income earners as only earnings between 50% and 150% of YMPE are covered. This also significantly reduces the issue of those subject to the GIS claw back. This advantage is particularly important because any solution involving greater taxable income at retirement needs to recognize that increased premiums (whether CPP/QPP or ORPP) for some Canadians during their working lives will actually deliver none, or at best only some, of the benefits to their income at retirement[10].

[10] Current rules of the Guaranteed Income Supplement (GIS) state that if a retiree receives income other than Old Age Security and employment income up to $3,500, then the GIS is reduced ("clawed back") by 50% of that other income (including CPP/QPP benefits, pension benefits, withdrawals from RRSPs or RRIFs, but excluding withdrawals from TFSAs). This clawback represents a serious drawback to low income earners to save during their employment in order to receive additional retirement income (other than through TFSAs). This clawback also affects middle income earners who have no significant workplace pension benefits, no spouse earning more and no substantial RRSP or RRIF savings. For example, a retiree who receives the full CPP/QPP benefits (having earned at least the YMPE throughout his or her career) would also be entitled to a small GIS benefit if he or she receives no other income than OAS and CPP/QPP. This other income is already taxable at usual marginal rates that depend on total income, which may be nil or close to it for very low earners, but not for middle income earners, so their combined cut can be even more than 50%. As such, we strongly recommend that solutions to changing CPP/QPP,

Should Enhanced CPP/QPP Benefits be Taxable or Non-Taxable?

The current approach to federal taxation reflects the basic principle that all sources of income received by Canadian taxpayers should be taxable and reasonable expenditures to generate that income should be deductible from income. Our deliberations considered the taxable status of the proposed additional CPP/QPP contributions and the enhanced income generated from any changes to CPP/QPP in an attempt to address: (i) the GIS clawback concern described above, and (ii) the quantum of the increased contribution required to produce a gross indexed pension of 15% after a full career (e.g. a non-tax deductible contribution rate of 1 to 1.25% would suffice as compared to 1.9% on a taxable basis, for each employee and employer). The advantages of non-taxable additional CPP/QPP contributions and the resulting benefits are noteworthy in that this approach would neutralize the GIS clawback problem as well as require a lower contribution rate and benefit level. We recognize that the non-taxable deductible treatment of such an enhancement to CPP/QPP would be a significant departure from the federal government's current approach to taxation. As such, our proposal for a CPP/QPP enhancement assumes that the current taxable regime remains applicable.

Disadvantages of Proposed Targeted CPP/QPP Enhancement

There are disadvantages to Proposal #1. It may be that some relatively low income earners (e.g. earning approximately $40,000) are still subject to the GIS claw back. In those cases, it would be better for them to contribute to a vehicle similar to a TFSA. This enhanced CPP/QPP benefit also has the potential to reduce private savings and increase assets within one investment vehicle. As such, it does not reflect the current balance and diversity of the current Canadian retirement system. The CPP/QPP enhancement proposed would result in the public plan (and government) shouldering more of the responsibility and corresponding risk for Canadians' retirement savings and readiness. Finally, the financial flexibility of individual Canadians is reduced due to the obligation to contribute more to the enhanced public plan.

Alternative Proposal #2: Voluntary Contributions to DC "Add-On" Component of CPP/QPP

Basic Principle

Require all employers to auto-enroll employees in new DC component to be added to CPP/QPP, but permit individual employees to opt-out annually[11].

Overview of Key Design Features

The DC Add-On proposal would be a mandatory plan for employers who do not offer a comparable workplace plan[12], but with an annual opt-out process for employees using a prescribed form (but would not allow contribution refunds). Benefit accruals would be on a DC basis. Like the above enhanced CPP/QPP, the DC Add-On would have a contribution rate of 3.8% of base earnings (1.9% employee plus 1.9% employer). Contributions would be on a targeted corridor of earnings between 50% and 150% of YMPE. Contributions would be tax deductible to the contributor. Employers would report employee

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and for that matter all workplace pensions, need to deal with the interaction with GIS if the solutions are to improve, and not harm, the lower income earners.

[11] Design builds on a proposal by the Canadian government prior to the 2015 federal election.

[12] See common features in Schedule A.

and employer contributions on T4s in order to provide same tax treatment as DC registered pension plan contributions (as opposed to additional CPP contributions). To keep the program simple to administer, no other contribution rate variation would be permitted. However, it could be beneficial to allow higher employee contributions for those who so desire.

Employee and employer contributions to the DC Add-On would be locked-in. It is acknowledged that locking-in may cause administrative problems like requests for early withdrawals for financial hardship, etc. and may be a strong incentive to opt out.

On retirement, a lifetime pension would be added to the traditional CPP benefit (on a target benefit basis) or deccumulation alternatives would be made available based on the variable pension rules under federal pension standards legislation (using the minimum withdrawal rates that should provide some indexing).

Advantages of Proposed DC “Add-On” to CPP/QPP

Like Proposal #1, Proposal #2 targets the identified group at risk - middle-income earners by covering earnings between 50% and 150% of YMPE. The default decumulation option is a supplemental lifetime pension paid on a target benefit basis. If a retiree does not want this option, he or she must elect the variable pension option before commencing CPP/QPP. These are efficient and cost effective decumulation options with more flexibility than the targeted CPP/QPP Expansion in Proposal #1.

It would be reasonably simple for employers to adapt their payroll systems for the collection of contributions, although allowing annual employee opt-outs represents an additional task. In addition, the CPP/QPP administration structure is already in place. However, there would be a number of additional responsibilities:

- updating the new DC balances with net fund returns earned by the CPPIB Fund (or the Caisse de depot in Québec);
- if the employee elects the variable pension option, establishing and maintaining a mechanism to reduce DC accounts by the withdrawals made during the year;
- offering a CPP/QPP annuity option at retirement and potentially annually thereafter; and
- adding any residual DC account balance as a taxable benefit to the CPP/QPP death benefit on the death of a participant.

With the rules permitting the exemption of comparable plans, this Proposal makes room for comparable workplace retirement plans as part of the solution. This would help maintain the current diversity and balance of the system. Another advantage is that minimal contributions would be locked-in to provide retirement benefits.

Disadvantages of Proposed DC “Add-On” to CPP/QPP

The proposal would require additional administration by employers who had no workplace retirement plan previously (and also for the annual opt out process). The benefits provided on retirement are uncertain (common to all DC plans), but members would be provided with an additional lifetime benefit on a target benefit basis at or during retirement. Costs of this option are uncertain. Finally, while it is a targeted solution to the concern regarding middle income savings, the provision for individual opt-outs of the DC Add-On would likely compromise its effectiveness due to the lack of forced savings.

Alternative Proposal #3: Mandatory Workplace Retirement Savings Arrangements

Basic Principle

Require all employers to offer to their employees a workplace retirement savings arrangement (WRSA) with minimum contributions on a narrow corridor of earnings.

Overview of Key Design Features

A mandatory WRSA would require all employers to provide a comparable workplace retirement plan in respect of their employees' earnings between 50% and 150% of the YMPE (currently, $27,450 to $82,350)[13]. For a defined benefit (DB) plan to be comparable, we recommend an annual benefit accrual rate of 0.3% to 0.5%, but on a limited "corridor" of earnings.[14]

For defined contribution (DC) plans, we recommend a contribution rate of between 6% and 9% of the earnings corridor. For example, based on the 2016 YMPE, the maximum combined employer/employee DC contribution would be $3,294 using 6% or $4,941 using 9%. An employer plan that covers all earnings could be considered a comparable plan with combined employee/employer contributions of only 4% to 6%, since the covered earnings would be at least 1.5 times the limited "corridor" targeted by the new rules.

Advantages of Proposed Mandatory WRSA

The mandatory WRSA would affect only a fraction of workers as it excludes all who earn below the targeted earnings corridor or are covered by a comparable plan. The advantages of limiting contributions to this limited corridor of earnings are that it: (i) specifically targets middle income earners who do not currently participate in a workplace plan; (ii) does not affect low income earners, and (iii) is less costly to employers and employees by not requiring contributions on all income above $3500.

In addition to targeting middle income earners without workplace retirement plans, this implementation of mandatory workplace plan coverage promotes the current balance and diversity of the Canadian retirement system by enhancing the role of workplace plans for those without a comparable plan. This proposal provides for an important role for the private sector in addressing the concern relating to certain middle income earners. Middle income earners without a comparable pension plan will have an employer retirement plan in respect of a limited corridor of earnings.

A simple system would need to be implemented to easily verify workplace or other comparable plan coverage. All employers with workplace retirement plans should be entirely exempted, provided they exceed the minimum required benefit or contribution amounts, regardless of whether their plans have waiting periods for entry or voluntary enrolment. The key requirement should be that the employer makes available comparable retirement plan coverage for all its employees.

Disadvantages of Proposed Mandatory WRSA

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[13] For working Canadians without an employer to provide mandatory workplace coverage, we recommend mandatory contributions to retirement savings vehicle available under the *Income Tax Act* (Canada) to the self-employed.

[14] In 2016, corridor would be $27,450 to $83,250.

The requirement that all employers provide workplace retirement plans would likely be costly and administratively burdensome for those employers who do not already provide a plan. It is also possible that employees may pay higher investment and administration fees through forced participation in the WRSA than they would if Proposal #1 were adopted.

Alternative Proposal #4: CPP/QPP Bridge

In addition to the alternatives presented above, for the sake of completeness, we also considered a substantially different approach - a “CPP/QPP bridge” that assists in addressing longevity risk as highlighted in the D’Amours Report.

Basic Principle

Create a new public component that will focus on short term benefits in order to help workers maximize their benefits under the current CPP/QPP.

Overview of Key Design Features

Under this approach, contributions would be accumulated in a locked-in DC account. The assets of the account would be invested by CPPIB (or the Caisse as applicable) together with its current assets until retirement, benefiting from the same fund rate of return. At retirement, this account would be used to pay temporary benefits (i.e. a type of “bridge”). These bridge benefits would postpone for a few years (depending on size of the DC balance) the commencement of the regular CPP/QPP pension at a revalorized level (e.g. 8.4% increase for each year after 65 to age 70, or avoiding 7.2% decrease for each year between 65 and 70 and then an increase of 0.8% per month after age 70 or 9.6% per year). This approach is consistent with the strategy that was described in Quebec’s proposal for a new longevity pension. The maximum CPP/QPP retirement age would remain at age 70, but the revalorization would extend the commencement of regular CPP/QPP pension payments after age 70. Depending on the assumptions used, after a full career (i.e. 40 years), the new “longevity pension” component could “bridge” the CPP/QPP pension for about 7 years. The postponed start of the revalorized CPP/QPP pension would be boosted by up to 70% (i.e. 15% additional benefit).

The balance as a percent of final average covered earnings (or 5-year Average YMPE) and the number of years that it could “bridge” the CPP/QPP pension would depend on the number of years between inception of this program and retirement, producing approximate increases in CPP/QPP pension as follows:

Years from inception to retirement	Balance as % of 5 year avg. YMPE	Bridge years (non taxable 50% of CPP)	Increase in CPP pension (0.7% for first 5 years, 0.8% for extra years)	Increase in max.CPP pension (added to max. pension of 25%x$60,000=$15,000)
10	20%	1.5	12%	$1,800
20	50%	3	25%	$3,600
30	85%	5	40%	$6,000
40	130%	7	60%	$9,000

The new bridge component would receive the same treatment as a TFSA to avoid the GIS clawback, thus requiring about half the contributions to achieve practically the same results. In case of death, the individual's DC account would be payable to his or her beneficiary (tax free), and if the death occurs during the postponement or "bridge" period, the CPP/QPP survivor benefit would be the same as if he or she had retired just before death.

Employee and employer contributions to the DC account would each be 1% of base earnings between $3,500 and the YMPE (estimated at $60,000 in 2020, for a maximum of $565 each). Keeping the same covered earnings as CPP/QPP would avoid complications. Contributions would not be deductible by employees and the amount from employers would be counted as taxable income. The contributions would have no impact on Pension Adjustments and remaining RRSP contribution room.

If the employer has a marginal tax rate of approximately 35%, its net cost would be 0.65% net of covered pay. If the individual's marginal tax rate is 50%, his or her cost would be 2% of covered pay before tax or 1% after tax, plus 0.5% for tax on employer portion. If his or her tax rate is 30%, his or her cost would be 1.42% before tax or 1% after tax, plus 0.3% for tax on employer portion, but the resulting account would produce benefits that are not taxed or clawed back.

Contributions would be deposited in a TFSA-like account administered by CPPIB (or in the case of QPP, the Caisse), and would produce benefit payments that can be only one-half as high as otherwise, since they are not taxable and not counted for GIS clawback. The investment of DC accounts would be pooled with CPP/QPP's assets until retirement, then the investment of DC account balances could be de-risked.

Advantages

There are many advantages to CPP/QPP bridge. For individual participants, it is seamless in that they receive the basic CPP/QPP benefits and bridge together and not from different plans. They do not need to make any elections or decisions at retirement. The amount they receive as their CPP/QPP benefit will be automatically adjusted to reflect the bridge. Another advantage of the CPP/QPP is that it involved less intergenerational risk than the other options. It also addresses the GIS clawback problem; no clawbacks would apply to the bridge benefits.

Disadvantages

The main disadvantage of this alternative proposal is its complexity. We believe it would be difficult to get a consensus among provincial and federal decisions makers on the proposal because it is not a straight forward enhancement. Also, it is not a solution specifically targeted for middle income earners. Finally, like Alternative Proposal #1, this bridge CPP/QPP benefit also has the potential to reduce private savings and increase assets within one investment vehicle. It does not reflect the current balance and diversity of the current Canadian retirement system. Finally, the financial flexibility of individual Canadians would be reduced due to the obligation to contribute more to the public plan.

IV. ACPM's Recommended Targeted Solution

Having reviewed the above alternative proposals and considered their respective advantages and disadvantages in addressing the targeted retirement readiness problem, ACPM has developed its recommended solution to the problem. Our solution promotes both the balance and diversity of the current Canadian retirement system.

The ACPM recommends two changes to the Canadian retirement system:

1. Enhancement to CPP/QPP on Earnings between 50% and 100% of Year's Maximum Pensionable Earnings (YMPE), with the ability of employers to provide a comparable workplace retirement plan in lieu of the enhancement; and

2. Mandatory Workplace Retirement Savings Arrangement for Earnings between YMPE and 150% of the YMPE.

As discussed in the GIS section of this paper below, each of the alternative proposals outlined above has merits, but each may suffer from the potential harm and inefficiency of the current GIS rules. Simply said, any additional taxable retirement benefit paid to lower income Canadian retirees will result in very little additional benefit. The additional contributions on that class of Canadians would be akin to a tax on the poor to improve the welfare of the middle and upper income retirees. However, we recognize that it would be very difficult to make any significant amendments to the current GIS program due mainly to the potential impact on federal revenue. Putting GIS reforms aside, in our recommendations we have focused on the way a CPP/QPP enhancement could be designed and rolled out, while attempting to avoid exacerbating the current GIS problem.

Re-examining two of the approaches to Canadian retirement system expansion we have discussed above; namely, a public target benefit (or quasi defined benefit) approach and a private workplace plan approach (i.e. mandatory Enhanced CPP and mandatory WRSA), we find that both could have their place in a retirement income scheme. A combination approach mitigates the effect of GIS on an enhanced C/QPP and draws from the best of the different approaches considered above.

1. Enhancement to CPP/QPP

The first change is an enhancement to CPP/QPP. We recommend the same target benefit of 15% income replacement and contribution level as those of the ORPP (estimated combined 3.8% of covered earnings). However, instead of a minimum earnings threshold of $3500 currently applicable to CPP/QPP and the ORPP, we recommend that the threshold be raised to 50% of the YMPE (in 2016, $27,450). As such, based on 2016 YMPE, contributions relating to the enhanced CPP/QPP will be made on earnings between $27,450 and $54,900 keeping more money in the pockets of low income earners who will not be impacted by the change. We also recommend the implementation of a system for excluding employers from the CPP/QPP enhancement if they have comparable workplace retirement plans. It will be important to ensure that the opt-out/exemption system is easy and efficient, likely best achieved through the current T4 pension adjustment reporting system.

2. Mandatory WRSA for Earnings between YMPE and 150% of the YMPE

The second change we are recommending is the implementation of a requirement that all employers provide a comparable workplace retirement plan in respect of their employees' earnings between 100% and 150% of the YMPE (currently, $54,900 to $82,350)[15]. For a defined benefit (DB) plan to be

[15] For working Canadians without an employer to provide mandatory workplace coverage, we recommend mandatory contributions to retirement savings vehicle available under the *Income Tax Act* (Canada) to the self-employed.

comparable we recommend an annual benefit accrual rate of 0.3% to 0.5%, but on this narrow "corridor"[16] of earnings.

For defined contribution (DC) plans, we recommend a contribution rate of between 6% and 9% of the earnings corridor. For example, based on the 2016 YMPE, the maximum combined employer/employee DC contribution would be $1,647 using 6% or $2,470 using 9%. An employer plan that covers all earnings could be considered a comparable plan with combined employee/employer contributions of only 2% to 3%, since the covered earnings would be at least three times the narrow "corridor" targeted by the new rules.

The advantages of limiting contributions to this corridor of earnings is that it: (i) specifically targets middle income earners who do not currently participate in a workplace plan; (ii) does not affect low income earners, and (iii) is less costly to employers and employees than the ORPP by not requiring contributions on all income above $3500.

Other Advantages of Recommended Solution

In addition to targeting middle income earners without workplace retirement plans, our recommended solution promotes the current balance and diversity of the retirement system by continuing to share the responsibility for addressing the lack of middle income earners' retirement income savings and adequacy with Pillar 3 - employers and individuals. Our proposal ensures that the private sector (Pillar 3) and the public pension plan system (Pillar 2) both continue to have important roles in addressing the concern relating to middle income earners.

Disadvantages of Recommended Solution

Like alternative Proposal #3, the requirement that all employers provide workplace retirement plans would likely be costly and administratively burdensome for those employers who do not already provide a plan. However, the costs for employers are mitigated by not requiring contributions on all income above $3500 but instead focusing on a narrow corridor of earnings above the YMPE. It is also possible that employees may pay higher investment and administration fees through forced participation in the WRSA than they would if Proposal #1 were adopted.

Uncomplicated Comparable Plan Verification Regime

We recommend that a simple system be implemented to easily verify workplace or other comparable plan coverage. We recommend that all employers with workplace retirement plans be entirely exempted, regardless of whether their plans have waiting periods for entry or voluntary enrolment. The key requirement should be that the employer makes available comparable retirement plan coverage for all its employees.

Impact of Recommended Solution on the Canadian Retirement System

If we look at a combination of all the existing and suggested public plans (including OAS, rounded from the current amount of $6,846 to about $7,000 in 2020, but excluding GIS, which would vary depending on other income), the total retirement benefits of Canadians at different income levels could be summarized as follows:

[16] The recommended earnings "corridor" is between 100% and 150% of the YMPE.

Salary	OAS	CPP (25%)	CPP-Plus (15%)	Supplemental (est.35%)	Total	As % of salary
$20,000	$7,000	$5,000	--	--	$12,000	60%
$30,000	$7,000	$7,500	--	--	$14,500	48%
$40,000	$7,000	$10,000	$1,500	--	$18,500	46%
$50,000	$7,000	$12,500	$3,000	--	$22,500	45%
$60,000	$7,000	$15,000	$4,500	--	$26,500	44%
$70,000	$7,000	$15,000	$4,500	$3,500	$30,000	43%
$80,000	$7,000	$15,000	$4,500	$7,000	$33,500	42%
$90,000	$7,000	$15,000	$4,500	$10,500	$37,000	41%

V. Long Term Solutions vs Immediate Needs: What Can be Done Now?

Our recommended changes to the retirement system will go a long way to solving the middle-income retirement issue in Canada, but it will take time to reach fruition (approximately 40 years for the first full benefit to be realized). During that period, Canada will still be faced with a group of individuals entering retirement with insufficient income to meet their basic needs.

There are immediate actions that can be taken that would temper this problem. One of them is to reform the GIS program. The next section of this report goes into more detail concerning this potential solution. The reformation of the GIS program could eliminate the need for CPP/QPP enhancement and the other changes to the system we have recommended.

A second immediate action that can be taken would be to extend the age at which CPP/QPP could be collected to 75 with actuarial adjustments to the payments. This would not benefit everyone in the targeted group due to individual circumstances, but it could add to retirement planning flexibility especially to those saving in a DC plan environment. Changes to pension law would be required to make this viable (LIF, LIRA rules to bridge to age 75).

We are past the stage when a “do nothing” strategy is an option. However, if nothing was done and Pillar 3 retirement savings continue to diminish, Canadians would adapt. Financial literacy may increase thereby improving retirement readiness for future generations. Canadians would work longer.

VI. Other Measures: Improve Pillar Three

The ACPM has long advocated for solutions to the retirement income system in Canada and will continue to do so. Our Five-Point Plan (June, 2010), Legislative Framework for Institutional DC Plans (June 2010), Target Benefit Plans Paper (March 2012), DB Pension Plan Funding: Sustainability Requires a New Model (May, 2014), Principles For Mandatory Public Pension Plans (June 2014), and Target Benefit Plan Supplemental (September 2014) have all provided a roadmap for improving the retirement income system in Canada.

The major themes running through each of these reports include encouraging private sector retirement plans, welcoming innovation in solutions for retirement issues, simplicity as a key feature in administration for plan sponsors and encouraging retirement savings amongst Canadians. Target Benefit Plans, Pooled Registered Pension Plans (Voluntary Retirement Savings Plan in Quebec) and thoughtful expansion of Public Pension Plans are all examples of positive solutions to the retirement income issue in Canada.

In addition, the funding rules have been a perennially difficult issue, impacting many of Canada's private sector defined benefit (DB) plans. In recent years, governments have responded with temporary measures to ease the impact from solvency tests that are too often out-of-step with economic realities. Although welcomed, temporary exemptions do not address the root issue. As such, we have witnessed a large number of conversions of DB plans to DC plans and the creation of few new DB plans over recent years.

ACPM believes that private sector DB plans are a necessary component of a strong retirement income system and we have advocated for needed changes in the solvency funding rules in our May, 2014 paper, DB Pension Plan Funding: Sustainability Requires a New Model.

For employers willing to establish pension plans, but concerned about defined benefit plan risks, target benefit style plans would offer an alternative to the current options of defined contribution plans or group RRSPs. While the potential for benefit reduction is controversial, target benefit (TB) plans offer the same kind of longevity and asset pooling available through DB plans, while providing more benefit certainty than DCs. Indeed, governments are embracing this reality first hand. Facing the same plan stresses as private sector sponsors, they are adjusting benefits to create plans with target benefit provisions. ACPM has provided a template for structuring these plans – ACPM Target Benefit Plans Paper (March 2012) and ACPM Target Benefit Plan Supplemental Paper (September 2014).

VII. GIS Issues and Proposals For Reform

Current GIS rules state that if a retiree receives income other than Old Age Security and employment income up to $3,500, then the GIS is reduced ("clawed back") by 50% of that other income (including CPP benefits, pension benefits, withdrawals from RRSPs or RRIFs, but excluding withdrawals from TFSAs). This clawback represents a serious drawback to low income earners to save during their employment in order to receive additional retirement income (other than through TFSAs). This clawback also affects middle income earners who have no significant workplace pension benefits, no spouse earning more income and no substantial RRSP or RRIF savings. For example, a retiree who receives the full CPP benefits (having earned at least the YMPE throughout his career) would also be entitled to a small GIS benefit if he receives no other income than OAS and CPP. This other income is already taxable at usual marginal rates that depend on total income, which may be nil or close to it for very low earners, but not for middle income earners. For middle income earners, the combined effective marginal tax rate can be more than 50%.

The following summarizes ACPM's suggestions for reform to the Guaranteed Income Supplement. Full details of the analysis may be found in Schedule C to this paper.

- Do not claw back income from ORPP (or enhanced CPP/QPP).
- Disregard or exempt a certain amount of any other income from the GIS clawback rule (e.g. first $4,500 or $9,000, which is the target ORPP benefit for earnings of $30,000 and $60,000).

- Change GIS clawback to different percentages depending on income amount (e.g. 25% of first $4,500 and 50% of any excess).

- Extend the current exemption of $3,500 of employment income to any other income.

- Increase GIS amount to compensate indirectly the expected clawback of ORPP or enhanced CPP/QPP (e.g. increase GIS by $2,250 or $4,500).

- Allow lump sum withdrawals from ORPP or enhanced CPP/QPP (as permitted from an RRSP or RRIF, but not from an RPP, LIF or LIRA), subject to immediate taxation, and allow the net withdrawal to be contributed to a TFSA (subject to existing limit or to a new limit).

- A combination of two or more of the above alternatives (see Schedule C for details).

Advantages of Proposed GIS Reform

GIS reform would encourage low to middle income workers to take some responsibility in saving for retirement. Certain potential criticism of an enhanced CPP/QPP would be avoided as subsidies from low earners to high earners would not occur. Such subsidies would make it unfair to a large proportion of workers and politically difficult to obtain widespread support. A fairer, new plan design with more disposable net income for retirees and resulting consumption spending in the short to mid-term, would potentially help in obtaining approval from more provincial governments for an enhancement to CPP/QPP.

Disadvantages of Proposed GIS Reform

There would be resulting cost increases (or foregone savings) under a reformed GIS program (although a recent study by the Chief Actuary concluded that the projected cost of the OAS and GIS programs was expected to remain sustainable over the long term, despite the imminent retirement of the baby-boom generation). In addition, there are potential complexity issues, depending on the details of the reform. Finally, there could be a potential difficulty in reaching a decision, although changes to GIS are within the power of the federal government and do not need consents from provincial governments.

VIII. Conclusion

ACPM hopes that governments and other stakeholders agree with the importance of a comprehensive and uniform approach to addressing retirement readiness concerns regarding middle income earners without access to workplace retirement plans. Our recommended solution both targets the problem and maintains the current balance and diversity of the system.

Schedule A

Common Features of Alternative Proposals Assessed

1. Exempt Employees who are in a "Comparable" Workplace Retirement Plan:

    - Require employers to enrol only employees who are not in a comparable workplace plan.
    - DC plan with same minimum contributions (no need to require higher amount in workplace retirement plan, or if government insists, provide a higher contribution of up to about 1%, e.g. 5% if public plan is 3.8%).
    - Comparison is on contribution amount, so if workplace retirement plan covers more earnings, rate could be lower (see examples below).
    - No need to differentiate employee or employer contributions in workplace retirement plan (i.e. employer minimum contribution).
    - DB (or hybrid) plan with Pension Adjustment (PA) at least as high as for a DC plan.
    - We recommend that a simple system be implemented to easily verify workplace or other comparable plan coverage. We recommend that all employers with workplace retirement plans be entirely exempted, regardless of whether their plans have waiting periods for entry or voluntary enrolment. The key requirement should be that the employer makes available comparable retirement plan coverage for all its employees.

2. Employee and Employer Contributions Rates:

    - 1.9% of target earnings each.

3. Target Earnings:

    - from 50% to 150% of YMPE (approximately $30,000 to $90,000 in 2020)
    - total contribution of 3.8% (employee + employer):
      $0 at $30,000,
      $1,140 at $60,000 (or 1.80% of total earnings);
      $2,280 at $90,000 (or 2.53% of total earnings).

4. Contributions to new public plan produce PA reported by employer in February (as contributions to DC plan or as benefit earned in DB plan).

5. Monitoring and Assessment of Contributions:

    - On yearly tax return, compare target contribution of new public plan based on total employment income reported on tax return (including self-employed earnings), and if reported PA is less, then individual is assessed missing contribution for new public plan (covering both employee and employer portion), which reduces RRSP room like a PA (although Revenue Canada would not actually report a PA).

6. No Portability

    - At termination or retirement, accumulated contributions remain in the new public plan.

7. Decumulation

- At retirement, decumulation is like a DC plan, offering variable payments as with a locked-in retirement account (min/max each year), with option to "annuitize" within the new public plan.

8. Pre-retirement Death Benefit

- In case of death before retirement, accumulated contributions are payable to spouse or estate.

9. Post-retirement Death Benefit

- In case of death after retirement, if member chose to annuitize, normal option is guaranteed 10 years, or 60% survivor (equivalent to G-10) if there is a spouse who does not sign waiver.

10. Provides Pension Benefit Only – No Other Features

- The additional features of CPP would not be offered by this new public plan – for example, pre-retirement benefits, disability benefits, death benefit, dependant benefit.

11. Asset Management

- For CPP/QPP enhancement proposals, the assets would be managed by one investment body (with the exception of Quebec assets) in order to ensure a common rate of return on investments in this new public plan for all participants, portability from one province to another and similar cost of benefits regardless of province. Mandatory PRPP and workplace plans proposals would conform to the current regime with multiple provider options.

Schedule B

ACPM Principles for Mandatory Public Pension Plans:

Principles
1. Limit mandatory coverage of low income workers
2. Focus on target group
3. Simple and efficient administration for governments and employers.
4. Fully fund to avoid inter-generational transfer
5. Phase-in or delay to adjust to contributions.
6. Increase not to crowd out private sector
7. No adverse impact on ITA contribution room or pension benefit limit
8. Ensure tax efficiency
9. Mandatory plan to be national
10. Clear communication to all stakeholders

Schedule C

GIS Issues and Proposals For Reform

The following presents some examples for single retirees who earn the same salary throughout their career, using a projected YMPE of $60,000 in 2020, before and after ORPP, with the benefit formula of 15% of all earnings[17] below $90,000:

Salary	CPP pen	OAS	GIS net	Total	Gross repl.%
15 000	3 750	6 846	7 408	18 004	120%
30 000	7 500	6 846	5 533	19 879	66%
45 000	11 250	6 846	3 658	21 754	48%
60 000	15 000	6 846	1 783	23 629	39%
75 000	15 000	6 846	1 783	23 629	32%
90 000	15 000	6 846	1 783	23 629	26%

Salary	**ORPP**	New GIS net	GIS loss	New total	New repl.%	**ORPP net rate**
15 000	2 250	6 283	1 125	19 129	128%	**7.5%**
30 000	4 500	3 283	2 250	22 129	74%	**7.5%**
45 000	6 750	283	3 375	25 129	56%	**7.5%**
60 000	9 000	0	1 783	30 846	51%	**12.0%**
75 000	11 250	0	1 783	33 096	44%	**12.6%**
90 000	13 500	0	1 783	35 346	39%	**13.0%**

This means that anybody who earns up to approximately $45,000 would be getting only half his (and employer's) money back from the ORPP (or enhanced CPP/QPP). Obviously, this does not take into account the tax deduction obtained up front on his contributions, but their tax rate is well below 50%. It also does not reflect income tax payable on retirement income, if any. This could be seen as a scheme where low income earners get a much worse deal than (or "subsidize") high income earners. This result would be similar to what is already in place with the current CPP. Any retiree who has little retirement income other than CPP ends up repaying 50% of the CPP benefits. Since low income earners are less likely than high income earners to receive substantial other retirement income than CPP, the low-income earners also get a worse deal with CPP than high income earners.

The last column of the above table shows that the net rate of benefits from the ORPP after deducting the GIS loss. This shows that low- to mid-earners get a net rate of only 7.5% while high earners get a net rate of approximately 12%. Would low- to mid-earners be pleased to be forced to join such a plan if they realized this situation? In addition, the low-income earners are already receiving a very high income replacement ratio from existing public plans, so the additional retirement income from ORPP

[17] If the ORPP provides a benefit of 15% of all earnings (up to the maximum specified) without deducting the minimum threshold on which no contributions are made ($3,500), as the CPP also does, then the plan provides a subsidy for low income earners (i.e. higher income earners "subsidize" lower income earners).

(or enhanced CPP/QPP) would probably be a less significant improvement than the burden of being forced to contribute while employed.

Changing the minimum threshold to about $30,000 helps a bit, but still leaves a significant problem for middle-income earners. It could be even better to exclude any earnings below $60,000 (or the YMPE). Here is an illustration with a minimum threshold of $30,000:

Salary	CPP pen	OAS	GIS net	Total	Gross repl.%
15 000	3 750	6 846	7 408	18 004	120%
30 000	7 500	6 846	5 533	19 879	66%
45 000	11 250	6 846	3 658	21 754	48%
60 000	15 000	6 846	1 783	23 629	39%
75 000	15 000	6 846	1 783	23 629	32%
90 000	15 000	6 846	1 783	23 629	26%

Salary	**New ORPP**	New GIS net	GIS loss	New total	New repl.%	**ORPP net rate**
15 000	0	7 408	0	18 004	120%	**N/A**
30 000	0	5 533	0	19 879	66%	**N/A**
45 000	2 250	2 533	1 125	22 879	51%	**7.5%**
60 000	4 500	0	1 783	26 346	44%	**9.1%**
75 000	6 750	0	1 783	28 596	38%	**11.0%**
90 000	9 000	0	1 783	30 846	34%	**12.0%**

A better solution could be to deposit in a TFSA all contributions on earnings below the YMPE (since amounts taken out of a TFSA at retirement are not counted for the GIS clawback rule), although this could entail substantial new administrative challenges, or reform GIS (i.e. address the source of the problem rather than try to work around it).

Potential Reforms for GIS:

1. Do not claw back income from ORPP (or enhanced CPP/QPP).

    - This would be unfair for those who are exempted from ORPP or enhanced CPP/QPP through participation in comparable plans (RPPs), if income from those plans is still clawed back. Even though those comparable plans already had that problem, this could lead comparable plans to close in order for their participants to migrate to ORPP or enhanced CPP/QPP.

    - This could be considered unfair also to CPP/QPP and other personal savings in PRPP, RRSP or RRIF, if those plans remain subject to clawback.

    - Such a reform would thus be fairer if it also exempted from clawback the CPP/QPP and possibly certain types of pillar-3 income.

- If this could be considered seriously, maybe exempting CPP/QPP from the GIS clawback could achieve all the objectives of the ORPP, without having to wait 40 years and with much less upheaval, other than challenges to the Federal budget losing that GIS clawback. Or such a change could be phased in over 40 years, in yearly increments of say $100 or $200 after 2020, similarly to the proposed ORPP. And in order to restrict such a change only to new retirees, as contemplated with the ORPP, this new amount of exemption could be determined based on the year in which each person reaches age 65. For example, someone reaching age 65 before 2020 could get no exemption on their CPP/QPP benefit (as right now), someone reaching age 65 in 2020 could get an exemption for the rest of their life of only the first $200 of CPP/QPP benefit, indexed afterwards, someone reaching age 65 in 2021 could get an exemption of twice that amount, etc.

2. Disregard or exempt a certain amount of any other income from the GIS clawback rule (e.g. first $4,500 or $9,000, which is the target ORPP benefit for earnings of $30,000 and $60,000).

    - This could be limited to ORPP or enhanced CPP/QPP and RPPs (including LIFs and LIRAs, since they result from RPPs) or it could extend to other savings plans (RRSPs, RRIFs, PRPPs) as well, depending on the objective.

    - This would be fairer for those other plans as they would be treated the same way as ORPP or enhanced CPP/QPP, removing the incentive to migrate to ORPP or enhanced CPP/QPP that would exist under the previous section.

    - Since this would address ORPP or enhanced CPP/QPP only indirectly, there would be additional costs related to plans other than ORPP or enhanced CPP/QPP.

    - This would only be a partial solution (i.e. ORPP benefits above that threshold would still affect GIS benefits), and it is not clear at what level such a partial solution should be applied (i.e. it could represent a compromise influenced by political considerations).

    - Since ORPP benefits will be phased in very gradually, this exemption amount could also be phased in (e.g. begin in 2020 at $100, $200 or $250 and increase by the same amount each year over 40 years, plus indexing).

    - The short-term impact would be very small, but projections would be useful to estimate the potential future impact.

    - If the exempt amount is low, the cost impact would be lower and would favour low earners only.

3. Change GIS clawback to different percentages depending on income amount (e.g. 25% of first $4,500 and 50% of any excess).

    - Alternatively, the lower percentage clawback could be applied to ORPP or enhanced CPP/QPP but not to other plans.

    - Same comments as in previous sections.

- By being more lenient for low amounts only, the cost impact would be lower and would favour low earners more significantly.

4. Extend the current exemption of $3,500 of employment income to any other income.

   - If this is intended to address the impact of ORPP or enhanced CPP/QPP, then this change could be phased in over 40 years (or less if desired).
   - This amount would only cover ORPP or enhanced CPP/QPP benefits for those who earn less than approximately $23,000.
   - This amount would need to be indexed to keep up with future increases in salaries and benefits.
   - Since this amount has been at this level for many years, maybe it could be increased to $4,500 (i.e. covering the 15% ORPP benefit for those who earn $30,000) and be indexed after 2020.

5. Increase GIS amount to compensate indirectly the expected clawback of ORPP or enhanced CPP/QPP (e.g. increase GIS by $2,250 or $4,500)

   - Same comments as in previous sections.
   - This amount would need to be only 50% of amounts in previous sections to have the same impact (so this reform may appear to be less substantial and thus be more acceptable politically)
   - This would also produce higher GIS benefits to retirees who do not receive other income, making it more costly.
   - This is comparable to what was already promised by the Liberal during the election campaign[18], so could this be linked to the phase-in of ORPP or enhanced CPP/QPP?

6. Allow lump sum withdrawals from ORPP or enhanced CPP/QPP (as permitted from an RRSP or RRIF, but not from an RPP, LIF or LIRA), subject to immediate taxation, and allow the net withdrawal to be contributed to a TFSA (subject to existing limit or to a new limit).

   - This could be unfair for comparable plans that are exempted from ORPP or enhanced CPP/QPP. Even though those comparable plans already had that problem, this could lead comparable plans to close in order for their participants to migrate to ORPP or enhanced CPP/QPP.

7. A combination of two or more of the above alternatives.

   - A first example would be to:
     - increase GIS by $1,000[19] for all (or $500 each spouse),

[18] The Liberal platform estimated that an increase of 10% (or $920 per year) in GIS for singles would cost $720M in the first year and $840M in the fourth year.

- claw back only 25% of the first $2,250 of benefits from ORPP or enhanced CPP/QPP, and possibly also from RPPs, LIFs and LIRAs,
- index those amounts from 2020.

- A second example would be to:
  - exempt from clawback the first layer of any income under ORPP or enhanced CPP/QPP, and possibly also from RPPs, LIFs and LIRAs (in addition to the current exemption of $3,500 from employment income only),
  - claw back only 25% of the second layer of additional income from benefits under ORPP or enhanced CPP/QPP, and possibly also from RPPs, LIFs and LIRAs,
  - the first and second layer each starting at $100 in 2020 and increasing by $100 for the next 44 years to an ultimate level of $4,500,
  - index those amounts after 2020 (including $3,500 from employment).

Here is the result of implementing the last example of GIS reform above, at the end of the 45 year transition, using the original ORPP benefit formula of 15% of all earnings below $90,000:

Salary	CPP pen	OAS	GIS net	Total	Gross repl.%
15 000	3 750	6 846	7 408	18 004	120%
30 000	7 500	6 846	5 533	19 879	66%
45 000	11 250	6 846	3 658	21 754	48%
60 000	15 000	6 846	1 783	23 629	39%
75 000	15 000	6 846	1 783	23 629	32%
90 000	15 000	6 846	1 783	23 629	26%

Salary	**ORPP**	New GIS net	GIS loss	New total	New repl.%	**ORPP net rate**
15 000	2 250	7 408	0	20 254	135%	**15,0%**
30 000	4 500	5 533	0	24 379	81%	**15,0%**
45 000	6 750	3 096	563	27 942	62%	**13,8%**
60 000	9 000	658	1 125	31 504	53%	**13,1%**
75 000	11 250	0	1 783	33 096	44%	**12,6%**
90 000	13 500	0	1 783	35 346	39%	**13,0%**

The ORPP net rates in the above table appear much more acceptable than in the original table.

Here is the result of implementing the last example of GIS reform above, at the end of the 45 year transition, but changing the ORPP minimum threshold to about $30,000 as suggested previously, with the benefit formula of 15% of earnings between $30,000 and $90,000:

[19] This $1,000 is very close to the increase of $920 promised for singles by the Liberal party, indexed to 2020.

Salary	CPP pen	OAS	GIS net	Total	Gross repl.%
15 000	3 750	6 846	7 408	18 004	120%
30 000	7 500	6 846	5 533	19 879	66%
45 000	11 250	6 846	3 658	21 754	48%
60 000	15 000	6 846	1 783	23 629	39%
75 000	15 000	6 846	1 783	23 629	32%
90 000	15 000	6 846	1 783	23 629	26%

Salary	**ORPP**	New GIS net	GIS loss	New total	New repl.%	**ORPP net rate**
15 000	0	7 408	0	18 004	120%	**0.0%**
30 000	0	5 533	0	19 879	66%	**0.0%**
45 000	2 250	3 658	0	24 004	53%	**15.0%**
60 000	4 500	1 783	0	28 129	47%	**15.0%**
75 000	6 750	1 221	563	29 817	40%	**13.8%**
90 000	9 000	658	1 125	31 504	35%	**13.1%**

However, if the ORPP minimum threshold were changed to $30,000 as suggested previously, the GIS reform would not need to be as extensive. For example, the last example of GIS reform could drop the first layer of exempt income, i.e. the GIS reform could claw back 25% of additional income from benefits under ORPP or enhanced CPP/QPP, and possibly also from RPPs, LIFs and LIRAs, starting at $100 in 2020 and increasing by $100 for the next 44 years to an ultimate level of $4,500, indexed after 2020.

Here is the result of implementing such a GIS reform, at the end of the 45 year transition, combined with changing the ORPP minimum threshold to about $30,000, with the benefit formula of 15% of earnings between $30,000 and $90,000:

Salary	CPP pen	OAS	GIS net	Total	Gross repl.%
15 000	3 750	6 846	7 408	18 004	120%
30 000	7 500	6 846	5 533	19 879	66%
45 000	11 250	6 846	3 658	21 754	48%
60 000	15 000	6 846	1 783	23 629	39%
75 000	15 000	6 846	1 783	23 629	32%
90 000	15 000	6 846	1 783	23 629	26%
92 500	15 000	6 846	1 783	23 629	26%

Salary	**ORPP**	New GIS net	GIS loss	New total	New repl.%	**ORPP net rate**
15 000	0	7 408	0	18 004	120%	**0.0%**
30 000	0	5 533	0	19 879	66%	**0.0%**
45 000	2 250	3 096	563	23 442	52%	**11.3%**
60 000	4 500	658	1 125	27 004	45%	**11.3%**
75 000	6 750	0	1 783	28 596	38%	**11.0%**
90 000	9 000	0	1 783	30 846	34%	**12.0%**