

THE
ONTARIO
RETIREMENT
PENSION PLAN

DISCUSSING A MADE-IN-ONTARIO SOLUTION

ASSOCIATE MINISTER'S MESSAGE

Ask a child what they want to be when they grow up and they'll tell you. A doctor. An astronaut. A fire fighter. No matter the age or the answer, it's clear these kids are thinking about their futures.

And, so are we.

Ontario is home to one of the best education systems in the world, a first-rate health care system to heal bruises along the way, and a dynamic business climate where they can achieve their dreams.

When that child eventually retires, it's essential that government is there for them, too. It's my goal to ensure they are supported by a strong, stable retirement system.

That's why we're moving forward with the Ontario Retirement Pension Plan (ORPP). That's why we're committed to taking leadership to give people the secure retirement future they deserve.

As a government, we've committed to implementing the ORPP in 2017. It's an ambitious timeline. However, it is an economic imperative and a moral responsibility that we act now. Study after study shows that people are not saving enough for retirement. Current workers are undersaving, workplace pensions are less common than they used to be, and the Canada Pension Plan is simply not filling the gap.

What economists have told us is that workers caught in this gap could face lower living standards in retirement. This is troubling to us on an individual level. It's alarming when we look at the situation provincewide.

When a growing portion of our population faces inadequate savings they will spend less. This would slow consumption and growth, and put pressure on our publicly funded social services.

That's not good for people. That's not good for business. That's not good for Ontario's economy.

That's why we need to take action now, for the future.

The ORPP will build a strong and secure retirement income system that helps ensure working Ontarians will be able to retire comfortably. It will provide the retirement security that workers deserve. And it will support the province's long-term economic growth and create jobs.

As we move forward with this ambitious timeline, there are still a number of key decisions to be made. It is vital that throughout this process we hear from you. As we develop the details of the ORPP, I will be meeting with business, labour, organizations, associations, individuals, families and communities across the province to ensure that a broad range of perspectives is heard and considered.

By hearing your concerns and discussing the future system we want to see, together we can create the best possible plan for the people of Ontario.

It is imperative that we act now. It is essential that we hear from you as part of this process.

I look forward to sharing our plan with you and hearing your ideas as we work to implement the ORPP.

Originally signed by

Hon. Mitzie Hunter

Associate Minister of Finance (Ontario Retirement Pension Plan)

THE PROBLEM: THE RETIREMENT SAVINGS GAP

Ontario is currently facing a situation where many workers are not saving enough to ensure a comparable standard of living in retirement. Experts recommend workers should aim to replace up to 70 per cent of their income in retirement to maintain a similar standard of living. However, due to a variety of factors, many workers are not saving near that amount.

As a result, Ontario workers may face a decline in their standard of living after retirement.

Factors Leading to a Retirement Savings Gap

- Canada's retirement benefit programs – Old Age Security (OAS) and the Canada Pension Plan (CPP) – do not provide enough income replacement for those with middle incomes.
- Workplace pensions are becoming less common. Currently, two-thirds of Ontarians do not have a workplace pension.
- Middle-income workers must rely on other sources of retirement income to fill this gap. However, many are not saving enough to provide a retirement income that would support a similar standard of living.

The Effect: Broader Economic Impacts

- Strengthening our retirement system is an economic imperative.
- Aside from the impact on seniors themselves, inadequate retirement savings could have broader economic implications.
- As Ontario's population ages, growth in the labour force will be slower, resulting in fewer workers and more retirees. This trend, combined with inadequate savings, will put pressure on programs for seniors and impact the workers who will have to fund these programs.
- As well, lower standards of living among a large population could put pressure on the economy.
- **Contributing to a public pension plan today would increase total savings and mean that seniors will see their incomes supplemented when they retire, helping them maintain their standard of living for life. This will help boost the economy and create jobs in the long-term.**
- As noted in a recent paper by the former Governor of the Bank of Canada, David Dodge, higher retirement savings would also make more capital available in the economy for investment, which would result in higher productivity, leading to stronger economic growth and job creation.

WHAT'S GOING ON: THE SYSTEM ISN'T GOING FAR ENOUGH

Canada's retirement income system has three pillars that help support seniors in retirement. However, in recent years, it has become clear these measures aren't going far enough.

Pillar 1: Old Age Security and the Guaranteed Income Supplement

- The first pillar provides an income floor meant to keep seniors out of poverty. It includes OAS, which almost all Canadians get when they reach age 65, and the Guaranteed Income Supplement (GIS), which is an additional benefit available to low-income OAS recipients. Both benefits are provided by the federal government.
- **Average monthly OAS and GIS payments in Ontario were about \$530 and \$505, respectively in July 2014.**
- Combined, the OAS and GIS provide a benefit of up to about \$16,000 to a single senior in 2014.
- Ontario supplements these benefits to low-income seniors through the Guaranteed Annual Income System, which can provide up to about \$1,000 per year, per senior.

Pillar 2: Canada Pension Plan

- The CPP is an efficient and effective mandatory public pension program, with contributions shared equally by employers and employees.
- It provides Canadians with a secure pension that is predictable, indexed to inflation and paid for life.
- **The maximum benefit from CPP is only about \$12,500 per year. The average Ontarian receives only about \$6,800 per year.**
- Because the CPP is fully portable, it allows workers who change jobs in Canada to have ongoing pension coverage, and covers virtually all types of employment.

Pillar 3: Workplace Pension Plans and Other Tax-Assisted Personal Savings

- Workplace pension plans are an effective source of retirement income in addition to Canada's public retirement benefits.
- **However, two-thirds of working Ontarians do not have a workplace pension plan.**
- Voluntary savings vehicles include Registered Retirement Savings Plans (RRSPs) and other personal savings.
- **Many middle-income workers do not make contributions to RRSPs and those who do may not be saving enough.**

WHY THERE'S A PROBLEM: LOW PERSONAL SAVINGS, LONGER LIFESPANS, LOW WORKPLACE PENSION COVERAGE, LOW CPP

Pressures Impacting Voluntary Savings

- A recent survey by Scotiabank indicated that only about 30 per cent of Canadians planned to make an RRSP contribution in 2014, down from 39 per cent in previous years.
 - In 2012 there was about \$730 billion in unused RRSP room in Canada, including \$280 billion in Ontario alone.
 - Among those with incomes between \$25,000 and \$75,000 who do contribute to RRSPs, average contributions have declined in recent years.
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Why Many Workers Can't Save Enough for Retirement

- Years of low interest rates and unpredictable financial market performance have contributed to lower personal savings, lower returns on existing savings and higher personal debt levels.
 - Also, the rising costs of some basic living items, such as food, has put pressure on household budgets, while increased housing costs have led to higher levels of debt in recent years, especially mortgage debt.
 - For example, between 2002 and 2012, Canadian household mortgage debt as a share of personal disposable income rose to 103 per cent from 68 per cent.
 - Ongoing financial obligations, particularly for younger workers who may be paying off student loans, or raising children or caring for aging parents, also contribute to the undersaving problem.
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People are Living Longer

- Average lifespans in Canada have been increasing for some time. That trend is expected to continue.
- This puts pressure on personal savings and workplace pension plans to provide enough income for a retirement period that can last several decades.
- As a result, the possibility of “outliving one’s savings” can lead to lower standards of living in retirement and has become a concern for many future retirees.
- This trend, combined with inadequate savings, will put pressure on programs for seniors and impact the workers who will have to fund these programs.

Most People Do Not Have a Workplace Pension Plan

- Most workers in Ontario do not belong to a workplace pension plan, either because they are not offered one by their employer or because they are self-employed.
- In 2012, only 34 per cent of workers in Ontario had a workplace pension plan.
- Many plans have faced funding shortfalls in recent years because of low long-term interest rates, poor investment returns and demographic pressures.
- Employers have expressed concerns about the volatility of required contributions for defined benefit plans.
- Many employers have also found workplace pension plans costly and administratively burdensome.
- Households without workplace pension coverage are about 32 per cent more likely to experience a declining standard of living in retirement than households with pension coverage.
- Building adequate savings through a pension plan is particularly difficult for those who change jobs often.
- Younger workers, who are expected to have multiple employers, will be more likely to experience this patchwork of coverage.

The CPP Isn't Enough

- The CPP's replacement rate is only 25 per cent of income up to an annual maximum earnings threshold of \$52,500. Workers cannot contribute on earnings above this threshold.
- The basic structure of the CPP has not changed since the plan was created in 1966. More than 60 per cent of Ontario's workforce was not alive at that time.
- Enhancing the CPP is critical to ensuring Ontarians and Canadians, particularly middle-income earners, have greater financial security in retirement.
- Since 2010, Ontario has been advocating for an enhancement to the CPP and has led discussions among provincial and territorial finance ministers on ways to improve Canada's retirement income system.
- Despite consensus among provinces and territories to continue the dialogue, in December 2013 the federal government unilaterally shut down discussions on enhancing the CPP.



A MADE-IN-ONTARIO SOLUTION: THE ONTARIO RETIREMENT PENSION PLAN

Unless action is taken now, a significant portion of today's workers could face a decline in their living standard in retirement, and there is a risk that the retirement savings problem will only worsen over time.

A Pension Designed for Today's Workforce

- The ORPP would expand pension coverage initially to more than three million working Ontarians.
- Higher savings today would mean greater incomes and consumption in the future by retirees, which would be beneficial for business, create jobs and grow the economy in the long term.

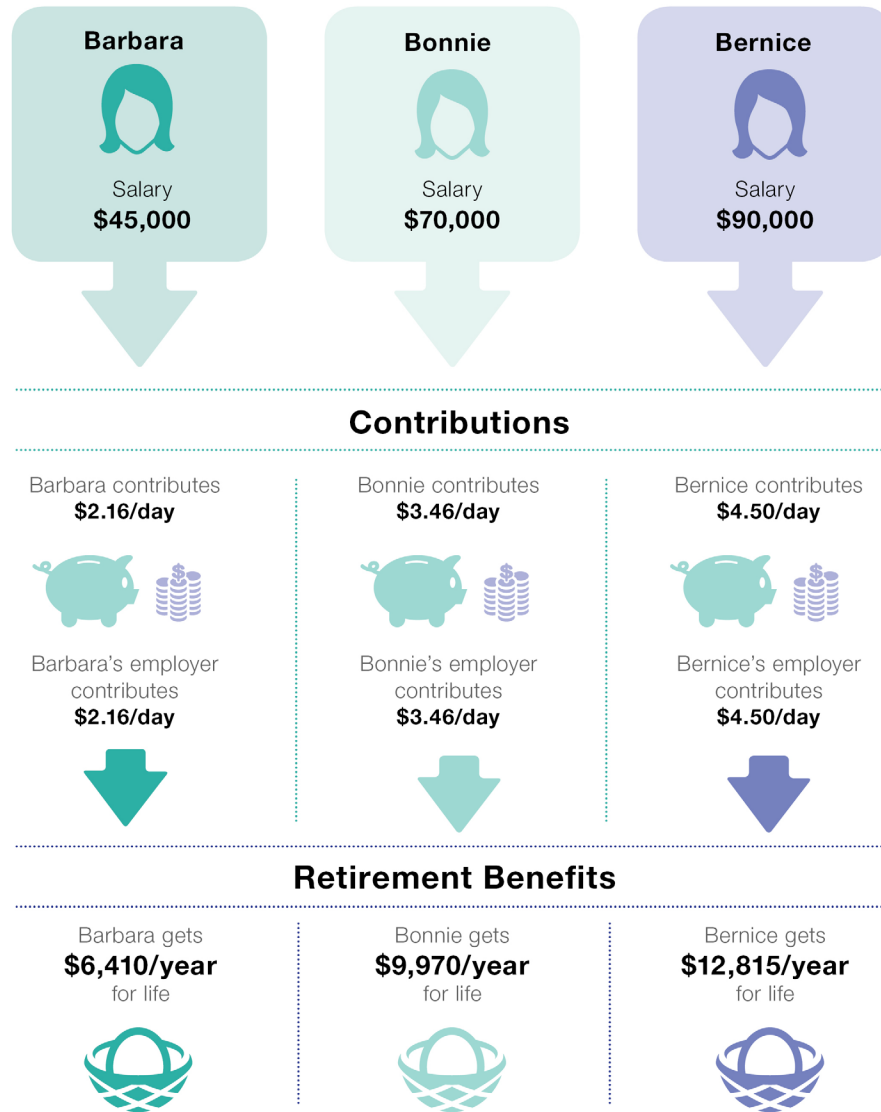
Key Design Features of the ORPP

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.
- 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.
- Require equal contributions to be shared between employers and employees, not exceeding 1.9 per cent 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.
- Aim to replace 15 per cent of an individual's earnings, up to the maximum annual earnings threshold of \$90,000 (in 2014 dollars).
- 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.
- Be publicly run by an entity that is arm's length from government.

The ORPP Would Help People Save for Retirement

See how much **Barbara, Bonnie and Bernice** would get from the **ORPP** if they contribute for about **40 years**:



The examples above are based on recent CPP enhancement proposals. While further work is required to finalize the ORPP design details, these examples may help show how the ORPP would work in practice and how it might address the undersaving problem. Differences between CPP assumptions and those of the ORPP could affect the estimated contribution rates and benefit levels of the ORPP discussed above.

Helping Those Most at Risk

The ORPP would help people most at risk of undersaving, particularly those without workplace pension plans.

- Those already participating in a comparable workplace pension plan would not be enrolled in the ORPP.
- To reduce the burden on lower-income workers, earnings below a certain threshold would be exempt from contributions, similar to the CPP.
- The government recognizes the unique status of self-employed individuals in the labour market, as both employee and employer. The government will consult to determine how best to assist self-employed individuals in achieving a secure retirement future.

More Money for Retirement



Implementation

- The ORPP would be introduced in 2017, coinciding with expected reductions in Employment Insurance premiums for employers and employees.
- Employers and employees would enrol in the ORPP in stages, beginning with the largest employers. Contribution rates would be phased in over two years.
- The ORPP would build on the key features of the CPP and could later be integrated with the CPP, should negotiations on an enhancement be successful in the future.

Next Steps

- We will be gathering input on the design and structure of the ORPP from the group of pension experts from across sectors that form our Technical Advisory Group on Retirement Security.
 - The government will engage with stakeholders to ensure the ORPP would effectively balance retirement income security with impact on business.
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Opportunities to Participate

The government is looking to engage with stakeholders across Ontario to get feedback on the design and implementation process in order to create the best plan possible for Ontarians.

You can:

- Provide written or verbal feedback at an in-person consultation with Associate Minister Hunter.
- Get more information about the ORPP at www.ontario.ca/ORPP.
- Submit comments to ORPP@ontario.ca, or send written comments to:

The Honourable Mitzie Hunter
Associate Minister of Finance
7 Queen's Park Crescent
6th Floor
Toronto, ON
M5A 1Z5

EMPLOYEES: TELL US WHAT YOU THINK

1. Do you think you're saving enough money to maintain your standard of living in retirement?

- a. Yes
- b. No
- c. I'm not sure

2. If yes, what pillar of Canada's retirement income system are you relying on the most? (Choose all that apply)

- a. CPP/OAS/GIS
- b. RRSPs or personal savings
- c. Workplace pension plan
- d. Other

3. If no or unsure, what do you think could be preventing you from saving enough money for retirement? (Choose all that apply)

- a. Mortgage payments or outstanding debt
- b. Supporting my children's education or aging parents
- c. No workplace pension plan
- d. I don't make enough money
- e. I don't know how much I should be saving
- f. Other: _____

4. What impact do you think the ORPP would have on you?

- a. Strongly positive
- b. Somewhat positive
- c. Neutral
- d. Somewhat negative
- e. Strongly negative
- f. Not sure

5. What aspect of the ORPP do you find most appealing?

6. What are your key questions about the ORPP?

7. Are there any implications/suggestions you would like to be considered?

8. Please provide any additional comments you would like to share.

OPTIONAL QUESTIONS: TELL US ABOUT YOURSELF

1. Please indicate your gender.

- a. Female
- b. Male
- c. I prefer not to say

2. What is your age?

- a. 18-24
- b. 25-34
- c. 35-44
- d. 45-54
- e. 55-64
- f. 65-74
- g. 75 or older
- h. I prefer not to say

3. What is the highest degree or level of school you have completed?

- a. Elementary school
- b. High school
- c. College
- d. Technical/Trade school/Apprenticeship
- e. Undergraduate degree
- f. Graduate/Professional degree
- g. I prefer not to say

4. What city do you live in?

5. Including yourself, how many people live in your household?

6. How many children under the age of 18 live in your household?

7. How many dependants over the age of 18 live in your household?

8. Are you currently...?

- a. Employed full-time
- b. Employed part-time
- c. Employed seasonally
- d. Self-employed
- e. Homemaker
- f. Student
- g. Retired
- h. Unemployed
- i. I prefer not to say

9. Which of the following categories best describes your area of employment?

- a. Forestry, logging and support
- b. Mining and oil and gas extraction
- c. Utilities
- d. Construction
- e. Manufacturing
- f. Wholesale trade
- g. Retail trade
- h. Transportation and warehousing
- i. Information and cultural industries
- j. Finance and insurance
- k. Real estate and rental and leasing
- l. Professional, scientific and technical services
- m. Management of companies and enterprises
- n. Administrative and support, waste management and remediation services
- o. Educational services
- p. Health care and social assistance
- q. Arts, entertainment and recreation
- r. Accommodation and food services
- s. Public administration
- t. Other services _____

EMPLOYERS: TELL US WHAT YOU THINK

1. What industry do you work in? What is the size of your business?

2. Do you currently offer your employees a workplace pension plan?

- a. Yes
- b. No

3. If yes, what kind of plan do you offer?

4. If no, what is preventing you from offering a workplace pension plan?

- a. My business doesn't have the resources to administer a plan
- b. My business can't afford to offer a pension plan
- c. I am concerned about the long-term risks associated with operating a plan
- d. I don't currently offer a workplace pension plan but would be interested in setting one up
- e. Other: _____

5. What impact do you think the ORPP would have on you?

- a. Strongly positive
- b. Somewhat positive
- c. Neutral
- d. Somewhat negative
- e. Strongly negative
- f. Not sure

6. What are your key questions about the ORPP?

7. Are there any implications/suggestions you would like to be considered?

8. Please provide any additional comments you would like to share.

OPTIONAL QUESTIONS: TELL US ABOUT YOURSELF

9. In which city is your business located? (List all applicable)

10. How many employees do you have?

- a. 0-4
- b. 5-19
- c. 20-49
- d. 50-99
- e. 100-299
- f. 300-499
- g. 500 or more

11. Which of the following categories best describes your industry?

- a. Forestry, logging and support
- b. Mining and oil and gas extraction
- c. Utilities
- d. Construction
- e. Manufacturing
- f. Wholesale trade
- g. Retail trade
- h. Transportation and warehousing
- i. Information and cultural industries
- j. Finance and insurance
- k. Real estate and rental and leasing
- l. Professional, scientific and technical services
- m. Management of companies and enterprises
- n. Administrative and support, waste management and remediation services
- o. Educational services
- p. Health care and social assistance
- q. Arts, entertainment and recreation
- r. Accommodation and food services
- s. Public administration
- t. Other services _____