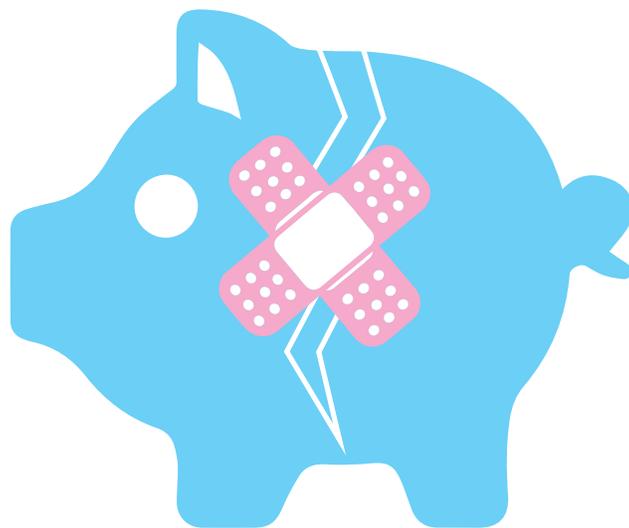


**A Made-in-Ontario Plan to**  
**End**  
**Retirement**  
**Insecurity**

**OFL Submission on the Ontario  
Retirement Pension Plan (ORPP)**





**End Retirement Insecurity • February 12, 2015 • Ontario Federation of Labour (OFL)**

Submission to the Ontario Ministry of Finance on the Ontario Retirement Pension Plan (ORPP)

**Produced by: Ontario Federation of Labour Pensions Committee**

The Ontario Federation of Labour (OFL) represents 54 unions and one million workers. It is Canada's largest provincial labour federation.

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# SUMMARY OF RECOMMENDATIONS

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Every Ontarian deserves security and dignity in retirement and yet by every measure most workers face the prospect of an uncertain future. Despite public demand, provincial support and sustained lobbying from Canada's labour movement, the Harper government has repeatedly rejected the call for an expanded Canada Pension Plan (CPP).

The result is a desperate situation where two out of every three Canadians without a workplace pension may expect to languish on sub-poverty CPP benefits when they should be enjoying their golden years. The average Ontario retiree receives a meager \$6,800 a year from the CPP.

Yet, dwindling personal savings and ballooning household debt paint a bleak retirement future for Ontarians living in a province that has shed nearly 300,000 manufacturing jobs since 2000, and where half a million people (one in ten workers) toil for minimum wage. With the number of seniors expected to double by 2036, it is fair to say that the lack of retirement security is the crisis of our times.

This is why the OFL stands firmly behind the Ontario Retirement Pension Plan, but Ontario workers are counting on the government to get it right.

**The OFL stands firmly behind the ORPP, but Ontario workers are counting on the government to get it right.**

The OFL membership believes that mandatory universality is key to the success of expanded retirement security. Universal programs are time-tested in Canada—the Canada Pension Plan, Medicare, and Employment Insurance all function well and are relatively politically resilient, precisely because they are designed as universal programs.

This submission is designed to provide a road map for just such a plan. The recommendations contained in this submission are supported by unionized workers across the province because they



would expand pension benefits to every worker and ensure that no one retires into poverty.

Below is a summary of recommendations:

### Recommendation 1:

*Ensure that the ORPP is modeled on the CPP such that it could be folded into a future CPP expansion.*

### Recommendation 2:

*Language specifying plan funding should reflect the secure nature of the benefit being promised.*

### Recommendation 3:

*Design the ORPP to have universal coverage and include any employees who could benefit from the ORPP.*

### Recommendation 4:

*Work closely with other provinces to ensure that ORPP accrued pensions can be carried with workers that leave the province.*

### Recommendation 5:

*The Ontario government should consider providing targeted refundable tax credits on ORPP contributions in order to offset a greater share of low-income earners' contributions to the ORPP.*

### Recommendation 6:

*Investigate a reduction in the maximum allowable Registered Retirement Savings Plan contribution and allocate the savings to providing tax assistance for low income earners contributing to the ORPP.*

### Recommendation 7:

*Work with the federal government to prevent the clawback of GIS benefits for those retirees receiving ORPP benefits.*

### Recommendation 8:

*The ORPP should cover Ontarians in paid employment as well as the self-employed as much as possible, with the latter paying both employer and employee portions.*

### Recommendation 9:

*ORPP assets should be managed independently by a public investment board accountable to the ORPP Board of Directors.*

### Recommendation 10:

*Workers should have direct representation or representation through unions on the governing body of the ORPP.*

### Recommendation 11:

*The Ontario government should explicitly exclude PRPPs as comparable plans to the ORPP.*



# INTRODUCTION

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The Ontario Retirement Pension Plan (ORPP) was a centerpiece of the Ontario government's 2014 Budget and the subsequent provincial election, which returned Premier Kathleen Wynne's Liberals to power with a majority government.

In taking steps to fulfill an important part of its re-election platform, on December 8, 2014, the Liberals introduced the *Ontario Retirement Pension Plan Act*.<sup>1</sup> This is the first of three pieces of legislation that will define and establish the ORPP before the government's self-imposed deadline of January 2017.

Minister of Finance Charles Sousa and Associate Minister of Finance (Ontario Retirement Pension Plan) Mitzie Hunter announced that the legislation, if passed, would help the government create a public pension plan for the people of this province that would help give them the secure retirement future they deserve.

"The *Ontario Retirement Pension Plan Act* represents a major step forward in fulfilling our government's commitment to creating a strong, secure retirement income system. We are taking leadership today to fulfill this goal

**"The government is committed to address the retirement needs of a 21<sup>st</sup> century workforce."**

**ORPP Discussion Paper, 2014**

and give Ontarians the retirement future they deserve," said Minister Hunter in a statement.

Following the introduction of the legislation, on December 17, 2014 the Ontario Ministry of Finance released a consultation paper<sup>2</sup> on the Ontario Retirement Pension Plan (ORPP), and a province-wide public consultation process was initiated in January, 2015.

<sup>1</sup> *Bill 56 2014, An Act to require the establishment of the Ontario Retirement Pension Plan.* [http://www.ontla.on.ca/web/bills/bills\\_detail.do?locale=en&Intranet=&BillID=3092](http://www.ontla.on.ca/web/bills/bills_detail.do?locale=en&Intranet=&BillID=3092)

<sup>2</sup> Government of Ontario, *The Ontario Retirement Pension Plan: Discussing a Made-In-Ontario Solution*, January 2015. <https://www.ontario.ca/document/ontario-retirement-pension-plan-made-ontario-solution>



The discussion paper states that, “The government is committed to address the retirement needs of a 21<sup>st</sup> century workforce. The ORPP will provide a predictable stream of income in retirement by pooling longevity and investment risk, and indexing benefits, similar to [the Canada Pension Plan]. Its portability across participating employers will respond to the needs of an increasingly mobile workforce.”

The consultation paper invites feedback on key design details of the plan, and in three areas, specifically:

- **Defining a comparable workplace pension plan:** Since the ORPP is intended to help those without workplace pensions, workers already participating in a comparable pension plan would not be required to enroll in the ORPP.
- **A minimum earnings threshold:** To reduce the burden on low income

workers, earnings below a certain threshold would be exempt from contributions, similar to the Canada Pension Plan (CPP).

- **Supporting the self-employed:** Since self-employed individuals have a unique status in the labour market as both employee and employer, the province is consulting on how to best assist them in saving for their retirement.

The Ontario Federation of Labour, comprising 54 unions representing over 1 million workers in Ontario, has been a steadfast advocate for secure and adequate incomes for Ontario's retirees.

This submission has been prepared in response to the Ontario government consultation process, and will address the three areas of interest listed above, as well as additional aspects of the ORPP.



# THE ORPP & THE URGENT NEED TO IMPROVE RETIREMENT SECURITY

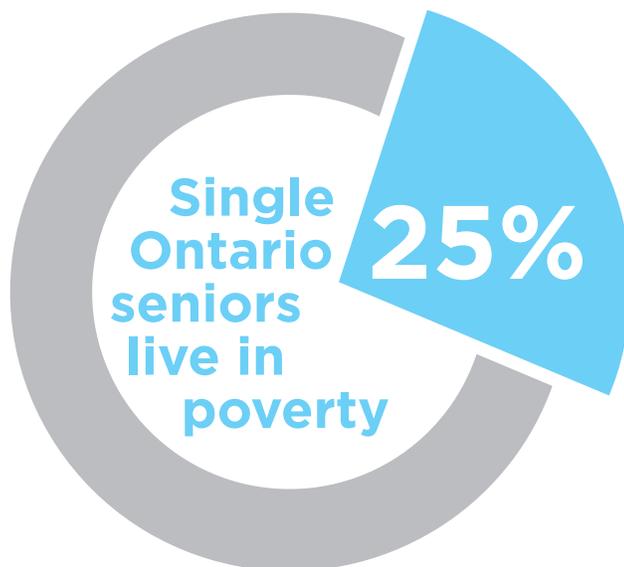
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The Ontario Federation of Labour appreciates the commitment and seriousness of the government's initiative, and believes strongly in the importance and urgency of improving retirement security for workers and retirees.

We agree with the assessment contained in the ORPP discussion paper that the retirement income gap in Ontario is real and significant, as are the risks of inaction.<sup>3</sup>

Consider the following alarming indicators of income insecurity among seniors in Ontario:

- 10% of Ontarians age 65 and over live in poverty (compared against the low-income measure after tax, i.e. receiving less than half of adjusted median household income), and over 25% of single Ontarians in that age bracket live in poverty. Women, recent immigrants and racialized seniors are at greatest risk of poverty.<sup>4</sup>
- Nearly 7% of Ontarians helped by food banks in March 2014, and nearly 9% of Ontarians using rural food banks, reported pensions as their primary source of income.<sup>5</sup>



Source: Statistics Canada, 2014

- A July 2013 report for the City of Toronto found that homelessness among seniors had doubled since 2009, to the point where 10% of Toronto's homeless population are people aged 61 years or older.<sup>6</sup>

3 Government of Ontario, *Ontario Retirement Pension Plan: Key Design Questions*, December 2014.

4 Statistics Canada CANSIM table 206-0003, 2014.

5 Food Banks Canada, *HungerCount*, 2014

6 City of Toronto, *Street Needs Assessment*, 2013



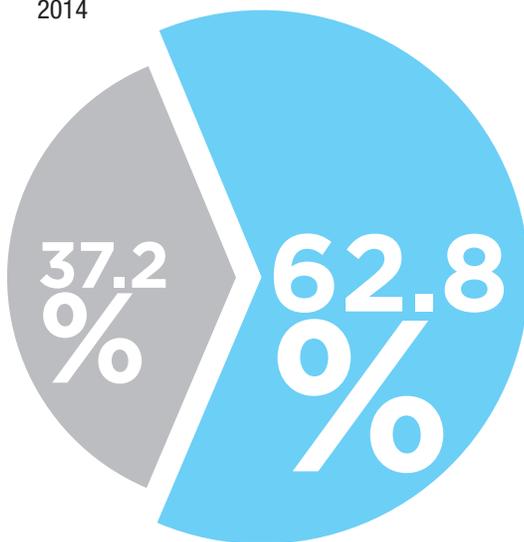
The number of retirees is expected to increase dramatically as the “baby boomers” leave the workforce. This could coincide with even greater levels of financial insecurity due to insufficient public support programs, the inability of Ontarians to put aside sufficient savings, and the millions of workers with no access to workplace pension plans.

For instance, in 2012, only 37.2% of Ontario workers had access to a pension plan; some 3.4 million employees in Ontario had no access to a workplace pension. In the private sector, only 26.1% of workers had a workplace pension. Only 26% of Ontario workers overall, and 12.2% of private-sector workers, had access to a secure defined-benefit pension plan.<sup>7</sup>

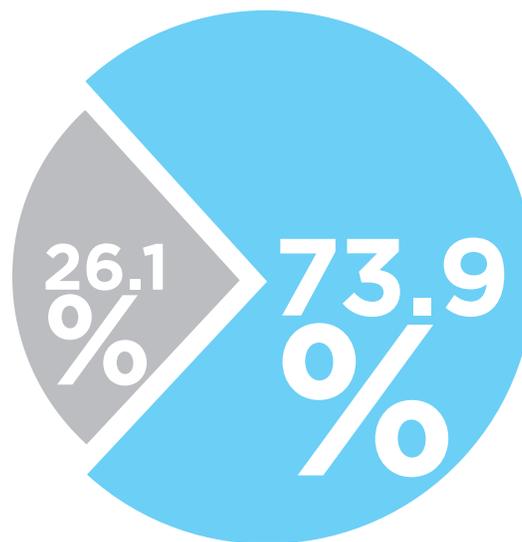
There are several social programs and tax measures intended to provide support to seniors’ incomes, with the central program being the Canada Pension Plan. However, as the discussion paper points out:

- The CPP’s replacement rate is only 25% of income up to an annual maximum earnings threshold of \$53,600 (in 2015). Workers cannot contribute on earnings above this threshold.
- The basic structure and benefit rate of the CPP has not changed since the plan was created in 1966. More than 60% of Ontario’s workforce was not alive at that time.

<sup>7</sup> Statistics Canada, Pension Plans in Canada Survey, 2014



**IN ONTARIO'S WORKFORCE**  
nearly 2/3 of workers lack a workplace pension



**IN THE PRIVATE SECTOR**  
nearly 3/4 of workers lack a workplace pension

Source: Statistics Canada, 2014



The OFL agrees with the discussion paper's assessment that, "The CPP isn't enough" and welcomes the government's commitment to "a strong and secure retirement income system."<sup>8</sup>

Along with the Canadian Labour Congress, OFL members are committed to a pan-Canadian approach to improving retirement security for all workers. In this respect, we believe that improving the Canada Pension Plan (CPP) and Quebec Pension Plan remains the best mechanism to ensure improved retirement security for all workers in Canada.

CPP enhancement would improve retirement incomes within and beyond Ontario and would be fully portable across Canada. However, CPP reform requires the support of the federal government and at least seven provinces with two thirds of Canada's population.

Our support for federal improvements is shared by the Government of Ontario, which has similarly argued for CPP expansion. As the Honourable Mitzie Hunter states in the discussion paper's introduction, "To be clear — our preferred option is still CPP enhancement, something this government has advocated for since 2010. Unfortunately, the federal government has unilaterally shut down discussions on this issue."

## **It is crucial that the ORPP mirror the CPP in as many respects as possible.**

As the Ontario government points out, Stephen Harper's Conservatives have opposed improvements to the CPP, and worse, have taken to attacking the Ontario Liberals for moving forward with a made-in-Ontario plan.

In the face of federal intransigence, Ontario has rightly committed to implementing an Ontario pension plan to supplement the Canada Pension Plan, while leaving open the possibility of a future federal government move to expand the CPP.

Ontarians cannot wait for federal action to improve retirement security any longer, and there is no hope of expanding the CPP under the current Conservative government in Ottawa. Failing a change of government in the upcoming 2015 general election, provinces will have to act unilaterally.

<sup>8</sup> Ontario Budget 2014, page 296.



## **STRENGTHS OF CPP:**

- 1. Universality**
- 2. Contributory**
- 3. Mandatory**
- 4. Defined-Benefits**



# KEY DESIGN FEATURES OF THE ORPP

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The Ontario Federation of Labour is committed to public pensions like the CPP that provide predictable, secure benefits to virtually all Canadian workers.

The Ontario government's support for CPP enhancement is based on a sound rationale. As a key pillar in securing retirement income for Canadians, the CPP's success is founded on four key criteria:

1. The CPP is a universal public retirement program;
2. The CPP is a contributory plan based on an individual's employment;
3. The CPP is a mandatory contribution plan where participation is required by law; and
4. The CPP provides secure defined benefits fully indexed to inflation.

In this respect, the 2014 Ontario budget indicates that the ORPP will “build on the key features of the CPP, and could later be integrated with the CPP.”<sup>9</sup> It is crucial that the ORPP mirror the CPP in as many respects as possible.

## Recommendation 1:

*Ensure that the ORPP is modeled on the CPP such that it could be folded into a future CPP expansion.*

The OFL and Government of Ontario share many priorities for key design features of the ORPP by virtue of our mutual interest in CPP expansion. What follows is a discussion of these key design features of the ORPP as described in the Ministry of Finance's consultation paper on the ORPP.

According to the consultation paper, the ORPP would: “Offer a predictable stream of income in retirement for life, and would index benefits to inflation, similar to the CPP's retirement benefit.”

The OFL agrees that the ORPP should provide a “defined benefit (DB),” ensuring predictable benefits in retirement, calculated according to a specific formula, and fully indexed against inflation.

<sup>9</sup> Ontario Budget 2014, page 304.



The consultation paper also promises that the ORPP would: “Provide a cost-effective benefit by pooling longevity risk – the risk that a member may outlive his or her savings – and investment risk – the risk that lower-than-expected investment returns may result in insufficient savings for retirement.”

The OFL agrees that the ORPP, as a defined benefit plan, provides superior protection to retirees over “defined contribution (DC)” or “target benefit (TB)” plans that may result in lower-than-expected benefits or lump-sum assets that can be exhausted before death. As such the ORPP is preferable to target, DC plans, RRSPs or PRPPs.

## It is crucial that the ORPP mirror the CPP in as many respects as possible.

According to the consultation paper, the ORPP would: “Require equal contributions to be shared between employers and employees, not exceeding 1.9% each on earnings up to an annual maximum of \$90,000 (in 2014 dollars). The ORPP’s maximum earnings threshold would increase each year, consistent with increases to the CPP’s maximum earnings threshold.”

The OFL agrees that the ORPP should require equal contributions from employers and employees. Again, this ORPP design feature is superior to RRSPs and PRPPs which do not require contributions from the employer, unfairly placing the entire financial burden on the employee. The OFL believes, however, that the hard cap on contributions (“not exceeding

1.9%”) could undermine the principle of providing a lifetime, secure benefit. For this reason, we recommend that the ORPP’s rules with respect to contribution levels retain sufficient flexibility as to permit the plan to continue to offer a secure, funded benefit to Ontarians, in spite of fluctuating economic conditions.

### Recommendation 2:

*Language specifying plan funding should reflect the secure nature of the benefit being promised.*

The age of eligibility should mirror that of the CPP (i.e. accessible at age 60), with actuarially-adjusted benefit rates for ORPP recipients drawing benefits prior to and after age 65. The normal age at which full ORPP benefits may be drawn should continue to be 65.

According to the consultation paper, the ORPP would: “Aim to replace 15% of an individual’s earnings, up to the maximum annual earnings threshold of \$90,000 (in 2014 dollars).”

As the consultation paper points out, experts agree that retirees should aim to replace 50% to 70% of their pre-retirement income. Considering the CPP is intended to replace 25% of pensionable earnings for an individual who contributes to the CPP over their working career, the ORPP’s 15% target falls short of the mark for many workers, even factoring in Old Age Security program benefits.

Instead of combining a modest increase in the benefit rate with an increase in the upper bound on pensionable earnings, the OFL would prefer to see a more ambitious ORPP replacement rate (e.g. 25%) of earnings under the CPP Year’s Maximum Pensionable Earnings (\$53,600 in 2015). This would mirror the CPP to the greatest possible extent.



**PROPOSED ORPP BENEFITS WOULD STILL LEAVE AN EARNINGS GAP FOR RETIREES**



The ORPP ceiling on pensionable earnings, established at some proportion of the average industrial wage and salary, should increase annually at the same rate as the average wage and salary. The ORPP should have an annual income exemption beginning at the current level of the CPP’s Year’s Basic Exemption (YBE).

According to the consultation paper, the ORPP would: “Ensure that benefits would be earned as contributions are made so that the system is fair and younger generations are not burdened with additional costs.”

The OFL agrees that the ORPP should be progressive, with a basic income exemption, and tax treatment that is fair for low-income earners. This is addressed in greater detail below.

According to the consultation paper, the ORPP would: “Be publicly run by an entity that is arm’s length from government.”

The ORPP should strive for efficiency and affordability, seeking low unit-costs via universal coverage, economies of scale and efficient public administration.

With respect to governance and administration, the ORPP should be publicly administered, efficiently governed and accountable to working and retired Ontarians and their representatives. This is discussed in more detail below.



## ISSUE 1: DEFINITION OF COMPARABLE WORKPLACE PENSION PLAN

The 2014 Ontario Budget stated that, “Since the ORPP is intended to assist individuals most at risk of under-saving, particularly middle-income earners without workplace pensions, those already participating in a comparable workplace pension plan would not be required to enroll in the ORPP.”

The OFL is concerned by the exclusion of employees belonging to a “comparable” workplace pension plan who could benefit from the ORPP.

Everyone deserves the opportunity to participate in and benefit from the ORPP. No-one should be denied this opportunity.

If the Ontario government wants the ORPP to mirror the CPP, it must recognize that the key design feature of the CPP is that it is a truly universal plan: all workers must participate, whether they work in the public sector or the private sector, whether or not they happen to be union members, whether they are classified as employed or self-employed, and whether or not they are members of private workplace pension plans.

**Everyone deserves the opportunity to participate in and benefit from the ORPP. No-one should be denied this opportunity.**

By including all workers, the ORPP would:

- Involve minimal complication should the ORPP be integrated with an expanded CPP at a later date;
- Be transparent and comprehensible for working Ontarians;
- Feature relatively straightforward rules and requirements determining enrollment, eligibility and contributions;
- Be truly portable within the province of Ontario;
- Entail relatively low administration costs; and
- Be less likely to become stigmatized and marginalized as a targeted benefit serving only a segment of Ontarians.

### Recommendation 3:

*Design the ORPP to have universal coverage and include any employees who could benefit from the ORPP.*

Many workers in “comparable” workplace pension plans that the government intends to exempt from the ORPP have meager pensions. These workers would benefit from participating in the ORPP, and should be automatically enrolled in the ORPP along with other workers.

Many retired members of Ontario-registered multi-employer pension plans (MEPPs) receive minimal pensions. Pensioners previously employed in the light manufacturing sector, as well as retired nursing home workers and social services workers once employed in the broader public sector (many of whom are women), also receive extremely modest pensions. These



workers would be excluded from the ORPP under the government's preferred approach, and would not benefit from a compulsory matching contribution from their employer through the ORPP.

Private sector defined benefit (DB) plans may also offer decent benefits, but are not always secure. All too often, employees of bankrupt firms with pension plan solvency deficiencies have been forced to accept reductions in their accrued benefits on the order of 30% or more. These workers would benefit from the opportunity to participate in the ORPP, and should not be excluded.

Restricting the range of workplaces participating in the ORPP will mean a less portable plan. This means that workers, especially today's youth, will be less able to accumulate uninterrupted savings in the ORPP as they move between employers over their working careers – even if they remain in Ontario. For itinerant workers and individuals employed in multiple jurisdictions including Ontario, inter-provincial cooperation and the participation of other provinces in the ORPP will improve the ORPP's portability.

#### **Recommendation 4:**

*Work closely with other provinces to ensure that ORPP accrued pensions can be carried with workers that leave the province.*

Universal application is important to the low cost, efficiency and fairness of the plan. All Ontarians deserve security and dignity in retirement, and mandatory universality is key to the success of expanded retirement security. Universal programs are time-tested in Canada—the Canada Pension Plan, Medicare, and Employment Insurance all function well and are relatively politically resilient, precisely because they are designed as universal programs.

With respect to treatment of existing workplace pension plans within a universal ORPP, it would be up to workers and employers to collectively bargain, and/or decide through plan governance boards, whether and/or how existing defined benefit workplace plans would be “integrated” or “stacked” with ORPP.

### **Universal application is important to the low cost, efficiency and fairness of the plan.**

The universality of the ORPP is important for part-time workers as well. Many part-time employees in Ontario work for employers who sponsor DB plans where membership is optional for part-timers. In a universal ORPP, whether or not these workers chose to participate in a workplace plan would be immaterial. We recommend that part-time employees who have chosen not to participate in these plans be enrolled in a universal ORPP. In other words, eligibility for, but voluntary non-participation in, a comparable workplace plan should not count as membership in a “comparable plan,” thereby excluding the employee from participation in the ORPP. In the same vein, we would not want to see any possible restrictions for these workers who participate in a universal ORPP to then be barred from later choosing to join their workplace plan.

The December 2014 ORPP discussion paper concedes the advantages of extending ORPP coverage to the greatest extent possible: the broader the coverage, the greater the ORPP's portability, and the lower the compliance costs and administrative complexity.

The OFL agrees with the ORPP discussion paper’s enumeration of the weaknesses and shortcomings of PRPPs, group RRSPs, and defined contribution (DC) plans, and supports the government’s determination that these plans are not comparable to the ORPP.

These plans exist at the opposite end of the pension spectrum from DB pension plans: DB plans provide secure benefits (DC and target plans do not); DB plans pay benefits for life (DC plans do not); DB plans efficiently pool investment and longevity risks (DC plans do not); and DB

plans generally have higher contribution rates than DC plans (which largely determines the retirement security expectations that can flow from those plans). The OFL does not consider DC plans to be real pension plans – they are glorified savings accounts or RRSPs at best. The Ontario government would be setting a terrible precedent if it endorsed the idea that DB and DC plans were somehow “comparable.” Indeed, that very notion would undermine the government’s clear preference for a secure DB-style plan in its initial design proposal for the ORPP.



## ISSUE 2: THE RIGHT MINIMUM EARNINGS THRESHOLD

The Ontario Retirement Pension Plan will play an important role in reducing the incidence and the depth of old-age poverty in Ontario. In order to cushion the impact on low-income workers, the government must examine available fiscal instruments that would enable all Ontarians to participate in the ORPP.

### A 'Made-in-Ontario' Working Income Tax Benefit (WITB):

#### A refundable tax credit for low income earners.

The OFL agrees with the ORPP discussion paper's preferred option of retaining a \$3,500 minimum earnings exemption, in line with the CPP. With a \$3,500 year's basic exemption, an Ontario worker earning \$20,000 a year – roughly equivalent to the earnings of a part-time employee earning minimum wage while working 35 hours a week for 52 weeks – would contribute \$313.50 annually or \$26.13 monthly to the ORPP.

After applying the Ontario non-refundable tax credit rate on CPP contributions (5.05%), the individual would pay \$297.67 a year or \$24.81 a month. The federal 15% non-refundable tax credit rate on CPP contributions would likely not be available to ORPP contributors.

Additional support for workers with low and modest incomes could be achieved through a refundable tax credit for low income earners, such as a 'made-in-Ontario' Working Income Tax Benefit (WITB) for low-income earners.

While the OFL appreciates Ontario calling on the Government of Canada to expand the federal WITB, the provincial government should examine the benefits to low-earning Ontarians of implementing an Ontario WITB.

#### Recommendation 5:

*The Ontario government should consider providing targeted refundable tax credits on ORPP contributions in order to offset a greater share of low-income earners' contributions to the ORPP.*

In 2014 the Ontario government allocated an estimated \$2.2 billion in tax expenditures to deductions on RRSP contributions, a measure that disproportionately benefited high income earners. The government could examine capping allowable contributions and allocating the savings in tax expenditures to support low-income workers' participation in the ORPP.

#### Recommendation 6:

*Investigate a reduction in the maximum allowable Registered Retirement Savings Plan contribution and allocate the savings to providing tax assistance for low income earners contributing to the ORPP.*

With respect to ORPP benefits, we recommend that the Ontario government work with the federal government to address the onerous clawback of Guaranteed Income Supplement (GIS) benefits, through which GIS benefits would be reduced by 50 cents for every dollar in ORPP income.

#### Recommendation 7:

*Work with the federal government to prevent the clawback of GIS benefits for those retirees receiving ORPP benefits.*

## ISSUE 3: ADDRESSING THE NEEDS OF THE SELF-EMPLOYED

The ORPP will exclude unincorporated self-employed from the plan. As the discussion paper states, “Self-employed individuals will not be able to participate in the ORPP, given the current rules under the federal *Income Tax Act (ITA)*.”

Also known as own-account self-employed, these individuals are often vulnerable workers whose work more closely resembles employment than entrepreneurship. About 10% of Ontario’s workforce is in own-account self-employment; often workers are misclassified as independent contractors or self-employed and are in fact really dependent contractors or employees.

Own-account self-employed tend to have lower incomes than employees and owners of incorporated businesses. Women and racialized minorities are also more likely to be in own-account self-employment than other forms of self-employment.

Federal tax rules notwithstanding, the OFL supports the widest possible participation of the workforce in the ORPP, including any owner of an incorporated business drawing a salary. As the discussion paper points out, an individual who owns and operates an incorporated business and earns a salary or wages as an employee of the business would not be considered self-employed for the purposes of ORPP eligibility. As a result, these incorporated owner-operators would be required to participate in the ORPP, to the extent that they are considered eligible employees.



Source: Statistics Canada, 2012

### Recommendation 8:

*The ORPP should cover Ontarians in paid employment as well as the self-employed as much as possible, with the latter paying both employer and employee portions.*

Employers are able to fully deduct the employer’s share of employees’ CPP contributions from business income, and self-employed can deduct their employer portion of CPP contributions and claim non-refundable tax credits on the employee portion. We propose that a similar structure be established for employers under the ORPP.



## OTHER ISSUES

### ***ORPP Asset Management and Investments***

The permissible range of investments for the ORPP, the extent of permissible 'infrastructure' investments, the social aspects of any Ontario-based investments and the required returns on such investments are all vital questions for an ORPP, the Ontario economy and the labour movement. The OFL recommends that ORPP assets be managed independently by a public investment board accountable to the ORPP Board of Directors.

### **Recommendation 9:**

*ORPP assets should be managed independently by a public investment board accountable to the ORPP Board of Directors.*

The government should establish clear investment regulations for the Board which identify the range of permitted investments, asset allocations, ownership stakes and other guidelines required to ensure best practices and responsible stewardship of pension plan assets. The investment principles and objectives of the asset management entity should be to invest in order to deliver stable, secure returns without assuming undue risk. Legislation should also clearly outline the legislative/institutional mechanism required to authorize any change in the Board's investment regulations once established.

Investment of ORPP assets should also be guided by the objective of investing in the future economic development and well-being of the province and people of Ontario, since ORPP retirement benefits will be paid out of income generated by future economic activity. The investment regulations, therefore, should establish clear principles of responsible and sustainable investment including, but not limited to, environmental, social, governance and labour issues. Moreover, the OFL opposes any efforts to use ORPP assets to privatize or extract profit from public entities

involved in the provision of public services and/or infrastructure. The OFL is concerned by Ontario's proposed amendment to Regulation 909 under the Pension Benefits Act exempting pension funds from the 30% rule regarding public infrastructure investments, and it recommits to its policy against the use of pension funds for public-private partnerships or other forms of privatization. The OFL further urges the government to prohibit the ORPP or any of its investment boards or subsidiaries from participating in organizations or processes that advocate public-private partnerships, or other forms of privatization (such as the Canadian Council for Public-Private Partnerships).

**ORPP assets  
must be managed  
independently by a  
public investment  
board.**

### **ORPP Governance & Administration**

Successful pension plans are overseen by fiduciaries who are committed to the best interests of the plan's members.

The legislation establishing the ORPP investment entity should entrench requirements for an independent board of trustees in addition to a mechanism for arms' length nomination of board members. Worker and trade union representatives have a strong record in Ontario and in Canada of serving as effective pension trustees; workers should have direct representation or representation through unions on the governing body of the ORPP.

Working Ontarians will contribute to the ORPP and the ORPP will derive greater legitimacy by ORPP contributors having representation on the ORPP Board. Such representation would also help to ensure that the rights of working people are respected by the ORPP in its investments.

#### **Recommendation 10:**

*Workers should have direct representation or representation through unions on the governing body of the ORPP.*

Founding legislation for an ORPP investment entity should describe the statutory mandate, clearly articulate the fiduciary obligations of trustees, and define a clear mission for the investment board while requiring the board to operate in compliance with that mission. Finally, legislation must include legal requirements for periodic audits and independent actuarial review, which must be transparent and made public.

### **Pooled Registered Pension Plans (PRPPs)**

The OFL disagrees strongly with the government's decision to introduce PRPP legislation before the basic details of the ORPP have been finalized. As voluntary, defined contribution-type savings schemes administered by the financial services industry, PRPPs are certain to fall short of their stated policy objective: helping Ontarians generate secure and sufficient retirement incomes.

**The OFL disagrees strongly with the government's decision to introduce PRPP legislation before the basic details of the ORPP have been finalized.**

A traditional pension plan provides a predictable benefit, set at a percentage of pre-retirement earnings, is payable until death, and is also indexed to inflation. PRPPs are not pension plans in the traditional sense. They are voluntary tax sheltered savings vehicles similar to RRSPs. Employer participation

is voluntary, the benefit is not set at a percentage of pre-retirement earnings, they offer no inflation protection, and PRPP members will be at risk of outliving their retirement incomes.

As employers await the implementation of the ORPP in 2017, which will require employer contributions of 1.9% of earnings, business owners will be eager to promote PRPPs as an alternative to the ORPP. Employers should not be allowed to enroll employees in the PRPP and contribute negligible or zero amounts to avoid participating in the ORPP. This is a step that would undermine the policy objective of the ORPP: to provide widespread universal coverage that could be folded into the CPP in the future.

#### **Recommendation 11:**

*The Ontario government should explicitly exclude PRPPs as comparable plans to the ORPP.*



# SUMMARY

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The Ontario Federation of Labour believes strongly in the vital importance of retirement income security and adequacy, and welcomes the government's commitment to improving the circumstances of Ontario's retirees. The OFL shares the government's concern with the existing low level of CPP benefits, and supports its call for CPP expansion. For these reasons, we continue to support an Ontario Retirement Pension Plan that adopts the distinguishing features of the CPP, namely, universal coverage, mandatory participation, shared contributions from employers and employees, and predictable retirement benefits protected against inflation and longevity risk.



