

# An Employer Perspective on **FIXING ONTARIO'S PENSION PROBLEM**

# An Employer Perspective on **FIXING ONTARIO'S PENSION PROBLEM**

## Consultation Report



### About the Ontario Chamber of Commerce

The Ontario Chamber of Commerce (OCC) is a business network of 160 local chambers of commerce and boards of trade in 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 over two million people and produce nearly 17 percent of Ontario's GDP.

Visit us at [occ.ca](http://occ.ca) and follow us @OntarioCofC.



### About the Certified General Accountants of Ontario

CGA Ontario is a self-governing body that grants the exclusive rights to the CGA designation, and controls the professional standards, conduct and discipline of its members and students in the province of Ontario. Certified general accountants (CGAs) are committed to meeting the needs of businesses and organizations with strategic insight, leadership and demonstrated abilities. In Ontario, there are more than 22,500 CGAs and 9,000 students working toward their designation. CGA Ontario is committed to supporting students in achieving a professional accounting designation.

An Employer Perspective on Fixing Ontario's Pension Problem

by Eva Majernikova, Jim Nicholson and Ted Wigdor

ISBN Print: 978-1-928052-04-3

ISBN PDF: 978-1-928052-03-6

©2014 Ontario Chamber of Commerce

# CONTENTS

Introduction.....	2
What We Did.....	3
Ontario's Pension Problem .....	3
The Case for Change.....	6
Summary of Current Proposals .....	8
The Principles of Reform.....	12
Resolving the Pension Problem: Employer Perspectives .....	14
Conclusion.....	20
Appendix 1: OCC Resolution on PRPPs.....	21
Bibliography.....	22



# 1. INTRODUCTION

Ontario has a pension problem. Too many Ontarians will not have enough money when they retire.

Employers in the province are concerned. There are clear moral imperatives for ensuring that Ontarians are able to maintain their standard of living late in life. There are also clear economic imperatives. The long-term economic prosperity of Ontario hinges on the purchasing power of the large cohort of future retirees. The long-term fiscal health of government is contingent on limiting the number of seniors reliant on taxpayer-funded income assistance.

The Government of Ontario is considering both a government-managed and a private sector solution to Ontario's pension problem. The former proposal is an enhancement of the existing Canada Pension Plan (CPP) or the introduction of a new Ontario Pension Plan (OPP). The latter proposal is the introduction of Pooled Registered Pension Plans (PRPPs), which are managed by regulated financial service providers.

In January and February 2014, the Ontario Chamber of Commerce (OCC) and the Certified General Accountants of Ontario (CGA Ontario) partnered to consult employers on these proposals and solicit their views on Ontario's pension future. This paper reflects the results of these consultations.

**We found that employers want solutions that support rather than impede our long-term competitiveness, that are targeted to those groups that require additional pension support, and that build on the province's status as a global leader in financial services. Weighed against these and other objectives, employers are firmly in favour of PRPPs. They are much less supportive of enhancing government-managed programs.**

Employers recognize that there are no quick and easy fixes. Ontario's pension problem requires a long-term perspective and a comprehensive solution that results in seniors maintaining a good quality of life after retirement.

It is important to note that we did not present the proposals as mutually exclusive during the consultations. While employers were asked to weigh the relative merits of each proposal individually, they were not precluded from expressing support for more than one. However, the results of our consultations and survey suggest a strong preference for PRPPs over both an enhanced CPP and the introduction of an OPP.

## 2. WHAT WE DID

The OCC and CGA Ontario hosted seven employer roundtables.<sup>1</sup> We spoke with local chambers of commerce and boards of trade from across the province, along with large and small businesses, financial service providers, and financial advisors. This paper presents their views on the parameters of pension reform.

We also surveyed close to 1,000 companies to obtain their views on the various options.

The consultations did not consider the relative merits of defined benefit versus defined contribution plans. They also did not consider public sector pensions. The scope of our consultations was limited to a discussion of the adequacy of the current pension framework and the proposals currently being considered by the Government of Ontario.

## 3. ONTARIO'S PENSION PROBLEM

Employers and experts recognize that the time is right for an in-depth public conversation about Ontario's pension system, which many argue is unsustainable. The following factors are combining to exert pressure on Ontario's pension system:

**Canada's population is aging.** Seniors comprise the fastest-growing age group in Canada. There are an estimated five million Canadians 65 years of age or older. This number will double to ten million by 2036. By 2051, about one in four Canadians is projected to be 65 or over (Employment and Social Development Canada, 2011). As noted in Figure 1, 23 percent of Ontario's population will be of retirement age by 2036.

---

<sup>1</sup> Roundtables were held with OCC members in Guelph, Toronto (2), Oshawa, Sarnia, and Sudbury. The OCC and CGA Ontario also hosted a consultation with chamber executives from across the province.

Figure 1: Percentage of Ontario population in retirement age



Source: Employment and Social Development Canada, 2011.

**Many workers have no workplace pension.** Close to 1.3 million workers in Ontario do not have access to any type of employer-sponsored workplace pension plan. Less than one-quarter of workers in Ontario's private sector participate in an employer-sponsored workplace pension plan (Ontario Ministry of Finance, 2010).

Further, more than 90 percent of new jobs over the last decade were created by small and medium-size enterprises with fewer than 500 employees. The vast majority of small businesses do not have a retirement plan in place for their employees. Unless action is taken to facilitate retirement savings in the workplace, the gap between "pension haves" and "pension have-nots" will continue to widen.

**Meanwhile, many Ontarians are not saving adequately for retirement.** Individuals typically require 50 to 70 percent of their pre-retirement income to maintain their standard of living in retirement. Many Ontarians, including middle- and higher-income earners, are not saving enough to meet this target. As Figure 2 illustrates, Canada's household savings rate has dropped steadily from 15-20 percent of disposable income in the 1980s to as little as 4 percent today (CIBC, 2013).

As a result, many Canadians may have to access taxpayer-funded income assistance, defer their retirement date, remain in, or return to the workforce.

“Ground zero is the wage earner at \$30,000 per year up to \$100,000. This group is not adequately prepared for retirement and the Canada Pension Plan, Guaranteed Income Supplement and Old Age Security combination really isn't sufficient to give them the funds to live on.”

Jim Leech, CEO, Ontario Teachers' Pension Plan;  
Toronto Star

Figure 2: Household Savings Rate in Canada as a percentage of annual household disposable income



Source: Statistics Canada; CIBC, 2013.

**Pensions are a shared federal and provincial responsibility.** Each government has limited scope for unilateral action in the pension space.

The federal government has the constitutional authority to create public pension schemes, such as the CPP, Old Age Security (OAS), and the Guaranteed Income Supplement (GIS). The federal government also has legislative authority over pensions in federally regulated industries (airlines, banks, etc.). The provincial and territorial governments have legislative authority in provincially regulated industries.

Comprehensive reform of Canada's public pension schemes requires the support of the federal government and two-thirds of the provinces representing two-thirds of the population, which is hard to achieve. Though most governments agree that pension reform is required, progress has been slow. Instead of collaborating, governments are pursuing unilateral action within their limited scope of authority. Unilateral action could result in a shoddy patchwork of fixes and further muddle accountability in the pension space.

## 4. THE CASE FOR CHANGE

Figure 3 demonstrates that pension reform is a priority for business. There is a clear moral imperative—society has a vested interest in ensuring that individuals do not live out their retirement in poverty. There are also strong economic imperatives.

First, the pension system is foundational in maintaining retirees' purchasing power and aggregate consumer spending. Given Ontario's pending retirement bulge, finding ways to help Ontarians save more for their retirement is vital to the province's long-term prosperity.

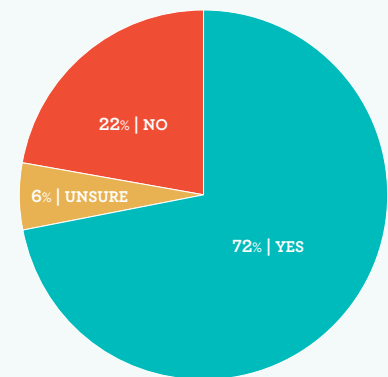
Second, a pending increase in both the absolute numbers of seniors and the portion of seniors without adequate income represents a potential and substantial drain on government and taxpayers.

Combined, OAS and GIS represent the single largest expense in the federal budget. Both are used to supplement the incomes of low income seniors and both are funded by general government revenues (i.e. by personal and corporate income tax, among other sources). The 2014 federal budget predicts that, over the next seven years, support for low-income retirees will jump by about \$40 billion to \$54 billion—from 16 to 19 percent of total federal spending.

“The question is, do we want to be penny wise and pound foolish? We have to consider that we'll either pay today or pay tomorrow. Paying tomorrow will have significant costs in both fiscal terms and in socioeconomic terms.”

Participant from the consultation in Guelph

Figure 3: Do you think pension reform should be a priority for government?



Source: OCC Membership Survey, February 2014  
| n=987



## ENHANCING FINANCIAL LITERACY

We live in a world where financial decisions are becoming increasingly complex, and where ways of accessing financial products and services are multiplying rapidly. Financial literacy means having the knowledge and skills to make responsible financial decisions with confidence. In today's complex society, young people need a wide range of skills and knowledge to make informed choices.

Our members clearly recognize the importance of improving financial literacy. Enhanced financial literacy would likely lead to much greater use of existing savings tools such as Tax-Free Savings Accounts (TFSAs) and Registered Retirement Savings Plans (RRSPs), which would go a long way towards addressing the predicament of Ontarians not saving sufficiently for their retirement.

The OCC and CGA Ontario membership both advocate building more financial literacy programming into the curriculums at all levels of the education system.

“Financial illiteracy is fundamental to the problem. Young people don't understand marginal tax rates, mortgage amortization, tax shelter savings, etc. They aren't going to make wise financial decisions without a proper knowledge base.”

Participant from Oshawa

“Financial literacy should be woven into the curriculum at all levels.”

Participant from Sarnia

## 5. SUMMARY OF CURRENT PROPOSALS

Two proposals are currently dominating the conversation around Ontario's pension problem.

One proposal is to enhance government-managed pension plans. This could include expanding the CPP or creating an OPP to supplement the current CPP, which is funded equally through employer and employee contributions.

The other proposal on the table is to introduce legislation to permit the establishment of PRPPs in Ontario. PRPPs are workplace pension plans that self-employed individuals and employers who lack a private workplace pension plan can implement. PRPPs are administered by licensed financial institutions. The Government of Ontario recently released a discussion paper to solicit opinions on a PRPP framework for the province.

### About the CPP

The CPP pays monthly benefits to people who have made contributions to the plan over the course of their working lives. The CPP is a mandatory pension program for employed and self-employed Canadians, and is intended to replace 25 percent of career average annual pensionable earnings up to a limit (currently \$52,500). The maximum CPP retirement benefit for new retirees in 2014 is \$1,038.33 per month, or \$12,460 per year. However, most beneficiaries do not receive the maximum pension benefit. The average pension paid in October 2013 to a new retiree was \$7,130 per year, or about 57 percent of maximum benefits (Canada Revenue Agency, 2014).

Administered by the federal government through Service Canada, the CPP is funded by mandatory employer and employee contributions and investment earnings on those contributions. Employees and employers each contribute 4.95 percent of that employee's pensionable earnings to the CPP. Self-employed individuals contribute 9.9 percent of their pensionable earnings.

## About the Proposed Ontario Pension Plan

Details with respect to the proposed OPP are scarce. However, it is expected that the OPP will be modeled after the CPP, complete with mandatory matching employer contributions. The Government of Ontario has recently appointed former Prime Minister Paul Martin as a special advisor on retirement income and has created the Technical Advisory Group on Retirement Security to study the potential implementation of the OPP.

The proposal to create an OPP is a response to federal reluctance to enhance the CPP. Manitoba and P.E.I. have joined Ontario in exploring separate provincially administered pension plans.

## About Pooled Registered Pension Plans

PRPPs are a new type of tax-assisted retirement savings plan that are intended to ease the burden of saving for retirement for self-employed individuals and employees of small businesses. PRPPs reduce much of the costs, administrative overhead, and risk that may deter smaller employers from offering their employees conventional workplace pension plans.

Additional design parameters are discussed on page 10. However, designed properly, PRPPs may be an attractive workplace pension option for small employers.

## KEY CHARACTERISTICS OF POOLED REGISTERED PENSION PLANS:

PRPPs are managed by regulated financial services providers.

The employer or self-employed individual first selects a provider (financial institution), then a plan design from those offered by the provider.

The plan design sets out the employer and employee contribution rates, as applicable, and a “menu” of investment options for employees.

The employer remits employer contributions and employee contributions to the provider as per the selected plan design.

The provider invests the remitted contributions as per each participant’s investment choices (or, if no choices are made, in a “default” investment option).

Since the PRPP is administered by the financial institution, the employer has limited fiduciary responsibility vis-à-vis the performance of the investment options.

PRPPs are portable from one workplace to another.

The employer’s PRPP contributions are tax-deductible and excluded from an employee’s salaried compensation. PRPPs are not subject to Employment Insurance premiums or CPP contributions, resulting in more favourable tax treatment than RRSPs.

By enabling financial institutions to offer “off the shelf” pooled investment options to a multitude of employers, PRPPs facilitate economies of scale. These economies of scale enable fund managers to offer high quality, professionally managed funds to PRPP participants for a lower fee than can be provided to “retail” investors.

The Government of Ontario has signaled that it will introduce legislation to enable PRPPs, and is now consulting on design parameters. The Government of Canada has enacted legislation to create a PRPP regulatory framework for federally regulated industries, such as banking, broadcasting, and airlines.

Separate legislation is required at the provincial level for the implementation of PRPPs in provincially regulated sectors. To date, Quebec, Alberta, and Saskatchewan have passed legislation to permit PRPPs. PRPP-enabling legislation in British Columbia has passed first reading at the time of writing.

Of the above plans, only the Quebec equivalent is fully operational. Currently, all employers with 20 or more employees are required to offer Voluntary Retirement Savings Plans (VRSPs); by 2018, employers with five or more employees will be required to offer VRSPs. Employers will have the option to contribute or not. All employees with at least one year of uninterrupted service with an employer are automatically enrolled. Employees, however, can opt-out.

Under the federal, Alberta, Saskatchewan, and B.C. PRPP frameworks, employers have the option to offer and contribute to PRPPs. They also mandate auto-enrollment for employees.

## 6. THE PRINCIPLES OF REFORM

Employers agree that we must enhance the pension system. These enhancements, however, must be informed by principle and evidence. Employers assessed the options according to the following six principles.

**Pension reform should not impact Ontario's long-term competitiveness.** Any changes to the pension system must be made with consideration of the business climate. Employers are concerned that increased mandatory payroll taxes, for example, could discourage firms from hiring new employees and from investing in Ontario, particularly in a context where they already face steep increases in the cost of energy, dollar volatility, and uncertainty in the public policy environment (including potential corporate tax hikes).

**Pension reform should build upon Ontario's global expertise in pension investment.** Ontario is a recognized global leader in the investment of pension assets. Toronto is home to three of the world's 50 largest pension funds. Combined, these three companies have more than \$300 billion in assets under management. These large pension funds also have a worldwide reputation for excellence in governance, risk management, and innovative approaches to asset management. We should take advantage of the unique expertise and capacity in Ontario to provide more efficient, lower-cost retirement solutions.

**Pension reform must target individuals that need additional pension support.** Blanket reforms that capture and impose unnecessary costs across populations that do not require additional assistance should be avoided.

**Administrative costs should be minimized for both governments and business.** The responsibility for pensions is shared between federal and provincial governments. Government should aim to streamline the administration of the pension system, avoiding where possible additional layers of bureaucracy that must eventually be paid for by employers and employees. Correspondingly, pension reform should seek to minimize direct administrative burdens on employers.

“ The issue of pension reform cannot be considered in isolation from the general business environment and has to be nestled in a broader conversation. Given rising energy prices, minimum wage increases, and a potential hike to the corporate income tax rate, there is a strong sentiment against adding to the financial burden on employers. ”

Chamber of Commerce Executive

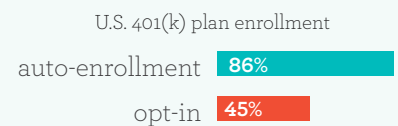
**Solutions should encourage individual agency and choice.** Employers and individuals should be encouraged to take responsibility for their financial futures. That said, reform to the pension system should be made in consideration of important insights from behavioural economics: individuals, despite good intentions, tend to delay or avoid taking action in their long-term interest.

Governments should ‘nudge’ employers and individuals to save for retirement through the design of choice sets. As Figure 4 demonstrates, automatically enrolling employees into pension plans, while giving them the ability to opt-out, has proven to be extremely successful in improving coverage ratios.

**Pension reform should be pan-Canadian.** The intergovernmental fragmentation of Canada’s pension system is costly. It increases administrative overhead for governments and adds costs for employers who operate across provincial boundaries. Pension reform, to the extent possible, should be harmonized and pan-Canadian.

“ We cannot shift all the accountability from the individual—telling people that government will take care of it for you. ”  
Participant from Toronto

**Figure 4: If auto-enrollment is built in, it can double coverage of eligible employees.**



Source: Manulife Financial, 2012.

“ A fundamental underlying principle should be: *no more unique provincial pension plans*. If we are going to be introducing something new, it needs to be national. ”  
Participant from Toronto

## 7. RESOLVING THE PENSION PROBLEM: EMPLOYER PERSPECTIVES

This section aggregates employers' perspectives on the two main options being considered by government: enhanced government-managed programs, (which includes an enhanced CPP or the introduction of the OPP), and the introduction of PRPPs.

### EMPLOYER PERSPECTIVE ON ENHANCING GOVERNMENT-MANAGED PENSION PLANS: Net Negative

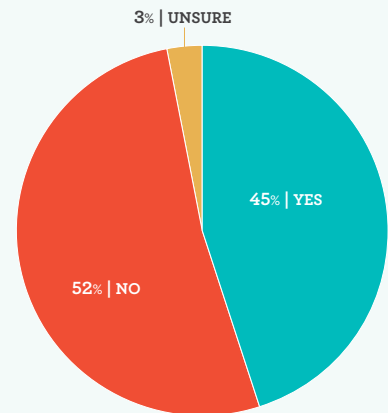
There are several advantages to enhancing the CPP. It brings broad social benefits by providing a secure, fully indexed, fully portable, defined benefit pension option to virtually all working Canadians. Its scale enables investment across a diverse set of assets—which serves to maximize returns while minimizing volatility—and lowers investment costs relative to smaller-scale retail solutions.

By expanding an existing program, enhancing the CPP is a cost-effective option, in terms of overall investment costs. Enhancing the plan also offers a harmonized pan-Canadian solution to the pension problem.

However, there are significant downsides to this approach. Enhancing the CPP would fail to target only those individuals who require additional pension support. Instead, this move would unnecessarily increase pension contributions and impose additional financial burdens on individuals who are already well served by existing savings and pension frameworks.

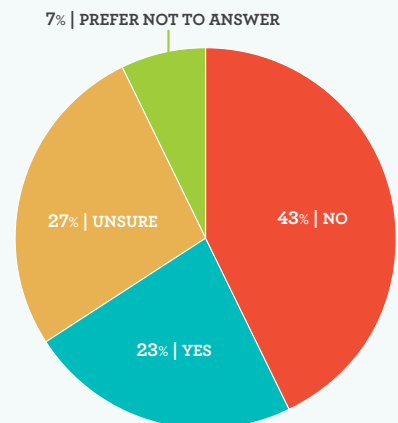
Further, the CPP has a redistributive function. Unlike RRSPs and other private savings vehicles, CPP assets do not transfer to beneficiaries upon death, beyond a one-time, \$2,500 death benefit. Individuals who live longer benefit more, while those who die prematurely benefit less. Given that high-income earners tend to have longer life spans, enhancements to the CPP could end up disproportionately benefitting those who need it least.

Figure 5: Should government enhance the Canada Pension Plan (CPP) by requiring employers and employees to pay higher CPP premiums?



Source: OCC Membership Survey, February 2014  
| n=987

Figure 6: Can your business/organization afford the costs associated with increased employer pension contributions?



Source: OCC Membership Survey, February 2014  
| n=987



Employers were also concerned about the implications of increased premiums in the context of a fragile economic recovery and an uncertain public policy environment. Employers face a number of challenges, including rapid increases to already relatively high energy prices, fluctuations in the Canadian dollar, pending increases in the minimum wage, and potential increases to the corporate income tax rate. Higher CPP premiums would increase the cost of labour, deter hiring, and hurt the province's overall economic competitiveness.

Employers identified one caveat. Our survey confirms a net negative sentiment among employers toward CPP enhancement. However, some employers at our consultations expressed support for the federal position that CPP enhancement may be more palatable during a period of sustained and more robust economic growth.

“The problem is, for those people between the poverty line and the lower middle class, this won't help them. CPP enhancement will most benefit individuals who earn more than the CPP earnings limit, but it will also mean more contributions for the lower middle class.”

Peer reviewer

### Employer Perspective on the Ontario Pension Plan

The second government-managed solution considered is the creation of an OPP. There are few details about the plan. However, pending the final design parameters, many of the concerns regarding the CPP are likely to apply.

A standalone Ontario solution prompted a number of additional concerns. First, employers are wary of the potential financial and administrative costs imposed by a unique, provincially-designed pension system. They question the need for an additional layer of pension bureaucracy when the CPP is internationally recognized for its prudent and effective management of Canada's pension assets.

Second, employers question the rationale for pursuing an idiosyncratic enhancement to our pension system when the federal government, B.C., Alberta, and Quebec have done the due diligence and committed to PRPPs.

Employers are concerned that an idiosyncratic Ontario approach to pension reform would further fragment Canada's pension landscape, adding complexity and costs for employers, particularly for those who operate in more than one province.

Of the two government-managed options, employers have a strong preference for an enhanced CPP. Only 31 percent of the respondents to our survey who support the CPP enhancement support the idea of a made-in-Ontario solution.

### EMPLOYER PERSPECTIVE ON POOLED REGISTERED PENSION PLANS: Net Positive

Weighed against the principles identified above, employers were substantially more supportive of the PRPP proposal.

First, CPP enhancement is a blanket solution capturing those who may not require additional pension support. PRPPs, meanwhile, would target the 1.3 million workers without access to any workplace-based retirement savings vehicle.

Most workplace savings plans are prohibitively complex and administratively costly for small and mid-sized employers, who typically have limited human resources staff. The high costs can put small employers at a disadvantage when competing for talent with larger firms or the public and broader public sectors.

“ We cannot afford a made-in-Ontario solution. ”  
Participant from Sarnia

“ Another level of government? More complexity? Are you kidding me?! ”  
Participant from Oshawa

“ It's always cheaper to modify an existing program than to set up a new one. ”  
Participant from Sarnia

PRPPs would provide a viable workplace pension plan for small employers for whom the group RRSP option is less palatable due to higher investment fees and the applicability of payroll taxes.

PRPPs also enable a greater degree of choice for employers and employees. Pending certain design parameters (discussed below), employees who are already saving enough can opt-out. Additionally, those employers who feel they can afford to and/or need to offer additional benefits to attract and retain employees can choose to contribute to their PRPPs.

However, there are also disadvantages inherent to the PRPP model.

PRPPs represent a further registered savings vehicle in an already crowded space, which includes individual and group RRSPs, deferred profit sharing plans and tax-free savings accounts. Relative to an enhanced CPP, the addition of PRPPs will add more complexity to the pension space—but probably much less complexity than the creation of an OPP.

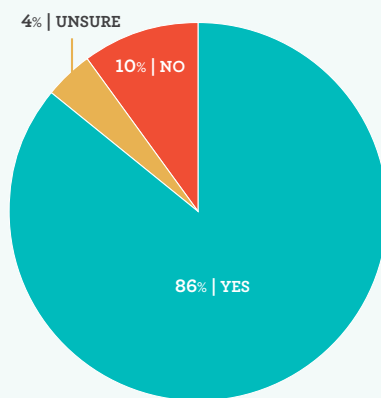
This challenge can be overcome through robust communications by financial institutions who offer PRPPs and the employers who choose to implement one for their workforce.

While the administration of PRPPs would be shared across a number of private players in the pension industry, the aggregate administrative costs that result would be higher than a government-managed pension system.

There was also some concern expressed that there would be insufficient competition in the PRPP provider space. Employers want as much competition as is prudent. The marketplace should be open to duly licensed financial institutions of all sizes.

Despite some drawbacks, a number of Canadian jurisdictions recognize that the benefits of PRPPs outweigh the disadvantages and are much more supportive of this option than the government-managed options.

**Figure 7: Should Ontario pursue other options, such as PRPPs?**



Source: OCC Membership Survey, February 2014  
| n=987

“ I think PRPPs are the most flexible option for SMEs. They can contribute if they have the cash, and opt not to if they’re struggling. ”

Participant from Sarnia

## PRPPs: Employer Perspective on the Fine Print

As noted, the Government of Ontario is currently consulting on design parameters with respect to PRPPs. We asked employers for their views on the fine print. The following reflects their input.

### Design Parameter 1: Universal coverage

Opinion was divided on whether employers should be required to offer PRPPs in their workplaces. Overall, however, employers recognized PRPPs require scale if they are to be a low cost, practical, and encompassing solution to Ontario's pension problem.

Achieving the necessary scale likely requires that PRPPs be universal and mandatory for employers. Employers were adamant, however, that they should be able to keep their existing pension plans and be exempt from PRPP participation. Employers also felt that very small employers should also be exempt. There was no agreement on the threshold for this exemption.

### Design Parameter 2: Employer contributions need to be optional.

While employers accept the need for universal coverage, they were not supportive of mandatory employer contributions. Many employers stated that they would contribute in order to attract and retain employees. Others felt that they were not in a financial position to contribute at this time but would if/when their bottom lines improve.

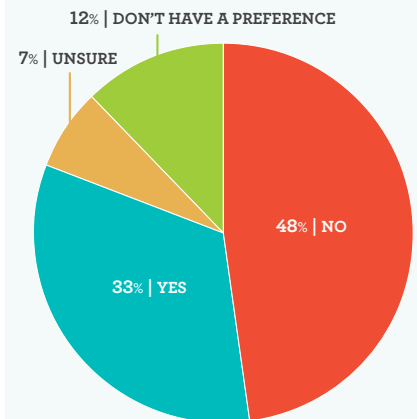
### Design Parameter 3: Auto-enrollment

We asked employers whether employees in a workplace that offers PRPPs should be automatically enrolled in the plan (with the option to opt-out) or whether they need to self-select and opt-in. In our survey, the plurality of employers generally supported auto-enrollment for employees (with an "employee opt-out" option). Once presented with the advantages and disadvantages during our consultations, employers were more supportive of auto-enrollment.

### Design Parameter 4: Locked-In Contributions

Employers favoured locking-in the pension contributions with limited exceptions, such as those under Locked-In Retirement Account (LIRA) programs (see textbox on page 19).

**Figure 8: Should Ontario employers who offer a PRPP be required to contribute to the plan?**



Source: OCC Membership Survey, February 2014  
| n=987

“ I have an issue with the opt-out. If people choose to opt-out, I'll still pay for them through taxes in the end. ”

Participant from Oshawa

“ I think auto-enrollment with opt-out is a given. Anything else will fail as a public policy. ”

Participant from Guelph

## LOCKED-IN RETIREMENT ACCOUNT (LIRA) AND THE LOCKED-IN RETIREMENT SAVINGS PLAN (LRSP)

LIRA and the LRSP are investment accounts designed specifically to hold locked-in pension funds for former plan members, former spouses or common-law partners, or surviving spouses or partners. Funds held inside LIRAs/LRSPs will normally only become available (or “unlocked”) to holders upon retirement. However, there are certain exemptions which provide special access to locked-in money. It is the responsibility of the financial institution, which holds and administers their clients’ locked-in accounts, to review each application to unlock funds on a case-by-case basis.

There are four categories of exemption, based on financial hardship:

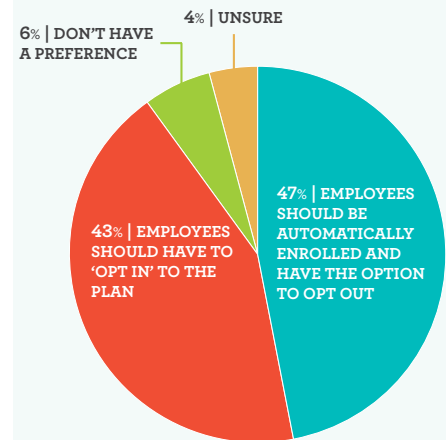
1. low expected income;
2. payment of first and last months’ rent;
3. arrears of rent or debt secured on a principal residence (such as a mortgage); and
4. medical expenses.

Money withdrawn from locked-in accounts in Ontario is subject to income tax, which may be withheld at the time the withdrawal occurs.

### Design Parameter 5: Open and Competitive Marketplace

The design of the program should ensure that both small and large service providers have access to the PRPP marketplace. Licensed PRPP providers (administrators) should be held to a high regulatory and legal standard of care.

Figure 9: PRPPs - Employee Enrollment



Source: OCC Membership Survey, February 2014  
| n=987

“ There are a lot of employees who are choosing not to participate in employer-offered plans. It drives employers crazy because they’re essentially offering free money, but they can’t get employees to actually fill out the paperwork. ”

Participant from Guelph

# CONCLUSION

Fixing Ontario's pension problem must be a priority. All Ontarians have a stake in ensuring that the pension system is adequate and enables people to retire comfortably and without worry. Employers want a pension system that meets this challenge and preserves their capacity to compete globally.

Having identified the principles that should inform pension reform and weighed the options, employers resoundingly endorse efforts to improve financial literacy. They are also heavily in favour of PRPPs over the enhancement of government-managed programs. PRPPs are targeted to the population group who needs pension most, will take advantage of and help build additional critical mass in our world-leading financial services sector, and enable a greater degree of choice for employers and employees, who may or may not need additional pension assistance.

Employers urge the province to act quickly and to join the other jurisdictions in Canada that have legislation in place that enables PRPPs. The longer we wait, the bigger the gap between Ontario's 'pension haves' and 'pension have-nots' will widen.

# APPENDIX 1: OCC RESOLUTION ON PRPPs

Allowing Pooled Registered Pension Plans (PRPPs) in Ontario

(Submitted by the Greater Kingston Chamber of Commerce and the Belleville & District Chamber of Commerce)

## Issue

Approximately 1.3 million workers in Ontario do not have access to any type of pension plan at the workplace. PRPPs are low-cost, professionally-managed, and transferable pension plans that can help fill the pension void. The Ontario government has yet to enact the legislation and regulations required to implement PRPPs in the province.

## Background

For the past 20 years, the percentage of Ontario's workforce covered by an occupational pension plan has been declining (Ontario Expert Commission on Pensions, 2008). Only 35 percent of Ontarians are covered by an occupational pension, down from 40 percent in 1985, and below the current Canadian average of 39 percent.

Ontario's occupational pension coverage gap, if left untreated, will force a significant number of Ontarians to rely on sub-optimal pension and retirement savings (Ontario Ministry of Finance, 2010). New vehicles for occupational savings plans are needed.

PRPPs are part of the solution to Ontario's occupational pension shortfall. PRPPs will extend access to an affordable retirement savings option to hundreds of thousands of Ontario workers who do not currently have access to any type of pension plan in the workplace.

PRPPs can be offered by Canadian employers through regulated financial institutions (like banks and insurance companies). A PRPP pools funds together in order to achieve economies of scale.

Perhaps most importantly, PRPPs can be accessed by the self-employed and small and medium-sized

enterprises, where the occupational pension shortfall is most severe.

In late 2012, relevant federal regulations stemming from the *Pooled Registered Pension Plans Act* came into force. It is now up to Ontario to enact the required legislation and regulations that will allow PRPPs to be implemented in the province.

As the Ontario government considers legislating PRPPs in Ontario, it should also move to strengthen other elements of the province's retirement income system. Namely, the federal tax rules governing Group Registered Retirement Savings Plans (GRRSPs) may require modifications to bring them in line with those rules that would govern PRPPs. GRRSPs are an integral part of Ontario's current retirement income system and experts agree that GRRSPs and PRPPs are complimentary savings vehicles.

## Recommendations

The Ontario Chamber of Commerce urges the Government of Ontario to:

1. Enact legislation that will allow Ontario residents, notably those who work for small and medium-sized businesses, to take advantage of the benefits of low-cost and accessible Pooled Registered Pension Plans.
2. Ensure that Ontarians have the flexibility of using individual and group registered retirement savings plans (GRRSPs) so that they retain access to a broad array of retirement savings options.

Effective Date: May 3, 2013

Sunset Date: May 3, 2016

# BIBLIOGRAPHY

Canada Revenue Agency. 2014. *CPP contribution rates, maximums and exemptions*. Online: <http://www.cra-arc.gc.ca/tx/bsnss/tpcs/pyrll/clcltng/cpp-rpc/cnt-chrt-pf-eng.html>

Canada's Public Policy Forum. 2014. *Pension Reform in Canada: The way forward for coverage and sustainability*. Draft Toronto Roundtable Summary Report.

Carrick, R. 2013. *Toward a Zap-Free Retirement*. Globe and Mail. Online: <http://investdb2.theglobeandmail.com/servlet/ArticleNews/story/GAM/20131031/GICARRICK1030ATL>

Department of Finance Canada. 2014. *2014 Budget Plan*. Online: <http://www.budget.gc.ca/2014/docs/plan/pdf/budget2014-eng.pdf>

Employment and Social Development Canada, 2011. Online: <http://www4.hrsdc.gc.ca/.3ndic.1t.4r@-eng.jsp?iid=33>

Manulife Financial. 2012. *Canadian Retirement Savings and Pooled Registered Pension Plans (PRPPs)*

McKinsey & Company. 2013. *Are Canadians Ready for Retirement? Current Situation and Guiding Principles for Improvement*. Online: [http://www.mckinsey.com/locations/Canada/~media/Reports/Canada/Are\\_Canadians\\_Ready\\_for\\_Retirement\\_04May2013.ashx](http://www.mckinsey.com/locations/Canada/~media/Reports/Canada/Are_Canadians_Ready_for_Retirement_04May2013.ashx)

Moore, K., W. Robson, and A. Laurin. 2010. *Canada's Looming Retirement Challenge: Will Future Retirees Be Able To Maintain Their Living Standards Upon Retirement?* C.D. Howe Institute Commentary, no. 317. Online: [http://www.cdhowe.org/pdf/Commentary\\_317.pdf](http://www.cdhowe.org/pdf/Commentary_317.pdf)

Ontario Expert Commission on Pensions. 2008. *A Fine Balance*. Ontario Ministry of Finance. Online: [http://www.fin.gov.on.ca/en/consultations/pension/report/Pensions\\_Report\\_Eng\\_web.pdf](http://www.fin.gov.on.ca/en/consultations/pension/report/Pensions_Report_Eng_web.pdf)

Ontario Ministry of Finance. 2010. *Securing Our Retirement Future*. Online: <http://www.fin.gov.on.ca/en/consultations/pension/ris.html>

Ontario Ministry of Finance. 2013. *Securing Our Future: Strengthening Retirement Income in Ontario through Pooled Registered Pension Plans*. Online: <http://www.fin.gov.on.ca/en/consultations/pension/prpp.html>

Statistics Canada Labour Force Survey. 2012. Online: <http://www23.statcan.gc.ca/imdb/p2SV.pl?Function=getSurvey&SDDS=3701>

Tal, B. and A. Shenfeld. 2013. *Canadians' Retirement Future: Mind the Gap*. CIBC World Markets Inc., In Focus. Online: [http://research.cibcwm.com/economic\\_public/download/if\\_2013-0220.pdf](http://research.cibcwm.com/economic_public/download/if_2013-0220.pdf)

Turner, J. and Rhee, N., 2013. *Lessons from Private Sector Retirement Security from Australia, Canada, and the Netherlands*. National Research on Retirement Security. Online: [http://www.mnpera.org/vertical/Sites/%7BCB6D4845-437C-4F52-969E-51305385F40B%7D/uploads/Lessons\\_for\\_Private\\_Sector\\_Retirement\\_Security\\_2013.pdf](http://www.mnpera.org/vertical/Sites/%7BCB6D4845-437C-4F52-969E-51305385F40B%7D/uploads/Lessons_for_Private_Sector_Retirement_Security_2013.pdf)

Wolfson, M. 2011. *Projecting the Adequacy of Canadians' Retirement Incomes: Current Prospects and Possible Reform Options*. Institute for Research on Public Policy, no. 17. Online: <http://www.irpp.org/assets/research/faces-of-aging/projecting-the-adequacy-of-canadians-retirement-incomes/IRPP-Study-no17.pdf>







[occ.ca](http://occ.ca) | [@OntarioCofC](https://twitter.com/OntarioCofC)