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February 11, 2015

The Honourable Mitzie Hunter
Associate Minister of Finance
7 Queen's Park Crescent, 6th Floor
Toronto, ON M5A 1Z5

Dear Minister Hunter:

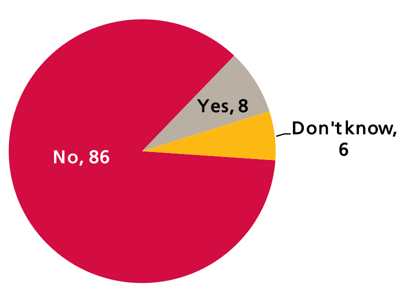
Re: "*The Ontario Retirement Pension Plan: Key Design Questions*"

On behalf of our 42,000 small and medium-sized member businesses in Ontario, the Canadian Federation of Independent Business (CFIB) welcomes the opportunity to comment on the above consultation paper. While we support the objective of enhancing the retirement savings of Ontarians, we have a number of grave concerns with the Ontario Retirement Pension Plan (ORPP) proposal – namely, the impact that it would have on the province's small and medium businesses, and consequently, their employees and the overall economy.

The proposed ORPP would be phased in over two-years, starting in 2017. Both employers and employees who do not currently have a workplace plan would be required to contribute 1.9 per cent on earnings up to $90,000, to a maximum of $1,643 each per year. This represents a 40 per cent increase in the pension premiums they currently pay to the Canada Pension Plan (CPP). Regardless of whether you call these contributions a premium, a tax, savings, or an investment, one thing is clear – these will be a **mandatory charge on employers' payrolls and on their employees' paycheques.**

As you know, CFIB's position on any policy issue is formulated entirely by the views and opinions of our members. In this case, we surveyed our members to get their perspectives on the ORPP proposal when it was first introduced in Ontario's Budget last May. The results indicate that the vast majority (86 per cent) of respondents oppose the implementation of the ORPP (Figure 1).

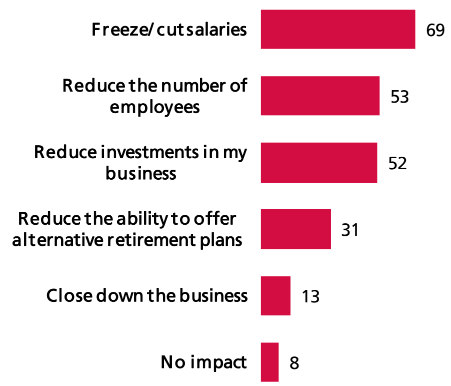
Figure 1: Implementation of the Ontario Retirement Pension Plan
Do you support the implementation of the Ontario Retirement Pension Plan? (% response)



Source: CFIB, Ontario Pre-Election Survey, 2014, n=3,274

The respondents indicated that in order to cope with the added cost of ORPP contributions, 69 per cent would be forced to freeze or cut salaries and 53 per cent would have to eliminate jobs (Figure 2). At a time when the provincial economy continues to stagnate, this type of plan would certainly create significant financial hardship for small businesses and the people that they employ, especially for those who are already finding it tough to operate day-to-day.

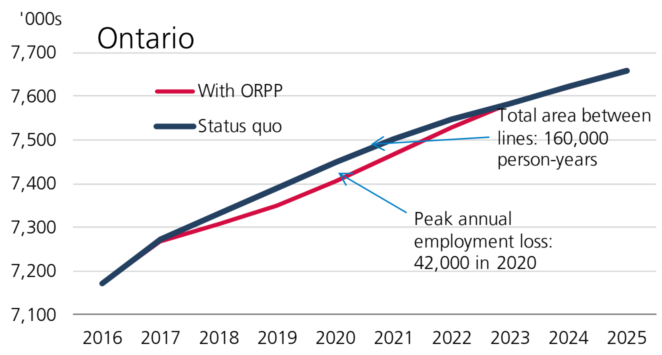
Figure 2: Impacts of the Ontario Retirement Pension Plan
If implemented, what impact would paying additional Ontario Retirement Pension Plan premiums have on your business? (% response)



Source: CFIB, Ontario Pre-Election Survey, 2014, n=3,274

To that end, we have conducted an in-depth macro-economic analysis of the impact that the ORPP would have on jobs and the economy more broadly. The analysis shows that this mandatory pension plan would cost Ontario 160,000 person-years of employment (Figure 3). As well, it would increase the province's unemployment rate by 0.5% by 2020 and would permanently reduce wages in the longer-term.

Figure 3: Impact of the Ontario Retirement Pension Plan



Source: CFIB, Provincial Retirement Pension "Plan B", 2014

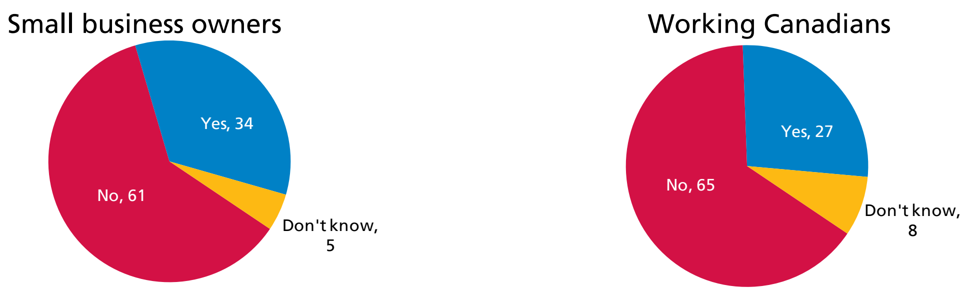
The Problems:

1. **If implemented, the ORPP will severely undermine the ability of Ontario's job-creators to grow their businesses and continue offering new jobs to Ontarians.**
Both our member survey data and the economic analysis presented above indicate that the ORPP will have a stagnating effect over the small business community and the provincial economy.

2. **The ORPP targets mostly small business owners and their employees.**
   The current proposal exempts those with defined-benefit (DB) plans from contributing into the ORPP. This means federally regulated industries, big businesses and most public sector workers will not be impacted by this new mandatory premium. It is unfair and rather cynical that those that will be exempt from the plan are its loudest cheerleaders (namely, public sector unions).

3. **Forcing additional pension contributions reduces income available to cover essential goods and services for Ontario families.**
   As we have discussed previously, the issue of insufficient retirement savings for segments of the Canadian society has resulted not from a lack of savings options or motivation to set more money aside for retirement, but from a lack of disposable income. In fact, in a public opinion poll conducted for CFIB by Angus Reid Global, 65 per cent of working Canadians indicated that they could not afford to save more for retirement (Figure 4). These results are similar to the results of a recent CFIB survey on the same topic (also see Figure 4). Ultimately, any new or additional taxes or fees would reduce Ontarians' ability to pay for essential goods and services such as food, rent or mortgage payments.

Figure 4: Affordability of Supplementary Pension Plans
Currently, can you afford to save more for retirement? (% response)



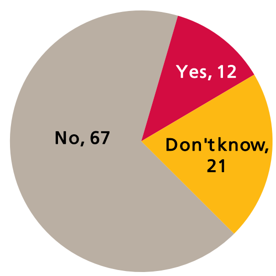
Source: CFIB, How to save more for retirement?, December 2013, based on 8,346 small business responses and 1,607 responses from working Canadians

Moreover, employees would expect larger wage increases from employers to offset the loss in income due to mandatory ORPP deductions on their paycheques. This would put additional undue pressure on employers and magnify job losses and wage reductions. Again, at a time when Ontario's economy continues to be fragile and many Ontarians are already struggling to cover immediate expenses, such as rent, mortgage and debt payments, one has to ask why the government does not explore more realistic and affordable options to enhance retirement savings?

4. **It would take 40 years for employees to receive full benefits.**
   This is a point which has not been broadly communicated by the government. Any increase in the future disposable income of the retired is offset by the decline in the disposable incomes of those contributing today. This is only made worse by the fact that the working poor would be asked to contribute even though this would lower their entitlements to existing social security supplements (i.e. clawing back OAS and GIS), which replace close to 100 per cent of the income for that segment of society.

5. **Ontarians don't trust an entity at arm's-length from government to manage their retirement savings.**
Opposition for the ORPP can be further explained by the questionable past performance of existing public pension funds, many of which already carry large unfunded liabilities to the tune of billions, and have required the injection of public dollars in order to meet pension obligations. As such, 67 per cent of small business owners do not feel that they could trust an arm's-length government agency to manage the ORPP funds responsibly (Figure 5). This is not surprising given that existing entities with similar structures have already severely eroded the trust of the general public and small businesses through their lack of transparency and accountability. The structure of the current proposal begs the following questions: what would happen to an underfunded ORPP? Who would be responsible for any shortfalls? Ultimately, taxpayers would be on the hook for shortfalls and would bear a significant portion of the risk, as has been demonstrated time and again.

Figure 5: Trust in Government Entities
If the ORPP were implemented, do you feel that you could trust an arm's-length agency to manage the plan responsibly? (% response)



Source: CFIB, Ontario Pre-Election Survey, 2014, n=3,274

The Problems: summary

As discussed above, here is the list of the specific measures under the ORPP proposal that we find most worrisome:

1. **The ORPP unfairly targets small business owners and their employees.** This essentially creates a new tax specifically targeted at small businesses and their staff.
2. **The 1.9 per cent contribution rate** (each) for employer and employee is far from modest and is actually **a massive 40 per cent increase** to the current pension (CPP) payroll premiums that they pay.
3. As the ORPP premiums will be charged on income up to $90,000, those earning between the current CPP limit of $52,500 and $90,000 will have to pay **a brand new tax** that did not exist on that income level before.
4. The ORPP will be **administered by a new arm's-length agency**. Existing entities with similar structures have already severely eroded the trust of the general public and small business due to their lack of transparency and accountability.
5. The ORPP is expected to collect $3.5 billion annually in contributions in Ontario alone, which will be invested by a public sector pension fund. The fact that many of these pension

funds currently have **billions of dollars in unfunded liabilities** does not instill confidence in those who would be paying into the fund.

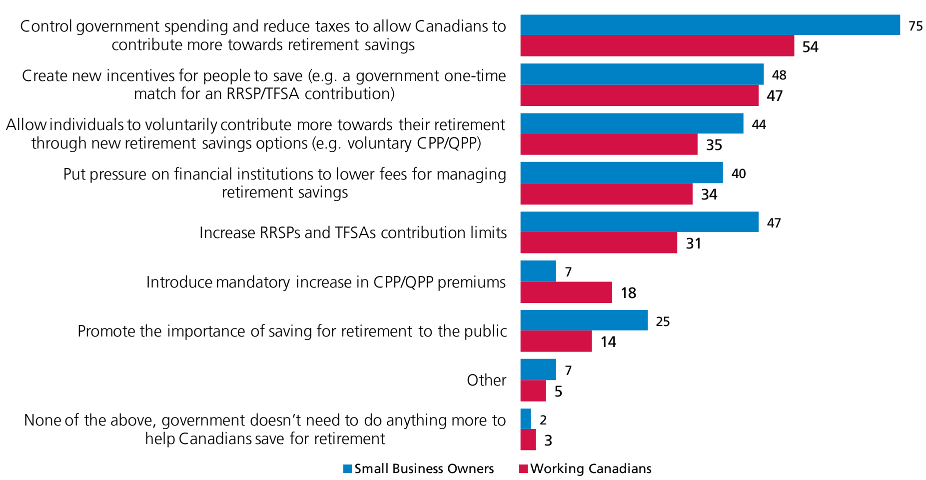
6. Employers will **have to remit to the ORPP separately from the CPP**, which will result in a duplicative remittance process and an **enormous increase in red tape**. This severely undermines the government's ongoing efforts to be a leader in cutting red tape for business (CFIB recently gave the province a B+ rating in acknowledging the government's regulatory reduction goals).
7. As the ORPP is a provincial pension plan, it **will significantly undermine the competitiveness of Ontario businesses** compared to those elsewhere in the country that will not be saddled with paying a new mandatory payroll premium.

As such, we cannot emphasize enough how devastating the implementation of this ill-advised mandatory pension plan would be for the small business sector and for the provincial economy overall. **To-date, we have collected over 16,000 member petitions and over 4,800 signatures from individuals and business owners through our online petition opposing the ORPP proposal.** Clearly, there is very little support for a mandatory pension plan because of the devastating financial impact it would have on the economy and job creation. **These views reflect a strong representation from the business community and the people employed in small and medium-sized firms and we urge you to give them the attention and consideration they deserve.**

The Solutions:

1. **Reduce taxes to increase retirement savings affordability.**
We also asked both working Canadians and small business owners about government measures to help increase retirement savings. They suggested that the best way for government to help them save for retirement was to control its own spending and pass those savings on through tax reductions (Figure 6). These groups also point to allowing individuals to voluntarily contribute more towards their retirement through options such as voluntary CPP contributions or through Pooled Registered Pension Plans (PRPPs).

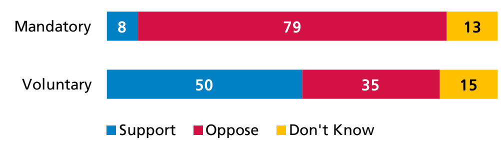
Figure 6: Government measures to help increase retirement savings
What are the best ways for government to help Canadians save for retirement? (% response)



Source: CFIB, How to save more for retirement?, December 2013, based on 8,346 small business responses and 1,607 responses from working Canadians

2. **Make it voluntary.**
While a new mandatory pension plan is seen as extremely burdensome and unaffordable, there is clearly some support for voluntary options. A CFIB survey found that 50 per cent of business owners would support a pension plan in addition to the CPP, if employer contributions were voluntary (Figure 7).

Figure 7: Nature of employer contributions
In addition to the current Canada Pension Plan, would you support or oppose a new Ontario pension plan if employer contributions to the Ontario plan were: (% response)



Source: CFIB, Ontario Supplementary Pension Plan survey, 2013 n=3,195

3. **Encourage participation in other voluntary retirement savings options – exempt them from ORPP.**
CFIB has been very supportive of the government efforts to implement Pooled Registered Pension Plans (PRPPs) and we urge you to pass the recently introduced PRPP legislation as soon as possible. Our members acknowledge that the largest obstacles preventing them from offering a retirement savings plan are the high cost, complexity, and regulatory burden of current options. While the PRPP may not be the panacea for all pension-related ailments, it does address these barriers by mandating lower fees and by shifting the administrative burden from employers to financial institutions. Accordingly, in a CFIB survey of close to 3,600 business owners, 33 per cent indicated that they would consider offering a PRPP in their business. Unlike traditional company RRSPs, PRPPs are not subject to payroll taxes, which increases the likeliness of uptake as well as employers contributing on behalf of employees. In addition, since the government has not yet passed the PRPP legislation, it can design the legislation in a way that it meets some of the design objectives identified in the discussion paper. Specifically, the government could restrict or prohibit withdrawals out of the PRPP, thus meeting the objective of the locked-in funds as outlined in the paper. This would help to enhance the retirement savings of Ontarians without the devastating impact that the ORPP or mandatory CPP expansion would have on the small employers or the provincial economy overall.

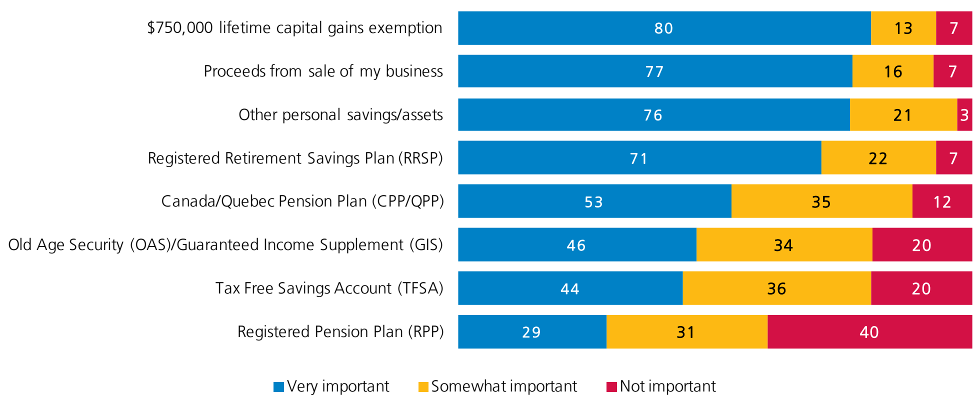
   As previously mentioned, the capacity of small employers to contribute to retirement savings on behalf of their employees is already extremely limited. Introducing a mandatory ORPP would render PRPPs ineffective because there would be no additional room to contribute to voluntary plans. **To help Ontarians save more for retirement, we recommend that the government allow employers with RRSPs, Group RRSPs, PRPPs and Defined Contribution (DC) plans to be exempt from mandatory contributions under the ORPP.** Where contributions are voluntary and an employer or employee can afford to contribute more, allow them to do so. By recognizing these plans as comparable plans, it provides individuals with more flexibility, allowing them to benefit from existing programs such as the Home Buyers' Plan, the Lifelong Learning Plan, as well as from survivor benefits by being able to leave assets to their estate. Recognizing these existing plans would give Ontarians greater control over their retirement investments and it would also eliminate the regulatory burden posed by the ORPP.

We also recommend that the government raise the minimum earnings threshold under the ORPP proposal. The consultation paper indicates that the ORPP is intended to help "middle-income earners". As such, a minimum threshold of $30,000 would more appropriate, reducing the financial impact on small employers while still meeting the government's objective of enhancing the retirement savings of this segment of the population. The question about increased administrative burden as a result of having different thresholds for ORPP and CPP is made mute by the fact that employers would have to make an additional remittance in addition to the CPP - thus, the administrative burden, especially for small businesses would increase regardless.

With respect to the retirement savings of the self-employed, our research indicates that the most important retirement tools for small business owners are the $750,000 lifetime capital gains exemption (which is now indexed to inflation) and the proceeds from the sale of their business or personal savings/assets (Figure 8). Many times, these options are not discussed when evaluating the asset base of future retirees. Ultimately, such options should be considered as part of the retirement savings mix and we support the government's direction to not include the self-employed in the ORPP.

Figure 8: Most Important Retirement Mechanisms for Small Business

How would you rate the importance of the following savings mechanisms for your retirement plans? (% response)



Source: CFIB, Securing the Future, 2010, n=7,696

The Solutions: summary

Here is a short list of CFIB's recommendations on enhancing retirement savings for Ontarians:

1. **Better control government spending and reduce taxes to increase retirement savings affordability.** Instead of forcing new mandatory pension premiums on Ontarians, the government should focus on enhancing their financial capacity to contribute more towards their retirement.
2. **Do not implement a mandatory provincial pension plan.** Small business owners and Ontarians alike should not be forced to make additional pension contributions.

If the government is determined to proceed with the implementation of the proposed ORPP, we recommend it makes the following amendments to Ontario Retirement Pension Plan Act, 2014 (Bill 56) to mitigate the impact on small businesses and their employees:

3. **Exempt employers with DC plans, RRSPs, Group RRSPs, PRPPs** (following the passage of Bill 57) **from ORPP contributions**; <u>and</u>
4. **Increase the minimum earnings threshold to $30,000**; <u>and</u>
5. **Exempt smaller firms with fewer than 20 employees from contributing to the ORPP**.

We strongly urge you to carefully examine the impact that this proposal would have on Ontario's job creators. If the government is determined on moving forward with this ill-advised plan, despite the evidence that small business owners, their employees and other Ontarians alike cannot afford it, we hope that it will seriously consider the recommendations and other design alternatives that we have put forth in this submission. We look forward to continuing our participation in consultations on all aspects of the ORPP proposal and we hope that by working together, we can create a solution that benefits all Ontarians.

Sincerely,

Original signed by:

Plamen Petkov
Vice-President, Ontario

Nicole Troster
Director, Provincial Affairs

Cc: Hon. Kathleen Wynne, Premier of Ontario
Hon. Charles Sousa, Finance Minister
Jim Wilson, Leader, Progressive Conservative Party of Ontario
Andrea Horwath, Leader, New Democratic Party of Ontario
Vic Fedeli, Finance Critic, Progressive Conservative Party of Ontario
Catherine Fife, Finance Critic, New Democratic Party of Ontario
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