February 19, 2015

Ontario Retirement Pension Plan: Key Design Questions
Budget Secretariat
Ministry of Finance
3rd Floor, Frost Building North
95 Grosvenor Street
Toronto, ON M7A 1Z1

Dear Sir/Madam:

The Canadian Institute of Actuaries (CIA) is the national organization of the actuarial profession. The CIA establishes the Rules of Professional Conduct, guiding principles, and monitoring and discipline processes for qualified actuaries. All members must adhere to the profession's Standards of Practice. The CIA follows its Guiding Principles, including Principle 1, which holds the duty of the profession to the public above the needs of the profession and its members. The CIA also assists the Actuarial Standards Board in developing standards of practice applicable to actuaries working in Canada.

We are pleased to be able to offer the following comments on the document Ontario Retirement Pension Plan: Key Design Questions that was published in December 2014. The actuarial profession takes a keen interest in retirement issues, as a significant proportion of our membership is employed in the pension practice area. This submission will reiterate comments made in our meeting with Associate Minister Hunter in December, and will provide additional insights.

Actuaries practising in the retirement industry have a wide range of opinions and views on the ORPP and the specific design questions currently being discussed. Therefore, what we are providing below is broad input on various actuarial considerations, as opposed to specific responses to the questions posed within the document.

Risk Framework

The CIA recommends that a risk analysis framework be implemented as part of this project, so as to avoid poor plan design decisions.

Some of the key risks that need to be considered are:

- Unintentional wealth transfers from one generation to another;
- Patterns in Ontario longevity that differ from the rest of Canada;
- Mismatch between benefit liabilities and the assets backing them;

1740-360 Albert, Ottawa, ON K1R 7X7 613-236-8196 613-233-4552
head.office@cia-ica.ca / siege.social@cia-ica.ca **cia-ica.ca**

- Changes to individual savings patterns due to the implementation of the ORPP; and
- Concentration risk if employers terminate or reduce benefits in their existing plans.

The actuarial profession is qualified to help the government understand how to manage these risks, and to balance any conflicting perspectives.

Office of the Chief Actuary

Similar to our federal counterparts, the CIA recommends that an Office of the Chief Actuary for Ontario be established, with responsibility for all actuarial and advisory services for the Government of Ontario. Actuaries are experts in pension plan design, and are experienced in taking the long-term views that are essential in the management of a pension income system.

We also recommend that actuaries be involved in the design process for the ORPP. We should note that it has been 50 years since the implementation of the Canada Pension Plan (CPP) and Québec Pension Plan (QPP), so many of the actuaries familiar with the establishment of a public retirement system are likely either retired or employed by the Office of the Superintendent of Financial Institutions or the Régie des rentes du Québec. Sufficient time should be given to source suitable candidates for this role.

Funding

We recommend that any new benefits introduced under the ORPP be fully funded, especially if the desire is to potentially integrate the ORPP with the CPP. As a result, there are a number of issues related to funding that need to be examined:

- If ORPP members only receive benefits that are actually earned through their contributions, then the provision of full funding is less of a challenge, but the retirement income gaps identified would then not be addressed for as many as 40 years.
- Alternatively, if there is a desire to address those gaps immediately, then full funding will necessarily lead to subsidies to retirees from future generations of taxpayers. The fairness of these intergenerational inequities needs to be considered. Any intergenerational transfers should be made transparent to plan participants.
- Maintaining full funding in today's volatile economic environment has proven to be very difficult.
- Plan members need to be aware that full funding implies that there are no "windfall" benefits, and that increased income after retirement needs to be offset by reduced consumption before retirement because of the larger required contributions.

Design and Administration

As an overall comment, we caution that the administrative work associated with a plan such as the ORPP should not be underestimated. Record-keeping, reporting, communications, and integration with existing retirement plans all need to be completed on a timely basis and with accuracy. It will be necessary to seek specialized advice on all these aspects.

The document states that the ORPP is being designed as a multi-employer pension plan (MEPP). Actuaries who work with existing MEPPs acknowledge that there are challenges having both predictable costs and predictable benefits (similar to those in defined benefit, or DB, plans), so these challenges should not be underestimated.

We are also concerned that administration of the plan will become quite complex for part-time workers, those working for more than one employer, and those who move out of province. Keeping track of a mobile workforce will be a significant challenge.

The legislation governing the CPP contains an “automatic balancing mechanism”, whereby changes to contribution rates and benefit indexing are triggered if the contribution rate is no longer able to sustain the system. It should be determined whether the ORPP will include a similar provision.

Integration with Existing Government Programs

Careful consideration should be given to how the ORPP interacts with existing government pension plans; specifically the CPP, Old Age Security (OAS), Guaranteed Income Supplement (GIS), and Ontario Guaranteed Annual Income System (GAINS). If, for example, ORPP benefits are subject to a clawback for those receiving GIS and GAINS, then lower-income workers will be contributing 1.9% of their pay and receiving no additional benefits. The impact of ORPP on GIS and OAS entitlements will need to be considered as well. Once these interactions are clearly defined, it may be that the optimal level for the Year’s Basic Exemption is different from the current CPP level of $3,500.

We also note that the intention is to have the ORPP registered under the Income Tax Act. Consequently, the impact on other registered plans will need to be determined; specifically:

- The extent to which participation in the ORPP will reduce available Registered Retirement Savings Plan (RRSP) contribution room; and
- How the maximum benefit available under a registered pension plan (RPP) will be affected.

Impact on Existing Employer-Sponsored Plans

The implementation of the ORPP, in addition to the recently introduced Pooled Registered Pension Plan (PRPP), has the potential to make the current retirement savings system more crowded and more confusing to individuals.

The definition of a “comparable” plan needs to be very clearly defined, as there are many variations on registered arrangements. That being said, the document does indicate that a DB plan meets the definition of a “comparable” plan, and its members will not be required to enrol in the ORPP. However, a defined contribution plan does not meet this definition. This could affect both types of arrangements:

- Employers with defined contribution plans may not want to carry the cost of participating in both their own plan and the ORPP, and thus may cut back or discontinue their own plans.
- Employers with modest DB plans may opt for whatever arrangement is more cost-effective for them; i.e., their own plan, or the ORPP. Hence, some generous plans may be wound up.

Therefore, the potential impact on the private pension system needs to be thought through.

We also assume that individuals not in a comparable plan will be mandatory participants in the ORPP, and that individuals in a comparable plan are prohibited from joining the ORPP. Otherwise, this would create a system that is impossible to administer, and would result in a serious anti-selection problem, as older workers (for example) would be expected to elect to join the ORPP in disproportionate amounts. This would also create situations where employers with comparable plans could be compelled to additionally contribute to the ORPP, which runs counter to the reasons for having comparable plans in the first place.

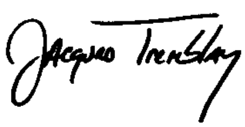
Currently, the portability option within DB plans effectively converts a DB entitlement to a defined contribution. It would appear that this portability option would thus not be appropriate when the ORPP is implemented, so this provision may need to be eliminated. Similarly, the rules regarding use of locked-in funds, and the related unlocking provisions, will need to be reviewed.

DB plans also often have waiting periods from hire to eligibility, and these may exclude part-time workers or those in probationary periods. This will add an additional layer of complexity when it comes to determining who is in the ORPP and who is not. A similar issue exists with group RRSPs and deferred profit-sharing plans where employer contributions are suspended for a period when a plan member makes a withdrawal.

Conclusion

The Canadian Institute of Actuaries hopes its comments provided herein will be of value. We once again thank you for offering us the opportunity to respond, and would welcome the chance to participate in additional meetings to further discuss these issues in more depth.

Respectfully submitted,



Jacques Tremblay
CIA President
jacques.tremblay@cia-ica.ca