NATIONAL POST

August 12, 2015

Hard to make new Ontario pension plan look like anything but an unneeded tax

By Andrew Coyne

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That was quite a revealing moment, at the end of Stephen Harper's campaign stop in Markham, Ont., Tuesday. The questions from reporters had finished, but - uncharacteristically - Harper was still ready to answer them.

Not having been asked about the proposed Ontario Retirement Pension Plan (ORPP), the subject of much back and forth between the federal Conservative leader and the province's Liberal premier, Harper returned to the microphone to attack it unprompted. It was, he said, a "payroll tax hike," an "enormous tax increase" on the province's workers. Did he have any qualms about his government's refusal to provide the province with any logistical assistance, let alone agree to a similar reform of the Canada Pension Plan, as his Liberal counterpart, Justin Trudeau, has done? No, he was "delighted."

If there was any doubt, there can be none now. Harper did not stumble into this conflict with Kathleen Wynne and her government: he sought it, and on grounds calculated to his advantage. You can generally read what sort of polls a politician is looking at from his actions, and Harper is evidently looking at polls showing the ORPP, unveiled to much fanfare during the last provincial election campaign, is increasingly unpopular with Ontario voters.

For that matter, so is Wynne. And the lengthening list of exceptions and longer phase-in periods shows she's feeling the heat as well. The proximate cause is the "tax increase" to which Harper refers - 1.9 per cent of the first $90,000 of salary for those affected, or $1,643 a year - but the deeper source of its unpopularity is the continuing failure of its proponents to demonstrate its necessity.

The province takes great umbrage at the suggestion that the "premium" is a tax. After all, goes the argument, the money isn't just spent on programs, but rather is invested and returned to the worker, with interest, when he or she retires. This gets us into rather theological territory: what government spending isn't justified as a form of "investment" that will pay dividends long into the future? When the government takes your money and disposes of it as it sees fit, whether you like it or not, that sure looks like a tax to me.

But that's neither here nor there. As far as its economic impact is concerned, what's relevant isn't what I think or the premier thinks, but what the people whose money it is think. The money they put aside for themselves, in their registered retirement savings plans and what not, they will surely view as an investment. They might feel the same way about a forced saving scheme, such as the Australian program the Fraser Institute has suggested as an alternative to the Ontario plan, where the money stays in your own individual account, under your own control.

But the connection between contribution and eventual repayment becomes a little harder to discern when your contributions are lumped in with everyone else's in a giant state-controlled investment fund - the more so, when the fund's purpose and mandate remain so ill-defined. The Canada Pension Plan, after all, is at least notionally committed to the well-being of its beneficiaries first and foremost (though the plan's mounting costs and exploding payroll are calling that increasingly into question). But the Wynne government keeps letting slip references to the ORPP being harnessed, not to earning the best risk-adjusted return for fundholders, but to financing provincial infrastructure projects - more on the lines of the Quebec Pension Plan than the CPP. Which is to say, a tax increase.

None of this, needless to say, has figured much in the Wynne government's rhetoric. The fund has been sold as a kind of free benefit, a way of "helping" people who can't save enough for retirement; opponents are depicted as heartless social Darwinists who would leave people "on their own" in their retirement years. But of course it isn't anything of the kind.

The ORPP, like the CPP and QPP, isn't a welfare program, where one group of taxpayers pays and another benefits: that's the point of programs like Old Age Security and the Guaranteed Income Supplement. It's a contributory plan, where what you receive is in line with what you put in. The government isn't giving you money, but taking it from you, with a promise to give it back later. It's about income replacement - sustaining yourself after retirement in the lifestyle to which you've been accustomed - not income support. As such, the plan does nothing for those worst off: if you can't afford to put away money for your retirement on your own, you are no more able to afford it because the government forces you to.

But of course, this isn't about the worst off. It isn't even about the population as a whole. It's about a small sub-group of workers, perhaps one in six, most of them middle-income or better, who are held to be saving less than the recommended levels. If so, that might make the case for forcing them to save. But it's a bit of a leap to forcing everyone - or everyone not already covered by corporate or public pension plans - to do the same. Lots of people are saving more than enough as it is, and will resent being forced to save more. And since they are saving more than enough, they may well respond by cutting back on their own private savings to make room for this unwanted incursion on their current income.

There is no generalized crisis of under-saving, then. Without it, the case for a forced saving plan looks rather weak, even on the Australian model, still less the centrally-controlled fund Ontario has in mind. Absent that case, the contributions the government hopes to extract look a lot more to the average person like a tax. And a large and unneeded new tax, provincially based one his federal opponents support is exactly the sort of thing Harper might have hoped to run against.

National Post

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References

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