

# Benefits

CANADA

## ORPP: Good in theory, bad in practice

Joe Nunes | August 13, 2015



*Note: This article was published in our July/August issue, which was published before Tuesday's ORPP announcement.*

Over the years, a growing chorus of voices has been pleading with the provinces to lighten up on the overburden of pension regulation and give employers a fighting chance to provide a defined benefit promise. Unfortunately, the province didn't listen — which hasn't been great for many defined benefit plan members, because the punitive regulatory system has put the majority of private sector defined benefit plans out of business.

At first, the provinces seemed content to let the newly minted defined contribution programs that replaced defined benefit plans do their intended job of providing workers with a decent pension in retirement. Unfortunately, the same actuarial assumptions that failed to properly fund defined benefit plans have failed to generate sufficient retirement income for defined contribution members.

### Read: [ORPP: A good move](#)

Recognizing that individuals and their employers are not saving enough for retirement, Ontario has been lobbying the federal government to expand the Canada Pension Plan. Unable to convince the feds that expanding the CPP was a good idea, some politicians tried to play a game of chicken: "If you don't work with us to expand the CPP, then we will build our own mini-CPP." Unfortunately for Ontario taxpayers and businesses, the province lost, and it's now very visibly committed to the Ontario Retirement Pension Plan.

I have trouble understanding why there isn't more public outrage about the ORPP. The only thing I can suggest is, people are too busy to really dig into something that sounds simple (more income when I retire!) but is, in fact, very complicated. While I appreciate what the Ontario government is trying to do, I have a number of concerns with its approach.

The current proposal requires contributions from low-income workers. But with old age-security, CPP and guaranteed income programs, it's unlikely these workers will be in dire circumstances at retirement relative to what they experienced in their working years.

**Read: Opinions divided over DC plan exemption from ORPP**

The ORPP also requires full funding, which will mean either a 40-year-plus phase-in of full benefits or an acceleration toward full benefits where older workers benefit at the expense of future generations. The children and grandchildren of the baby boomers already face a less prosperous future and, in my opinion, shouldn't be burdened through additional intergenerational transfers of wealth. I worry it will be too tempting for the government to promise benefits today and push the costs to tomorrow—all disguised in actuarial assumptions that will take decades to prove right or wrong.

Note also that the current proposal establishes a “pension plan” in Ontario — not a social program. As a result, there is no mechanism to access the favourable tax treatment of the CPP without coordinating this program with other tax-assisted programs defined under Canada's Income Tax Act. This means the ORPP will need to be integrated with the pension adjustment system for determining worker eligibility for other programs such as RRSPs, registered pension plans and profit-sharing plans. Essentially, for many workers who have reached the maximum savings threshold under the ITA, it won't generate any new savings. Savers are only changing where those savings are invested.

Because Ontario is travelling this road alone, there's no opportunity to leverage the infrastructure the federal government has put in place for the CPP — an infrastructure that allows for collecting and investing contributions as well as determining and paying benefits. The administrative operation of the CPP is large and complex, and it will be difficult for Ontario to replicate these services. It takes \$600 million a year to run the CPP — in fact, one Fraser Institute study suggests the real number might be more than three times that amount.

**Read: Mixed reaction to ORPP announcement**

Finally, an Ontario-only solution with exemptions for certain employers and their workers means the program will not have as much critical mass as an expanded CPP. Broad participation is very important as a way to spread the governance and administrative costs over as many members and dollars as possible. Currently, defined contribution plan sponsors are not targeted for exemption, but there has been heavy lobbying by this group. And if they're exempt, it will mean even fewer participants sharing the cost of this boondoggle.

The reality that few people want to face is, in a low interest rate environment, it's very expensive for employees and their employers to fund an adequate retirement income. In this context, the fact that Canadians are undersaving for retirement is no surprise.

**Read: What you need to know about the ORPP**

I'm skeptical the ORPP will work — even if Ontario includes every worker and works with the federal government to get favourable tax treatment as well as a beneficial arrangement for the program's administration and investment. But if the ORPP is to have any chance of working, these are the necessary steps the government needs to take.

*Joe Nunes is president of Actuarial Solutions Inc.*

Get a **PDF** of this article.

---

Copyright © 2020 Transcontinental Media G.P. This article first appeared in Benefits Canada.

---