



Pension Investment
Association of Canada

Association canadienne des
gestionnaires de caisses de retraite

January 28, 2015

Budget Secretariat
Ontario Ministry of Finance
95 Grosvenor Street
3rd Floor, Frost Building North
Toronto, Ontario
M7A 1Z1
via email: ORPP@ontario.ca

Re: Ontario Retirement Pension Plan Key Design Questions

PIAC is pleased to respond to the consultation document released by the Ontario Ministry of Finance in December 2014 on the Key Design Questions regarding the proposal for the Ontario Retirement Pension Plan.

PIAC has been the national voice for Canadian pension funds since 1977. Senior investment professionals employed by PIAC's member funds are responsible for the oversight and management of over \$1.3 trillion in assets on behalf of millions of Canadians. PIAC's mission is to promote sound investment practices and good governance for the benefit of pension plan sponsors and beneficiaries.

As mentioned in our earlier letter to Minister Hunter on December 8, 2014 on the ORPP, PIAC's primary focus as an organization is on investments and governance of pension funds across Canada. As a result, our comments on the consultation questions are really focused on one key element of the proposal - that is, the comparability of DC pension plans as a workplace pension plan.

PIAC Observations and Comments on the Consultation Questions

Our key concern is the proposed exclusion of DC plans as a comparable workplace pension plan for the reasons outlined below. For clarity, PIAC is neutral on the overall advantages of DC vs. DB, as both types of plan designs have proven to be effective in providing retirement income to employees. Many DC arrangements benefit from low fees, professional management, and regular rebalancing which assists members in managing

their level of risk and in achieving their financial objectives. These DC arrangements are therefore very viable retirement savings vehicles.

For employers operating in multiple provinces, a decision to not recognize DC pension plans as comparable would increase administrative complexity and costs as they would be required to integrate their pension arrangements with the ORPP for their Ontario employees while maintaining the status quo with employees in other provinces. Some Ontario employers may even cancel their existing DC programs where the coverage is similar to that proposed by the ORPP, undermining the government's objective of increasing retirement savings in the province. In addition, for DC pension plans where the employer contribution is collectively bargained, it is not possible to unilaterally terminate the plan and would cause undue hardship to the employer to make the additional ORPP contributions.

In PIAC's view, availability of longevity and investment risk protection is not an essential element of comparability vis-à-vis ORPP, for the following reasons:

- While DB plans are expected to be deemed comparable to ORPP, there are many situations where DB plan members re-assume the investment and longevity risk. DB plans have portability options and, at the point of changing employment, many people take this option and transfer the commuted value to their locked in LIRA or RRSP. Similarly, for members of DB pension plans it has become easier to de-lock and cash out of DB pension plans for all kinds of reasons. e.g., financial difficulty, shortened life expectancy, non-residency, 25%/50% de-locking.
- Some DC plans are creating DC options that provide effective decumulation strategies and are offering to their members the option to annuitize their account when they retire by providing them with group annuity quotes. This effectively addresses the issue of longevity risk without taking the choice away from plan members. Many DC plan providers also offer planning tools that help the DC plan member model various retirement scenarios. This gives the member more direction on the level of contributions required to achieve their retirement goals.
- On improving investment risk management for DC pension plan members, significant progress has been made by DC plans and more evolution is under way, through investment structures such as target risk funds, target date funds and managed account options. Large DC plans can be as cost effective as large DB plans, and more cost-effective than small DB plans.

PIAC believes that there should be a simple mechanism to allow DC plans to be considered comparable.

Thank you for this opportunity to share our thoughts on the consultations questions. We would be pleased to provide more input on or meet with you to discuss the points we have raised.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Dan Goguen', with a long horizontal flourish extending to the right.

Dan Goguen
Chair