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Ontario pension plan could end up as 'forced lending corporation,' economist says

By Ted Mallett, Special to Financial Post

The CPP board is told to seek the maximum return for pensioners, while the ORPP Board must do as it's told. That loophole should be closed, says...

The Ontario government announced new details Aug. 11 on how the Ontario Retirement Pension Plan (ORPP) is supposed to work. The picture is a little clearer, but one wonders why a government looking for retirement-income certainty is not more passionate about policy certainty.

Unable to piggy-back on the Canada Revenue Agency to help administer the plan, Kathleen Wynne admits she does not know how much it will cost ratepayers to start a parallel plan from scratch. With CPP administration expenses in the neighbourhood of 1.2 per cent¹ of assets a year, it would be useful to know what sort of target Ontario is gunning for.

The concessions made by the government on allowing defined contribution (DC) plans to exempt some employers from having to deal with the ORPP is likely a result of the earful it received from those who have already invested tremendously in workplace plans. The three-year phasing in of contributions is also a realization of the size of the hit the economy would have taken if employees suddenly had their take-home pay cut by between 1.9 and 3.8 per cent.

Even so, any current DC workplace plan that leaves it up to employees to opt in, with employers matching their contributions, will end up forcing a mandatory four per cent employee premium plus another four per cent from employers.

How the accumulated funds are to be invested is also still up in the air. Ontario made a lot of noise about how the new pension plan administration corporation will be run at arm's length from the government. But on closer examination of the legislation governing it, "arm's length" seems to apply only in the T-rex sense - the investment fund in easy reach of the government's jaws even with a locked elbow.

The corporation's defining operatives are to "administer" and "invest" the funds as a trustee - so far so good. However, it is also required to "exercise such other powers and perform such other duties as may be provided under this Act or any other Act." This wording may seem fairly non-problematic; after all, any creation of government must surely have to follow the laws of the land. But compare that objective with a key one given to the Canada Pension Plan Investment Board: "to invest its assets with a view to achieving a maximum rate of return, without undue risk of loss."

The contrast is stark. The CPP Board is told to seek the maximum return for pensioners, within reasonable limits, while the ORPP Board must do as it's told. Without being a conspiracy theorist, it means the door is wide open to Ontario telling its so-called arm's-length board where to invest the money with little regard to financial sensibilities.

So rather than being a pension plan for the benefit of workers, it has the danger of becoming a forced lending corporation for any public scheme the province needs funded off the books. That open door needs to be closed right away.

To invest its assets with a view to achieving a maximum rate of return, without undue risk of loss

The risks are quite real because we went through something similar when CPP was first introduced in the 1960s. At that time, with payroll contributions rolling in and only modest payouts to retirees, the provinces borrowed all available funds and paid only wholesale rates of interest back into the system. The result was an underperforming pension plan that needed to be drastically reformed by the mid-'90s for fear it would eventually run out of cash. CPP contributors have been paying elevated rates ever since - far beyond the actuarial value of their future benefits.

Ontario Premier Kathleen Wynne stated correctly in her press conference that no one can know for certain what kind of Ontario we will have a couple of generations from now. The trouble is, with what we still don't know about it today, the ORPP does not add any certainty.

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References

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