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The Association of Canadian Pension Management

L'Association canadienne des administrateurs de régimes de retraite



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ACPM Response to Ontario Retirement Pension Plan (ORPP) Design Consultation

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FOREWORD

The Association of Canadian Pension Management (ACPM)

The Association of Canadian Pension Management (ACPM) 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.

PREAMBLE

ACPM is pleased to provide our comments on the design parameters of the Ontario Retirement Pension Plan (ORPP). Before moving on to the specific issues and questions that have been raised, we would like to provide you with some thoughts of relevance to the issue of improving retirement income adequacy.

ACPM has a long history of championing improved pension coverage options and we would like to draw to your attention the suggestions contained in our Five-Point plan, "Improving Retirement Income Coverage in Canada". Our Five-Point plan offers well-considered solutions that would bring immediate beneficial improvements to savings opportunities for Ontarians. We believe that proposals reflective of the plan – modernization of key rules around Defined Benefit Plans, the introduction of Pooled Registered Pension Plans (PRPPs) and Target Benefit Plans for single as well as multiple employers – need to be implemented quickly. We have separate, detailed submissions on these innovations to the retirement income system. ORPP is not a replacement for any of these proposals nor should these proposals wait for implementation of the ORPP.

Previously, ACPM submitted to you our "Principles for Mandatory Public Pension Plans" to reflect our view of the way in which the ORPP should be implemented. With that in mind, our comments in this paper are directed to the specific questions raised in your consultations and do not reflect a general position on the ORPP by our members. Rather, we submit these comments to ensure that any changes to our retirement income system will improve saving options and take into account the interrelationships with other parts of our retirement income system.

With respect to these interrelationships, we note the multiple comments in the media, and the reference in the consultation paper, as to the possibility that the ORPP can be integrated with the CPP – which we would interpret as a future increase to CPP that could potentially lead to the termination of the ORPP and the transfer of its contributions and benefits into CPP.

Introducing the ORPP as a measure in lieu of CPP raises real issues as CPP enrichment may take a different form than the benefit structure suggested for the ORPP. Many experts feel that any improvement to CPP should take the form of a higher YMPE and not be designed to raise CPP pensions for all contributors. This view reflects the research that shows the problem of inadequate savings to be most applicable to some middle income earners. This type of targeted problem is likely handled most effectively, and with less expense, via the YMPE.

In this case, what would happen to the ORPP? It is hard to see how the ORPP could easily be replaced by this type of CPP improvement yet the coexistence of the two would certainly lead to considerable over-saving for some Ontarians and a crowding out of other, more appropriate voluntary methods of savings. If this form of CPP enhancement is seen to replace the ORPP, there is the additional issue of what should happen to accumulated contributions already made by employers and employees. The last thing any of us would want is an orphaned ORPP with small amounts of capital and no further contributions due to a CPP enhancement.

SYNOPSIS OF KEY POLICY AREAS

This submission focuses on the following three key policy areas presented in the consultation paper dated December 2014:

1. Definition of Comparable Workplace Pension Plan – The definition should be expanded to include Defined Contribution (DC) Pension Plans (DCPPs) that meet certain thresholds and should set thresholds for Defined Benefit (DB) Pension Plans as well. Other Capital Accumulation Plans (CAPs) should be considered for inclusion in the definition of Comparable Plan as elaborated in our submission. In addition, part-time employees who are working towards eligibility for a comparable workplace pension plan or those who are eligible should be excluded from mandatory ORPP coverage.
2. The Right Minimum Earnings Threshold - The earnings threshold should be set considerably higher than \$3,500/ year in order to avoid forcing those low income individuals to contribute to the ORPP given the little benefit they could receive from it because of the GIS offset, and to ensure the ORPP is targeting the middle income group that is more likely to have income replacement concerns post-retirement. To achieve the objectives of the ORPP for the group of employees who are subject to a material GIS offset, a preferable approach is to establish a provincial group locked in TFSA. The contribution rates could likely be one half of those contemplated by the ORPP with the same level of net benefits, as payments from the TFSA will not be subject to the GIS clawback. We expand on this concept later in this submission
3. Addressing the Needs of the Self-Employed - Changes to the tax structure should be pursued to allow the self-employed to participate in the ORPP.

As a result of our review, many additional issues were identified which we believe should be included in your analysis prior to finalizing the design parameters. The paper indicated that ongoing consultation will occur and we would like to provide additional comments in a separate submission at that time.

Issue 1: Definition of Comparable Workplace Pension Plan

GENERAL

The proposed narrow definition of a comparable workplace pension plan will cause a disruption in retirement savings for those currently participating in all retirement savings arrangements other than DB Plans, and for the employers of these participants. There is a very real risk of a reduction in the overall retirement savings coverage in the province as employers currently offering DCPPs and other CAPs may terminate plans which they would not feel they can support in addition to the ORPP obligation. Additionally, the contributions to existing plans that are not terminated will in all likelihood

be reduced to mitigate the impact of the ORPP obligation. This risk is considerable given the current level of participation in defined contribution and other capital accumulation plans in Ontario.

We support a definition of “comparable” workplace pension plan that includes all defined benefit (DB) pension plans, multi-employer pension plans (MEPPs), target benefit plans (TBPs), hybrid pension plans with a minimum defined benefit guarantee or “backstop”, as the consultation paper suggests, but also DCPPs, and pooled registered pension plans (PRPP), with other types of Capital Accumulation Plans such as group registered retirement savings plans (Group RRSPs) and deferred profit sharing plans (DPSPs) being considered on the basis set out below.

In our view, this understanding of comparable workplace pension plan would most effectively balance the Ontario government’s objective of providing retirement savings coverage to those most in need of assistance while mitigating the risk that implementation will cause a reduction in the overall level of coverage.

DCPPs are regulated under the Pension Benefits Act (PBA), and subject to the same legislated minimum standards set out in the PBA as are DB Plans. These standards include rules related to membership, disclosure, vesting and accrual, locking in, portability, retirement benefits, and spousal rights and estates. The application of these public policy minimum standards should be considered comparable enough to the ORPP to justify an exemption. PRPPs are pension plans that will also be subject to prudential regulation under applicable legislation and administered by a qualified financial institution. Members of a DCPP do have the option of purchasing an annuity and thereby converting their account balance, in whole or in part, into a guaranteed lifetime stream of payments. This is prescribed in the PBA. The fact that most members choose not to do this is not a deficiency of DCPP design, but rather an evaluation by the individual of various factors including the perceived price of the annuity, life expectancy, and many other factors.

Other types of Capital Accumulation Plans such as Group RRSPs, DPSPs, and group tax-free savings accounts are not subject to the minimum standards of the PBA, but most have characteristics that warrant consideration as comparable plans and thus justify an exemption from participating in the ORPP.

Group RRSPs are, as their name suggests, a retirement savings vehicle. As with DCPPs, beneficiaries of a Group RRSP may use the account balance to purchase an annuity. Employer-based Group RRSPs may be subject to locking-in requirements arising from the employment contract. Although this locking-in is not recognized in the Income Tax Act (Canada), practically, it is generally effective in restricting access to the funds until after employment has concluded. Even after employment, the tax liability associated with any material withdrawal will also serve to impede access to RRSP savings.

DPSPs are also generally retirement savings vehicles. DPSPs are generally offered in a workplace in conjunction with a Group RRSP as one unified retirement savings vehicle because the Income Tax Act (Canada) prescribes that contributions to a DPSP can only be made by an employer. The Group RRSP then becomes the receptacle for employee contributions. As noted above, both can be subject to contractual withdrawal limitations imposed by the employment contract. Thus, in practice, DPSPs would warrant consideration similar to Group RRSPs in terms of its eligibility to be a comparable plan.

In order to have the opportunity to at least match the growth of capital that should occur in the ORPP, you may wish to consider a requirement that in order to be considered a comparable plan, DCPPs and

CAPs must have combined employee/employer contributions of at least 3.8%. This is more fully discussed below in our responses to the discussion questions.

Group Tax Free Savings Accounts (Group TFSAs) are a savings vehicle, without any intended duration for the savings, and are not intended to be principally a retirement savings vehicle. We don't consider that there is a basis to include Group TFSAs as a comparable plan. However, we do suggest a potential use of the TFSA vehicle in our comments later in this submission in responding to Issue 2, Question 6. We note that Québec has, however, allowed employers who offer a Group TFSA to be exempt from the requirement to offer a Voluntary Retirement Savings Plan (VRSP).

We suggest that sponsors of all Capital Accumulation Plans, other than Group TFSAs, be treated equally and have access to the option of not participating into the proposed ORPP. These sponsors will compare the relative efficiency of contributing to the ORPP versus keeping their Capital Accumulation Plans. Many of the small CAPs may decide that contributing to the ORPP would be more efficient in part because of lower fees. Others, in particular the larger CAPs, will judge that their plans are as or more efficient as the ORPP while retaining flexibility on how the savings are utilized at retirement. CAP sponsors are justifiably proud of their plans and the role that they play in providing for the financial future of the employees who participate in them. We strongly believe that those CAPs should continue to be an important component of Pillar 3 in our overall retirement savings system, in order to allow individuals and their employers the flexibility of deciding how they wish to supplement the basic benefits provided by Pillar 2, including the new ORPP.

The definition of comparable plan is a key decision for the government. In our view, the proposed restriction to DB Plans only will not serve the principal policy objective of expanding coverage to the 60% who currently do not participate in workplace plans. We would urge government to consider carefully the policy objective behind establishing the ORPP as well as the degree of disruption that the current narrow definition of comparable plan will cause within those workplaces (mostly private sector) that currently offer a DCPP, Group RRSP, with or without a DPSP, a DPSP or any combination of them.

Furthermore, we note that the proposed exemption of DB plans did not specify conditions that would make them comparable to the ORPP. In the same manner that our suggestion above that DCPs be considered comparable on the condition that the contribution rate be at least equal to 3.8%, it would be preferable to specify a similar condition for DB plans. Small DB plans or those that do not require significant "contributions" will often not be as efficient as the ORPP may be in generating a meaningful retirement outcome. Therefore you should consider requiring that those DB plans have a current service cost (including employer and employee portions) of at least 3.8% of pay, or that DB plan members be considered exempt only if their pension adjustment (PA) exceeds 3.8% of their eligible earnings. One advantage of referring to the PA would be to accommodate hybrid plans, since the PA is meant to reflect both DB and DC accruals.

We would also like to raise the issues of waiting periods and part time employees which we believe requires further consideration by the government.

Waiting Periods

Provincial legislation allows employers to impose a waiting period before a new employee can join and begin to accrue benefits under the employer's pension plan. If a new employee quits or is terminated during the waiting period, he or she has no entitlement to pension benefits. Similarly, if an individual's

employment is temporary, there is no entitlement to pension benefits under the plan. Whether employers and employees participating in comparable plans will be required to contribute to the ORPP during waiting or temporary periods of employment is a controversial issue.

It would seem contradictory to permit a waiting period under the legislation and then mandate contribution to ORPP during the permitted period.

In addition, employers offering comparable pension plans with significant benefits will likely view as inappropriate an obligation to cause its employees to participate in the ORPP during a waiting period. If the employee has a long career with the employer, at retirement he or she will receive a generous pension from the employer's plan and only a nominal ORPP benefit based on the very short period of contributions during the waiting period. Requiring employers that offer generous pension plans to participate in the ORPP in these situations may cause some employers to reconsider their retirement benefit structures which in turn will affect the overall retirement savings rate.

Part Time Members

Many employers have part-time workers who do not qualify for the workplace pension plan. Based on the current definition of comparable plan, part-time employees would participate in the ORPP while the full-time employees would not. This would require the employer to administer two separate pension arrangements. We suggest the following potential solutions: the ORPP could exclude part-time employees of an employer with a comparable pension plan or the pension standards legislation could be adjusted to allow employers to cover a lower tier of benefits for part-timers to avoid the two plan administration issue.

DISCUSSION QUESTIONS

Question 1 *The government's preferred approach remains a CPP enhancement. Therefore, the definition of "comparable" should be determined with a view to maintaining the potential for integration with the CPP in the future. With this in mind, should the definition of "comparable" workplace pension plan mirror the key features of the CPP and ORPP?*

The ORPP would require employee and employer contributions at 1.9% each. In our view the combined employer and employee contribution rate of 3.8% that has been proposed is an important benchmark. We support a definition of comparable workplace pension plan that, in addition to defined benefit ("DB") plans and target benefit multi-employer pension plans ("MEPP"), includes defined contribution ("DC") pension plans and other Capital Accumulation Plans ("CAP"), excepting TFSA's which meet threshold criteria. In our opinion, a comparable Capital Accumulation Plan should be determined on the basis of contribution level rather than the benefit level provided. In our view, any DC pension plan, pooled registered pension plan or other retirement savings vehicle which has a combined contribution rate of 3.8% or higher should be considered comparable. We realize that not all CAPs with low contributions will be able to produce a retirement income comparable to the indexed ORPP. However, we believe that sponsors should be left with the responsibility of comparing the efficiency of these plans with the ORPP taking into account the flexibility of their own plans. Some will judge that ORPP is a more efficient way of accumulating capital and will elect to participate. Others will judge that their plan is more efficient.

Another characteristic that should be considered is that the covered earnings under a comparable plan might not be defined exactly as under the ORPP, as long as the resulting contribution amount is comparable. The same could be said about a contribution formula that applies a different rate on two tiers of earnings.

With respect to DB plans, we believe comparability should include a test on the level of benefits, but since DB plans may have various types of ancillary benefits that might differ from the ORPP; we suggest that such a test require either a current service cost (including employer and employee portions) of at least 3.8% of pay, or a pension adjustment (PA) of at least 3.8% of pay. The latter option would be useful for hybrid plans, since the PA reflects the theoretical value of both DB and DC components.

It is important to note that not all DB plans will provide an indexed benefit of 15% income replacement nor will most DC pension plans with a 3.8% contribution. We believe that many of the larger Capital Accumulation Plans will be able to exceed the target of 15% income replacement if the contributions are in excess of 3.8%, the fees charged to members' accounts are low and the plan offers attractive investment options and options for the conversion of capital into income. We are concerned about the conversion of capital into income and the pension industry and ACPM are committed to improve the tools available at retirement. Nevertheless, we do not think it would be practical to attempt to differentiate between those plans that can exceed the 15% target and those for which this would be a challenge.

We believe our suggested definition of comparable plan would allow integration of the ORPP with the Canada Pension Plan ("CPP") in the future should changes that are proposed follow a similar model of increased contributions and benefits. However, it is important to note that the CPP has a much broader scope than the scope that has been proposed for the ORPP and the ORPP is proposed to have a higher earnings cap. These differences will need to be accommodated in any future integration.

Question 2 Which features of the CPP and the ORPP would be the most important to capture in a "comparable" plan?

- a. For example, how important is protection against longevity risk in a mandatory retirement savings vehicle?***
- b. Similarly, how important is protection against investment risk in a mandatory retirement savings vehicle?***

Our view is that the proposed contribution rate for the ORPP is an important defining feature in a comparable plan. As noted in the answer to Question 1 above, we support a definition of comparable plan that includes pension plans with a combined contribution rate (or PA) of 3.8% of covered earnings or higher.

We agree that protection against longevity risk is important in a mandatory retirement savings vehicle. In our view, inclusion of protection against longevity risk in the ORPP is preferable, however this risk can be managed if desired in comparable plans through current options such as annuities. Members of DCPs have a right to annuitize (as do those with Group RRSPs and DPSPs). The purchase of an annuity protects plan members against longevity risk by providing for a stream of guaranteed payments. In addition, new rules have been proposed recently to allow DC plans (and PRPPs) to provide pension payments, and ACPM supports such new options.

We agree that the pooling of investment risk is desirable in a mandatory retirement savings vehicle. However, it is important to note that investment risk can be pooled in DCP and CAP structures. In addition, the typical investment structure of a DCP or CAP is already pooled.

Question 3 Are there circumstances under which other retirement savings vehicles such as DC plans should be considered comparable?

- a. For example, would establishing a minimum employee/employer contribution rate (that would provide for a similar benefit to the ORPP) for DC plans help make DC plans comparable?***
- b. Similarly, would requiring members to convert a portion of savings in a DC plan to an annuity upon retirement help make DC plans comparable? If so, would Ontario's insurance industry have the capacity to offer affordable annuities on this scale?***

We have noted above our view on what is a comparable plan.

It should be emphasized that the ORPP could have substantial implications for employers in Ontario who presently offer retirement savings plans not considered comparable. Many Ontario employers offer generous DC or other plans which have a combined contribution rate of 3.8% or higher. A decision by the Ontario government deeming such plans non-comparable could cause employers to cancel and exit their current DC plans upon implementation of the ORPP. The Consultation Paper notes that "in 2013, almost 400,000 Ontarians participated in a DC plan." Therefore, the impact of such an approach will be significant and could lead to a considerable reduction in overall retirement savings and benefit for Ontario employees.

In our view, also noted above, the option to convert a portion of savings in a DC plan to an annuity upon retirement reduces the longevity risk of DC plan design. However, in our view, the conversion to an annuity should remain optional and members should be permitted to convert when they wish to do so. Flexibility is important as the interest rate at the time of conversion to an annuity has a tremendous impact on the annuity level.

In addition, we note that while there are certain advantages to the locking-in of benefits, Ontario pension legislation permits unlocking to a certain extent and, in our view, the ORPP rules should be consistent with other provincial legislation, including allowing comparable plans to reflect the locking-in and unlocking rules in the pension legislation.

The Consultation Paper asks whether the Ontario insurance industry would have the capacity to offer affordable annuities on a larger scale. A Canadian annuities market does exist, and it is about \$2B per year for just the annuities purchased by pension plans, and growing. We are confident that this market will adapt to an increase in demand for this product, in particular, for unindexed pensions. Many DB sponsors will be analyzing whether their risk should be transferred to insurance companies through the purchase of annuities and we see that insurance companies are interested in meeting this need. Furthermore, the introduction of ORPP will have little immediate impact on the demand for annuities.

Question 4 Employers have multiple and complex retirement savings arrangements.

- a. How would employers currently offering non-comparable plans expect their plans to work alongside the ORPP?**
- b. How much time would employers need to take stock of their current approaches and make decisions about the right compensation mix going forward?**

As discussed in the answer to question 3 above, our view is that the implementation of the ORPP could cause employers currently offering non-comparable plans to cancel and exit their plans. Given the current level of DC plan coverage in Ontario, this could cause a considerable decrease in retirement benefits in the province.

We believe it is also important to recognize that the employer contribution required by the ORPP is effectively an increase in the minimum wage. The impacts of the ORPP will be felt more acutely by small businesses and businesses which pay the minimum wage.

In our view, the issue of the phase-in of the ORPP is largely about the time that the provincial government will require in order to set up the ORPP and its related administrative structures, and to review the framework following implementation.

We note that the concern regarding the responsive decrease in retirement coverage could be mitigated by a phased-in approach to implementation of the ORPP. A phased-in approach would permit the Ontario government to analyze initial responses to the program and to make any necessary adjustments prior to full implementation. We propose that implementation of the ORPP be phased-in beginning with those employees who currently have no DB Plan or CAP coverage.

We note that the provincial government would likely be required to phase-in implementation of the ORPP in the collective bargaining context. Collective agreements generally establish wages and provide for scheduled increases in compensation and benefits. Employers generally cannot override provisions in a collective agreement during the contract term. In our view, employers should have the option to adjust salaries downwards or refrain from salary increases to account for the additional amount they will be required to contribute to the ORPP on account of each employee. Employers do not have this option during the term of a collective agreement, therefore we propose that implementation of the ORPP be delayed until contract expiry. We note that the collective bargaining timetable suggests that a long period of time may potentially be required prior to full implementation.

Question 5 In your view, what would be the best definition of “comparable” workplace pension plans?

Our view is that all DB plans, MEPPs, target benefit plans, hybrid pension plans with a minimum DB guarantee or “backstop” and all DC plans and certain CAPs with a combined contribution rate of 3.8% should be deemed comparable. We believe that this expanded definition will prevent the termination of some CAPs and that sponsors will make responsible decisions on whether to participate in the ORPP.

Issue 2: The Right Minimum Earnings Threshold

GENERAL

The issue of a minimum earnings threshold that would not be covered by the ORPP is an issue that the ACPM has already highlighted in its position paper published in June 2014. Our position paper states that the current OAS and GIS “already provide lower income workers with income replacement ratios considered to be sufficient to maintain their standard of living in retirement.” The position taken in our paper was that “lower income Canadians do not need additional retirement savings through expanded public pension plans”.

Before we proceed to answer directly the questions posed in the consultation document, we would offer the following comments:

1. Setting the minimum threshold at \$3,500 is not appropriate unless the current GIS (and GAINS) rules are modified. If the Ontario government decides to modify only the GAINS rules, then it would end up subsidizing the Federal budget in the future.
2. Even though it is true that applying the same minimum threshold as the CPP for contributions represents a minor simplification for administering payroll deductions, it would not be difficult to apply a different minimum threshold, since it would already be necessary to apply a different maximum and a different percentage.
3. Based on the above comments, the lowest the threshold should be set is approximately \$20,000.
4. Regardless of the amount selected, the objective of equitable financing could be violated if the ORPP replicates the CPP’s subsidy of crediting benefits on earnings below the minimum threshold for which no contributions are made (e.g. someone earning \$4,000 contributes on just \$500 but earns benefits on the full \$4,000). Therefore the carve-out for contributions should also apply for benefits, which should not represent a major complication for the ORPP administrator.

DISCUSSION QUESTIONS

Question 1 Does mirroring the CPP minimum earnings threshold strike the appropriate balance between contributing and accruing benefits?

In our view, the minimum threshold should be higher than under the CPP. But regardless of the amount of the minimum threshold, it should apply to both contributions and benefits, in order to have adequate financing and to avoid subsidies.

Question 2 If not, what should be the minimum earnings threshold for the ORPP? What are the potential tradeoffs?

Setting the threshold at around \$20,000 would mean, obviously, that the ORPP includes a lot more workers than if it is set at a higher level, including as high as \$50,000. However, many workers earning \$20,000 could still be affected by a GIS reduction, especially if they have little or no other type of

retirement savings. In fact, even workers earning \$50,000 who have no other type of retirement savings could be affected by a GIS reduction.

Unless the current GIS rules are revised, from a strict pension design perspective, the minimum threshold could be as low as approximately \$20,000 (or maybe 35% of YMPE) or as high as approximately \$50,000 (or maybe 100% of the YMPE). The point to underline is that any threshold below the YMPE will produce unfair GIS reductions for some workers. With a higher threshold, a reasonable tradeoff would be to increase the percentages of individual earnings paid as benefits (e.g. maybe 25% instead of 15%).

Question 3 *There will be administrative complexities if the minimum earnings threshold is different than that of the CPP. How might this affect different employers?*

In our view, applying a different minimum threshold should not be considered a significant administrative complexity, because employers would already have to contend with some differences in other features.

Question 4 *Are there other potential implications of a \$3,500 minimum earnings threshold that are not addressed in this paper?*

The current GIS rules lead us to recommend that no additional contributions be required for low earners. If additional contributions are required from low earners, then not only are they being penalized by being “taxed” (by the GIS reduction) at 50% at retirement, but they are also getting, on average, less benefits for their contributions because the average life expectancy for low earners is lower than for high earners. Regardless of the threshold, earnings that are excluded for contribution purposes should also be excluded for benefit purposes.

Question 5 *Are there other ways that Ontario could help address concerns about the ability of persistently low-income workers to contribute and accumulate benefits?*

Other ways to address such concerns could be to modify current rules for GIS or GAINS, or possibly to allow low earners to opt-in, or to be automatically enrolled with the possibility of opting out. Another alternative that might be considered in order to address the problem with the potential GIS reduction would be to set up part of the ORPP as a component that is considered a Tax Free Savings Account, since TFSA amounts have no impact on GIS. See our answer to question 6 below for more details.

Question 6 *Should Pillar 1 supports, including the GIS and GAINS, be changed so that future low-income seniors do not experience reduced benefits as a result of higher ORPP benefits?*

In our view, changing GIS and GAINS would be essential if the minimum threshold is set at \$3,500. However, since we believe that changes to GIS would be very difficult to implement, given that the Federal government would need to be involved and any changes would be national in scope, we consider it preferable not to set it as low as \$3,500. But since the Ontario government is able to modify its own GAINS program, it could consider the following possibility.

The Ontario government could set up a second tier to its GAINS program as a vast group TFSA to include contributions of 1% of all earnings up to the YMPE, from all employees and employers, possibly enrolled automatically with the possibility of opting out. To achieve the objectives of the proposed ORPP, the government could decide that the amounts in this group TFSA would remain locked-in until retirement. These contribution rates can be only one-half of those contemplated for the ORPP, and yet deliver the same level of net benefits, because the benefits will not be subject to the 50% GIS clawback. Obviously the contributions would not be deductible for employees, but since they would be paid from low earnings, the applicable tax deductions would have been relatively small. The contributions would be deductible to employers as it is a form of employee compensation, which is then directed as contributions to employee accounts, just like current Group RRSP rules. The government could avoid one of the disadvantages of GRRSP contributions by exempting such GTFSA amounts from some payroll taxes applicable under provincial programs. And the impact of such small amounts, capped at \$536 per year for employees and employers (\$536 is 1% of the 2015 YMPE), should not create that much of a disruption in the current system, especially since it is announced in advance and can be coordinated with potential salary adjustments. The Ontario government could administer the TFSA contributions very efficiently through one of the existing public sector investment funds, as recommended by the recent Morneau report. And the details on how the accumulated funds would be paid out as benefits at retirement could be fine-tuned at a later stage following a more specific consultation. If such a second-tier GAINS program were implemented in 2017, it could help to accomplish a major portion of the ORPP objectives for the near term and allow more time to agree with other governments on how to expand the CPP, possibly by simply increasing the YMPE since the second-tier GAINS would have greatly provided for the needs of low earners.

Issue 3: Addressing the Needs of the Self-Employed

DISCUSSION QUESTIONS

Question 1 Self-employed individuals will not be able to participate in the ORPP, given the current rules under the federal Income Tax Act (ITA). Should Ontario engage in discussions with the Government of Canada to amend the ITA rule in order to allow the self-employed to participate in the ORPP?

According to the consultation document, the self-employed would not be allowed to participate in the proposed ORPP, because of a tax rule governing RPPs. This rule requires that there must be an employment relationship. This rule was designed to prevent potential tax abuse should the self-employed be able to register their own pension plans. Indeed, complicated tax limits are also applicable to employees who are deemed to be significant shareholders.

The intent of those rules should not be to prevent the inclusion of self-employed from a quasi-public plan with modest benefits, such as the ORPP. The self-employed would not be able to obtain additional tax benefits by participating in the ORPP versus employees. Therefore, we would support a request to the federal government to allow the self-employed to participate.

Question 2 What can be done with regards to improving financial literacy among the self-employed? What role can the financial services sector play in educating the self-employed?

The self-employed include a wide range of workers and it is difficult to obtain a single picture of their financial literacy needs. In our view, the financial literacy needs of self-employed are not significantly different from employees to justify special initiatives. The government should first aim at improving the financial literacy skills of all Canadians.

Question 3 How else could the government assist self-employed individuals in achieving a secure retirement future?

Typically, fees are higher for an individual RRSP than in an RPP. Therefore, the self-employed should be more concerned that they have access to efficient products. We suspect that many have a poor understanding of what fees they are paying on their RRSP and how this affects their future retirement income. Better disclosure of RRSP fees would help self-employed, as well as others. A public campaign illustrating the importance of fees management would also assist.

Access to the proposed PRPP would provide another option to the self-employed. The legislation governing PRPP should allow this. And the PRPP providers could be required to accept contributions from self-employed, as is the case in Québec.

CONCLUSION

We appreciate the opportunity to provide ACPM's comments on the proposed design features of the ORPP and we are committed to participate in ongoing dialogue on the design, delivery and administration leading up to the implementation. We would be pleased to make ourselves available to discuss or expand upon our responses to the questions raised.