

GETTING IT RIGHT: THE BUSINESS PERSPECTIVE ON THE UNDERSAVING CHALLENGE IN ONTARIO

Submission to the Ministry of Finance on the proposed Ontario Retirement Pension Plan

About the Ontario Chamber of Commerce

The Ontario Chamber of Commerce (OCC) is an independent, non-partisan business network. Our mission is to support economic growth in Ontario by advocating for pro-business policies and defending business priorities at Queen's Park.

For more than a century, the OCC has been providing our members with practical supports, advantageous network opportunities, and access to innovative insight and analysis. We represent local chambers of commerce and boards of trade from communities across Ontario. Through this network we are the voice of 60,000 members that range from small businesses to major corporations and industry associations.

Together, our members employ approximately two million people and produce nearly 17 percent of Ontario's GDP. The OCC is Ontario's business advocate.

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Associate Minister Hunter,

Thank you for the opportunity to express our members concerns regarding the design of the Ontario Retirement Pension Plan (ORPP).

The past few years have been challenging for the businesses that operate in Ontario. Global growth has been slow, domestic demand has been weaker, and, for a variety of reasons, the cost of doing business in Ontario has continued to rise. As the province continues its recovery, and as its prospects begin to improve, we want to ensure that businesses are afforded the opportunity to grow and succeed in the global economy, for the benefit of all Ontarians.

This is why, when the government decides to take action to solve a particular problem, we want to ensure that its programs and policies are designed in the most effective manner possible to accomplish that goal. We do not want these policies to hinder the province's economic recovery and job creation.

It is with this perspective that we present our submission on the proposed design of the ORPP.


The ORPP is being implemented to tackle the so-called "undersaving challenge" facing Ontarians. We do agree that some Ontarians are facing a retirement savings challenge, and because of this, a majority of our members believe that pension reform should be a priority. However, our members are concerned that the government is proposing a blanket solution to a narrow undersaving problem that requires a targeted approach.

As a result, our members question whether the ORPP is the most effective solution to this problem. The data and evidence presented by your government to date has not yet convinced them that the potential costs will outweigh the benefits. They are also worried about the unintended consequences of implementing this new pension plan on the business community, the broader economy, and existing savings.

This submission summarizes the results of numerous consultations with our membership and the broader business community. It also aggregates the results of repeated surveys of employers across the province.

Thank you for taking the time to both meet with us on this issue and to review this submission.

Sincerely,



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A PROBLEM WITH THE PROBLEM DEFINITION

Our members agree that some Ontarians are not saving enough to maintain their standard of living in retirement. However, the problem is more nuanced than how the government described the “undersaving challenge” in its December consultation document, and the target group of undersavers is smaller. As a result, the ORPP unnecessarily adopts a blanket approach to solve a narrow problem.

According to recent analyses by the federal Working Group on Retirement Income Adequacy and McKinsey & Company, a large majority of Canadians and Ontarians are on-track to maintain their standard of living in retirement. In a comprehensive survey of Canadian households, McKinsey estimates that 83 percent of households in 2014 are on track to maintain or exceed their level of consumption in retirement. This number has stayed robust over the past few years.

For modest-income earners, government-funded retirement income programs, such as the Guaranteed Income Supplement (GIS) and Old Age Security (OAS), effectively replace pre-retirement income to maintain standards of living in retirement. Enrollment in a new, mandatory pension plan would do little to enhance their retirement preparedness. In fact, the high GIS clawback rate could make low-income individuals with more retirement savings income worse off.

Middle- and high-income earners, for which GIS and OAS do not sufficiently replace pre-retirement income, are at greater risk of undersaving, as noted in the government’s 2014 Budget and Long-Term Report on the Economy. However, these individuals have access to a range of tools to enhance their retirement readiness, including workplace retirement savings plans and private savings vehicles. Most of these earners are well-prepared for retirement.

According to McKinsey’s analysis, the retirement challenge is most acute for middle- to high-income households which either (1) have access to a DC-type plan but do not participate enough, or (2) do not have an employer plan and do not save enough on their own. However, this only amounts to about 12 percent of all Canadian households.

For this group of households, a mandatory increase in retirement savings would be beneficial. However, since this group is a minority of the total population, this problem warrants a targeted approach.

72%

the proportion of employers who believe that pension reform should be a priority for government*

83%

the proportion of households in Ontario that are on track to maintain or exceed their level of consumption in retirement**

*OCC Membership Survey, February 2014 | n=987

** McKinsey & Company, 2015

^ OCC Membership Survey, February 2015 | n=1136

The ORPP, however, is not targeted. Instead, to increase retirement savings for those individuals that are most at risk of undersaving, the ORPP will increase mandatory retirement savings for the roughly three-quarters of Ontario workers that do not have a defined benefit workplace pension plan, even if the majority of them are saving enough for retirement.

The ORPP, as currently designed, is a blanket solution to a narrow undersaving problem. We are convinced that a more targeted approach to boosting retirement income for this at-risk group of Ontarians would be more effective and have fewer unintended consequences for the province, as detailed in the following sections of the submission.

THE ORPP WILL INCREASE COSTS TO EMPLOYERS AND HURT ONTARIO'S COMPETITIVENESS

In the 2014 Budget, the government estimated that approximately \$3.5 billion will be contributed to the ORPP by employers and employees annually. This will have an immediate negative impact on consumer spending. By requiring mandatory contributions from employers, it will also increase the cost of doing business in the province.

In its discussions of the economic impact of the ORPP, the government often refers to a report by David Dodge and Richard Dion which states that increased retirement savings is a net benefit to the economy: any short-term economic slowdown brought on by reduced consumer spending will be outweighed by the greater economic benefit of increased spending by individuals in retirement, as well as increased investment.

The report adopts a broad, macroeconomic perspective of the effects of retirement savings on domestic demand, investment, and the economy in general. This perspective is valid, but gives short-shrift to those sectors that are particularly susceptible to payroll costs and face intensifying global competition. In a recent survey of our membership, only 25 percent of businesses believed they could afford the costs associated with increased employer pension contributions. Our concern rests with the other 75 percent of businesses who can't afford these new costs.

The report also fails to consider the cumulative impact on the business climate in Ontario, where the cost of doing business has been on the rise. Over the past few years, Ontario businesses have been subject to growing electricity prices, some of the highest Workplace Safety and Insurance Board (WSIB) rates in the country, and an uncompetitive regulatory burden.

26%

the proportion of businesses who can afford the costs associated with increased employer pension contributions[^]

44%

the proportion of businesses who will reduce payroll or hire fewer employees in response to the ORPP[^]

With so few businesses able to absorb another added cost, what will be the consequences of the ORPP for employment and wages in the province? What will be the ORPP's impact on foreign direct investment, job creation, and Ontario's competitiveness? What will happen to those businesses who cannot afford to adopt the mandatory contributions under the new pension scheme? Recent OCC survey results reveal that, in response to the ORPP, 44 percent of businesses will reduce their current payroll or hire fewer employees in the future.

Another consequence of the ORPP, which the report does not touch on, is the fragmentation of Canada's retirement savings landscape. In particular, by moving ahead with a standalone mandatory pension plan, the province will be adding complexity to the regulatory environment for Ontario businesses, particularly for those that operate in multiple provinces and countries. How will this impact the province's competitiveness? With an added cost to operating in the province, will businesses be deterred from investing in Ontario?

At the same time, businesses are wary of a new pension scheme that requires a considerable amount of new spending and investment by government. In the context of a large deficit and growing debt, where the government has already committed to significant investments in infrastructure and education, are the government's limited resources well spent investing in an entirely new pension bureaucracy?

At a minimum, to provide clarity to the business community and the public around these potential impacts, the government must conduct a comprehensive and publicly available economic analysis of the new pension plan before it moves forward with implementation of the ORPP.

THE ORPP WILL PENALIZE EMPLOYERS AND EMPLOYEES THAT ARE CONTRIBUTING TO A SECURE RETIREMENT FUTURE

Our members are also concerned with the government's preferred definition of a "comparable" pension plan, as outlined in its consultation document. This definition has serious consequences for the retirement savings landscape and savings in Ontario.

First, employers contribute to their employees' retirement savings through a variety of plans, which include DC plans, group RRSPs, DPSPs, and group TFSA's, among others. These plans often involve contribution levels above those stipulated for the ORPP; for example, the average company contribution rates to DC plans and group RRSPs

86%

the proportion of businesses who believe that Ontario should pursue other retirement savings options, such as PRPPs[^]

in Canada are 5.2 percent and 4.3 percent, respectively. Considering these plans non-comparable would punish those businesses who have already contributed to strong retirement savings for many Ontarians.

Second, by adding costs to businesses that already contribute to robust workplace retirement savings plans, the government will be counteracting its desired goal of increasing Ontarians' retirement savings. For example, employers who offer non-comparable retirement savings plans might choose to reduce the contributions in these plans to offset the new costs incurred by the ORPP. Alternatively, employers might choose to scrap their plans altogether. For the employees of these firms, the ORPP will not provide a net increase in their retirement savings.

Third, the ORPP could erode the three pillars approach to the retirement income system in Canada by replacing private with public savings. Most of the workplace retirement savings plans made available to Ontarians by the private sector are non-comparable under the government's preferred definition. Reduced demand for these savings plans brought on by the ORPP (described earlier) could disrupt the balance of public-private in the province.

Indeed, introducing PRPP legislation alongside the ORPP seems like a counter-intuitive approach. With an implemented ORPP, classifying PRPPs as non-comparable vastly reduces their utility and uptake as a savings vehicle for employers, particularly for those who do not currently offer a workplace plan. This approach will prevent PRPPs from being a successful, targeted policy solution to help address the undersaving challenge.

It is for these reasons that we strongly urge the government to revise its definition of a "comparable" workplace pension plan to include other workplace retirement savings plans, such as DC pension plans, PRPPs, group RRSPs, DPSPs, and group TFSAs, which often provide the same or greater retirement benefits to Ontarians who contribute to these plans as the proposed ORPP.

CONCLUSION

In summary, to date, our membership of 60,000 businesses remains unconvinced that the government's proposed solution will be an effective response to Ontario's retirement savings challenge. Further, they are concerned about the unintended consequences of this solution.

Our members still do not have a clear understanding of how the ORPP will impact Ontario's business climate and the broader economy. The government needs to conduct an economic impact analysis on crucial factors, like job creation, wages, and foreign direct investment, before moving any further with the implementation of the new pension plan.

With many effective workplace retirement savings plans available to Ontarians, provided by a world-class financial services sector that is based in Ontario, we are concerned that the ORPP might punish those employers and employees who have been steadily contributing to their retirement savings. The government should reconsider its definition of a comparable pension plan to accommodate these plans.


The Ontario Chamber of Commerce and the entire Ontario chamber network intends to remain very engaged on the pension issue. We look forward to coming to a solution that effectively addresses these concerns.

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Thank you,



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