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

Dear Minister Hunter:

Unifor welcomes the opportunity to provide feedback on the key design questions raised in the December 2014 consultation paper on the Ontario Retirement Pension Plan (ORPP).

As the largest private sector union in Canada Unifor represents 305,000 members across the country. In Ontario we have 158,000 members, many working in key sectors of the Province's economy, such as auto-manufacturing, health care, resources and retail. In 2013, Unifor was formed as a new union between the Communications Energy and Paperworkers' union and Canadian Autoworkers' union. Both founding unions have a proud history of bargaining good pensions for our members.

Unifor supports the Ontario Federation of Labour (OFL) in their submission on the ORPP and we have been actively working with the Canadian Labour Congress (CLC) in the campaign for an enhanced Canada Pension Plan (CPP). Given the importance of pensions as part of our member's compensation and the impact of the retirement income system on all Canadians, Unifor dedicates significant resources to the fight for a retirement income system that is adequate and fair to all Canadians.

Unifor has a no concessions policy on Defined Benefit (DB) plans in collective bargaining. Some of our union's recent successes include Bombardier Local 1075 in Ontario and Pepsico Local 1996. We also have representatives on the Board of Trustees for two multi-employer pension plans (MEPPs): the Canada Wide Industrial Pension Plan (CWIPP) and the Nursing Home and Related Industries Pension Plan (NHRIPP).

Expanding the Canada Pension Plan is still our best option

Unifor, like the Ontario government, supports an expansion of the CPP as the best approach to strengthening the retirement income system. The need for action across Canada is clear and Ontario is no exception. Only 37 per cent of Ontario workers are covered by a workplace pension plan and, even

more troubling, only 28 per cent of private sector workers have a workplace pension plan. Ontario workers are not saving voluntarily for retirement; there is \$280 billion dollars in unused RRSP room. Increasing life expectancy means that next generation of Ontarians will be living longer than the generation before them¹.

In the absence of action by the Federal government, the ORPP is a positive step in addressing workers' need for decent pensions. Unifor continues to support the OFL/CLC position that the ORPP should feature universal coverage, mandatory participation, shared contributions from employers and employees, and predictable retirement benefits indexed to inflation. The ORPP should model the CPP so that it could eventually be folded into an enhanced CPP.

No Exemptions: The ORPP should be truly universal

The Ontario government has proposed that Ontarians with a comparable workplace pension plan will not be required to participate in the ORPP. The discussion paper indicates that only defined benefit (DB) plans and MEPPs will be considered comparable to the ORPP.

Unifor takes the position that there should be no exemptions. Excluding DB and MEPP plan members will create administrative difficulty that will limit the potential for integration with the CPP in the future. Additionally, there are many DB and MEPP plan members who could benefit from additional retirement income from the ORPP.

DB and MEPP pension plans play a significant role in our retirement income system, but we should not assume that all members of these plans are receiving sufficient retirement income. In fact, for many plan members the ORPP would provide an important supplement to their retirement income. In some sectors pension benefits are often very low, sometimes below \$250 due to low wages and contribution rates.

Unifor members in NHIRPP generally contribute about four per cent of earnings (matched by the employer) to the plan. Their pension after 25 years of service, if they hold full time employment, would replace about 35 percent of their income. In the best case scenario the NHIRPP pension is helpful but it is not always sufficient.

Members of defined benefit pension plans will also stand to gain by participating in the ORPP. Few private sector defined benefit plans provide inflation protection, a key component of the ORPP. Despite considerable effort in the 2012 round of negotiations with the Detroit 3 (Ford, General Motors, and Chrysler) Unifor (CAW at the time) was unable to bargain inflation protection for our members. Also, the experience of Nortel retirees, who lost almost 30 percent of their defined benefit pension when the company filed for bankruptcy, serves as a reminder that universal pension plans like the CPP/ORPP offer a higher level of security than single employer DB plans.

¹ Ontario Budget 2014, Chapter 6: Retirement Income Security

Unifor supports the decision of the Ontario government not to exempt members of Capital Accumulation Plans (CAPs) from participating in the ORPP². As noted in the discussion paper, CAPs increase the diversity of options in the retirement income system but they lack important features that are required of decent pensions: inflation protection, benefits for life, and pooling of investment and longevity risk.

The ORPP Discussion Paper also expressed concerns about high investment management fees which erode growth of retirement savings. Several studies have identified that investment fees in CAPs depend on the size of the pension fund, with the larger funds benefitting from economies of scale and smaller funds and individual investors paying exorbitant fees, typically above 2.5% of savings³. Furthermore, experts caution investors that high rates of return may be a thing of the past⁴.

Low-Income Workers must be allowed to participate in the ORPP

Unifor supports the position of the Ontario government that low income workers should be allowed to participate in the ORPP. The discussion paper proposes that the ORPP would mirror the basic exemption of the CPP at \$3500. This will ensure widespread coverage, stable membership, and higher ORPP benefits. The inclusion of low income earners is a cornerstone to universal coverage.

Unifor supports Ontario's calls for the federal government to expand the Working Income Tax Benefit (WITB) and amend the claw back of the Guaranteed Income Supplement (GIS). The WITB would provide tax relief for ORPP contributions made in low income years. In the absence of action from the federal government the Ontario government should consider a made-in-Ontario WITB. The structure of the GIS is flawed – low income workers have some of their CPP benefit carved out of the GIS. As we improve retirement income for Ontarians through the ORPP, it is a good time to address the shortcomings in the current system which penalizes low income earners in saving for their retirement

Self-Employed Workers must be accommodated

While Unifor does not directly represent self-employed workers, some of our community chapters include freelance workers who work on a contract basis. Our community chapter members are not unlike many Ontarians currently working as independent contractors. Given the increase in precarious employment in the labour market there is a clear need for pension coverage for the self-employed. The Ontario government has demonstrated its support for self-employment as a career choice through the Ontario Self Employment Benefit, which is directed at unemployed workers. The Ontario government should extend their support for this choice to retirement income. As such, Unifor supports Ontario's proposal to enter into discussions with the federal government regarding an amendment of the Income Tax Act, which would allow self-employed workers to participate in the ORPP.

² CAPS include Defined Contribution Plans, Group Registered Retirement Savings plans and Defined Profit Sharing Plans.

³ Robert Brown, Shifting Public Sector DB plans to DC: The experience so far and implications for Canada, October 2014. Arthur's Report on Pensions, 2008.

⁴ R. Guay and L. Allaire Jean, "Long-Term Returns: A reality check for pension funds and retirement savings," C.D. Howe Institute, Commentary 395

Concluding Remarks

Ontario has the opportunity to create a universal pension plan that will benefit the workers of Ontario, particularly the next generation of young workers. The Ontario Retirement Pension Plan could become the model and inspiration for all Canadians who want a secure and decent pension. Unifor will continue to actively support an ORPP that models the CPP.

Please find answers to the discussion questions in the attached appendix.

Yours Sincerely,

A handwritten signature in black ink, appearing to read "Jerry Dias". The signature is fluid and cursive, with the first name "Jerry" and last name "Dias" clearly distinguishable.

Jerry Dias
National President
Unifor

JD:nmcope343

Attachment

Appendix

DISCUSSION QUESTIONS: COMPARABLE PENSION PLAN

1. The government's preferred approach remains a CPP enhancement. Therefore, the definition of "Comparable" should be determined with a view to maintaining the potential for integration with the CPP in the future. With this in mind, should the definition of a "comparable" workplace pension plan mirror the key features of the CPP and ORPP?

Response: Unifor takes the position that there should be no exemptions. Allowing exemptions will create administrative difficulty that will limit the potential for integration with the CPP in the future. Furthermore, the ORPP could become the model for an enhanced CPP. A "flawed" ORPP with exemptions could start to erode the highly valued universal nature of the CPP.

2. Which features of the CPP and the ORPP would be the most important to capture in a "comparable" plan? For example, how important is protection against longevity risk in a mandatory retirement savings vehicle? Similarly, how important is protection against investment risk in a mandatory retirement savings vehicle?

Response: Unifor takes the position that there should be no exemptions. Despite their importance in our retirement income system even DB plans have some insecurity. Nortel retirees lost almost 30 percent of their defined benefit pension when the company filed for bankruptcy. Also, it is important to remember that some DB plans feature low benefit levels and no inflation protection.

3. Are there circumstances under which other retirement savings vehicles such as DC plans should be considered comparable? For example, would establishing a minimum employee/employer contribution rate (that would provide for a similar benefit to the ORPP) for DC plans help make DC plans comparable? Similarly, would requiring members to convert a portion of savings in a DC plan to an annuity upon retirement help make DC plans comparable? If so, would Ontario's insurance industry have the capacity to offer affordable annuities on this scale?

Response: No. Capital Accumulation Plans (CAPs) lack important features that are required of decent pensions: inflation protection, benefits for life, and pooling of investment and longevity risk. Even with minimum contribution rates there is no guarantee that plan members will have sufficient retirement income. High management expense ratios and the lack of transparency around the impact of fees on long-term returns are significant barriers for the average investor.

Similarly, navigating the annuities market can be a confusing and daunting experience for many persons deciding on the best way to turn their savings into pension income. Annuities, especially those with indexation are often expensive and turn out to be cost prohibitive to many retirees. It is questionable that the insurance industry could effectively provide and market affordable annuity options to an already sceptical marketplace.

4. Employers may have multiple and complex retirement savings arrangements. How would employers currently offering non-comparable plans expect their plans to work alongside the ORPP? How much time would employers need to take stock of their current approaches and make decisions about the right compensation mix going forward?

Response: When the CPP was first implemented adjustments were made to the existing workplace pension plans to reflect new contributions to the CPP. At present, many pension plans have benefit rates that are prorated against the CPP. Employers currently providing retirement savings plans to employees are likely to pursue similar action.

Some Unifor members participate in Jointly Sponsored DB Pension Plans such as the Health Care of Ontario Pension Plan and the Ontario Municipal Employees Retirement System. As jointly sponsored plans with contributions that are negotiated by various unions across a multitude of collective agreements, it may be useful for the Ontario government to provide a longer transitional phase. This would allow these plans the necessary time to smoothly adjust their contribution and benefit structures as the ORPP is implemented.

5. In your view, what would be the best definition of “comparable” workplace pension plans?

Response: Unifor takes the position that there should be no exemptions.

DISCUSSION QUESTIONS: LOW-INCOME WORKERS

1. Does mirroring the CPP minimum earnings threshold strike the appropriate balance between contributing and accruing benefits? 2. If not, what should be the minimum earnings threshold for the ORPP? What are the potential tradeoffs?

Response: Yes, mirroring the CPP’s minimum earnings threshold will ensure widespread coverage, stable membership, and higher ORPP benefits. This will also increase the potential for the ORPP to be integrated with the CPP. The ORPP Discussion Paper makes an important point: some low income earners hold more than one job. If the minimum earnings threshold is set at \$15,000, a worker earning \$14,000 in each of two jobs would have total earnings of \$28,000 but not be able to participate in the ORPP.

Furthermore, in our view, the \$15,000 minimum earnings threshold could encourage employers to convert full time jobs to part-time jobs in order to avoid contributions to the ORPP. Employers could also manipulate earnings (hours of work) to ensure all employees stay below the threshold.

3. There will be administrative complexities if the minimum earnings threshold is different than that of the CPP. How might this affect different employers?

Response: Administrative complexities for employers, especially smaller employers could result in confusion and errors in administering their payroll. This would likely affect employee’s attitude and support for the ORPP.

5. Are there other ways that Ontario could help address concerns about the ability of persistently low-income workers to contribute and accumulate benefits?

Response: The ORPP Discussion Paper offers two good proposals to assist low income workers in saving for retirement. The proposed amendments to the Working Income Tax Benefit (WITB) and the Guaranteed Income Supplement (GIS) are the most important steps that need to be taken in order to ensure that the retirement income system is fair to low-income workers. In the absence of action from the federal government the Ontario government should take action where it can and consider a made-in-Ontario WITB.

6. Should Pillar 1 supports, including the GIS and GAINS, be changed so that future low-income seniors do not experience reduced benefits as a result of higher ORPP benefits?

Response: The structure of the GIS is flawed – low income workers already have some of their CPP benefit carved out of the GIS. As we improve retirement income for Ontarians through the ORPP, it is a good time to address the shortcomings in the current system which penalizes low income earners.

DISCUSSION QUESTIONS: SELF-EMPLOYED WORKERS

1. Self-employed individuals will not be able to participate in the ORPP, given the current rules under the federal *Income Tax Act* (ITA). Should Ontario engage in discussions with the Government of Canada to amend the ITA rules in order to allow the self-employed participate in the ORPP?

Response: Unifor supports Ontario's proposal to enter into discussions with the federal government regarding an amendment of the Income Tax Act, which would allow self-employed workers to participate in the ORPP.