



Response to the paper:
*Ontario Retirement
Pension Plan: Key Design
Questions*

Prepared by the CAAT Pension Plan

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Preface

The Ontario government, through the Hon. Mitzi Hunter, Associate Minister of Finance, has invited citizens to participate in designing the Ontario Registered Pension Plan (ORPP). The consultation paper, *Ontario Retirement Pension Plan: Key Design Questions*, presents almost two dozen discussion questions. As pension management experts overseeing a sustainable and fully-funded plan, we are pleased to have this opportunity to offer our comments on several of these discussion questions and to bring important concerns to Minister Hunter's attention for consideration.

We commend the Ontario government for undertaking this initiative to address Ontario's retirement income savings challenge caused by low workplace pension plan coverage, low personal savings, and longer life expectancy by providing access to a pension plan that, with the right governance and expertise, should efficiently deliver lifetime retirement benefits.

We fully support the government's principles in what constitutes a workplace pension plan comparable to the ORPP because they are aligned with our principles. These are: providing a predictable stream of income in retirement; indexing benefits; portability across participating employers; and, cost-effective administration. Our principles also extend to transparency and the desire for equity amongst a diverse group of members. The CAAT Pension Plan is a "full access" pension plan. The Plan's Sponsors have provided pension access to all employees that far exceeds the minimum pension standards in Ontario: there is no waiting period or minimum hours threshold for part-time employees. They can join the Plan immediately upon hire at any of our participating employers, regardless of their level of earnings or service.

The CAAT Pension Plan provides members with a predictable stream of retirement income for life, in part by effectively pooling investment and longevity risk. The Plan provides inflation adjustments based on 75% of the year-over-year increase in the Consumer Price Index, conditional on the funded status of the Plan. As a jointly sponsored pension plan, members and employers equally share (50/50) the costs and responsibility for the Plan. As a multiemployer pension plan operating in Ontario's postsecondary education sector, we allow for ease of mobility and cost-effective administration as members move from one college or affiliated institution to another.

**The CAAT
Pension
Plan
believes in
full access
for all
employees**

Summary

The CAAT Pension Plan supports the principles behind the ORPP and applauds the government for recognizing the superior efficiency of pooling in defined benefit and target benefit plans. Such plans can deliver predictable retirement income that foster the wellbeing of the elderly, and their families, while easing pressure on government healthcare and social programs by providing a source of deferred taxes and healthier retirees.

Despite our support for the rationale in limiting comparable plans to defined benefit or target benefit plans, we are concerned about some details around the implementation of the ORPP vis-a-vis part-time employees who, unlike full-time employees, by plan design may choose not to participate in the CAAT Pension Plan.

As explained later in this paper, we believe that where someone has immediate access to a comparable workplace pension plan on hire, especially where that plan offers a potentially higher income replacement rate as is the case in the CAAT Pension Plan, participation in the ORPP should not be required as it could lead to a lesser benefit for these individuals in the longer term. In other words, participation in the ORPP should not be mandatory for any employee that either participates in a comparable workplace pension or has access to a comparable workplace pension immediately on hire.

Participation should not be mandatory for those who have immediate access to a comparable plan

Accordingly, we urge the government to focus on Ontarians with the greatest need, namely, those without full access to a comparable workplace pension plan, in designing its implementation strategy for the ORPP. Failing this, we request of the government that, when phasing in the implementation of the ORPP, those with full access to a comparable pension plan should be the last to be required to join the ORPP. This will allow the CAAT Plan to develop the needed communication tools and programs to allow part-time employees to properly assess which plan will best suit their retirement income needs.

About the CAAT Pension Plan

Created at the same time as the Ontario college system in 1967, the CAAT Pension Plan assumed its current jointly sponsored governance structure in 1995. The CAAT Plan is a contributory defined benefit pension plan with equal cost sharing. Decisions about benefits, contributions, and investment risk are also shared equally by members and employers. The Plan is sponsored by Colleges Ontario, OCASA (Ontario College Administrative Staff Association), and OPSEU (Ontario Public Service Employees Union).

With assets of approximately \$8 billion, the CAAT Plan is Ontario's only postsecondary sector plan currently serving 40,000 members from the college system. In its valuation filed as at January 1, 2014, the CAAT Plan is over 105% funded on a going-concern basis with a funding reserve of \$525 million.

Since the economic crisis of 2008, the CAAT Plan's well-diversified investment portfolio has earned an average annual rate of return of over 11.1%, net of investment management fees.

Focus on access to – instead of participation in – a comparable workplace pension

The CAAT Plan agrees with the government's preferred approach to the definition of a comparable workplace pension plan; that it should be limited to defined benefit and target benefit pension plans that provide retirement income for life. However, we seek clarity about the distinction being made between participation in a comparable workplace pension and having access to a comparable workplace pension.

All employees of CAAT Plan participating employers participate in or have immediate access to a comparable workplace pension upon hire. Under the terms of the CAAT Plan, all regular full-time employees of participating employers must join the Plan upon hire while part-time employees have the option to do so at any time during their employment.

The design of the CAAT Plan, including employee eligibility, is the result of its jointly sponsored governance structure

As a jointly sponsored pension plan, CAAT Plan participating employers and members together share responsibility for the design, stability and security of the Plan (including the cost). Thus members' interests are represented in every Plan design decision. This governance model fosters cooperation and flexibility; and encourages prudent and responsible decision-making.

This is evident in the Plan's approach to part-time eligibility, which balances both employer and employee concerns, and greatly exceeds the minimum standards set out in the *Pension Benefits Act (Ontario)*. Immediate eligibility for part-time workers was introduced because the Sponsors determined

that increasing access to the Plan, while reducing administrative complexity, outweighed the potential costs of increased part-time participation in the Plan. Implementing the ORPP based on participation rather than access would interfere with this collaborative decision making process inherent in the jointly-sponsored governance model.

If the ORPP is mandatory for employees with access to a comparable plan, college employees will have the choice between ORPP and a workplace pension – increasing administrative complexity, costs, and risks

Forced choice presents challenges for CAAT Plan administrators and employees

Part-time employees would be forced to make a choice between the ORPP and the CAAT Pension Plan at hire. This presents a communications challenge for Plan administrators who must enable employees to make an informed choice. This requires both an understanding of the value they would receive relative to the contributions they would make in each plan. In the context of the CAAT Plan, it provides a higher income replacement rate for its members than the ORPP proposes but also has correspondingly higher contribution rates. Faced with a choice between the CAAT Plan and the ORPP on their date of hire, part-time employees may choose the plan with the lowest contribution rate rather than consider the overall value of each plan in securing their retirement future.

Digesting plan comparison information also takes time. Under the CAAT terms, newly-hired employees have 30 days from their hire-date to contemplate joining the Plan. If they choose to join the CAAT Plan within that 30 day window they will receive credit back to their date of hire (though they continue to be able to join the Plan at any time and retain the right to purchase the prior service). Will the ORPP allow a similar window of time to enable newly-hired employees to make an informed decision? Will the ORPP allow employees to cease participating in the ORPP at a future date without a termination of employment so that they may join the comparable pension plan on offer through their existing employer?

Taken together, this could result in the ORPP becoming the default choice for a greater proportion of part-time employees and as a consequence they will lose the opportunity to accrue pension at a higher rate with the CAAT Pension Plan. Under this scenario, coverage under the ORPP may increase but at the expense of greater retirement income adequacy via the CAAT Plan.

Part-time member participation is also an important to the health of the CAAT Pension Plan. If fewer part-time employees join the CAAT Plan going forward, the Plan's maturity may increase prematurely. A faster

If fewer part-time employees join the Plan going forward, Plan maturity may increase

Plan maturity rate changes the risk profile upon which the Plan's actuarial assumptions, funding policy, and investment strategies are based – resulting in a higher cost structure over the longer term.

ORPP participation precludes past service purchases for future CAAT Plan members

The CAAT Plan allows part-time employees to purchase pre-enrollment service with a participating employer. If such an employee has already received pension credit for that service under the ORPP, the Income Tax Act would not permit such service to be credited under the CAAT Plan absent a transfer of their ORPP pension credits into the CAAT Plan. Will the ORPP enable members to exercise portability into comparable workplace pensions in the absence of a change of employment? If such service purchases cannot be made, there could be situations where part-time members are not able to make whole their CAAT Plan pensionable service with all of their work at a participating employer – thus impairing their ability to earn a higher pension benefit for a more secure retirement. Part-time members may have better financial resources later in their career to make past service purchases in the CAAT Pension Plan.

Prioritize implementation for those without access to comparable plans

The CAAT Plan applauds the government for addressing the need for better retirement income security with the introduction of a provincial pension plan. This is a pressing public policy challenge which requires bold leadership to address. For the reasons provided above, the CAAT Plan respectfully recommends that the ORPP exempt Ontarians with full access to comparable workplace pension plans.

**Focus on
Ontarians with
the greatest
need**

Nonetheless, if it is the government's intention to expand participation in comparable workplace pensions for all Ontarians — even those with existing access to such pensions — then implementation should be phased in based on need. Rather than focusing solely on the size of employers, the CAAT Plan recommends the government assign implementation priority to citizens without any access to comparable workplace pensions ahead of those with access to these plans. Assigning priority to those without access to a comparable plan or any retirement savings vehicle ensures that resources are directed first where they are needed most and would produce immediate results.

The CAAT Plan thanks the government of Ontario for the opportunity to comment on the proposed ORPP and its implementation.

We would be pleased to expand on our comments.