CAAT PENSION PLAN

250 Yonge Street, Suite 2500 P.O. Box 40 Toronto ON M5B 2L7
Tel 416.673.9000 Toll Free 1.866.350.2228 Fax 416.673.9029 www.caatpension.ca

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Re: The CAAT Pension Plan 2022 Ontario Pre-Budget Submission: Resolving Retirement Security Coverage Gaps

CAAT Pension Plan is pleased to share its 2022 Ontario Pre-budget Submission. Our four recommendations are geared toward two specific outcomes. First, improving retirement security for Ontarians. Second, providing easy-to-implement changes which will help resolve existing retirement security coverage gaps. All of which can enable greater access by workers to more efficient and sustainable retirement arrangements that can enable the same or less retirement savings dollars to be set aside today to have more in retirement.

Recommendation 1: Remove barriers to enable worker-choice to contribute more to workplace pensions if they want to.

Currently, limits exist which restrict the ability of a worker to contribute additional amounts to a registered pension plan within the Income Tax Act limits. For example, in a JSPP like CAAT, a member is only permitted to contribute up to a maximum of the contribution amount provided by their employer – this is commonly referred to as the 50% rule.

Based on direct survey data from active CAAT members, over 50% of respondents indicated that they would be interested in making additional voluntary contributions to their CAAT pension. While Additional Voluntary Contributions (AVCs) exist under the PBA, these funds are treated like an account balance and cannot be used to add to one's lifetime pension during their career. Such funds are transferred to the member when they retire and cannot be used towards a predictable lifetime income.

By removing this barrier, this Government can modernize pension rules for workers across the province and allow JSPPs and other defined benefit plans to permit optional contributions beyond 50% of the total contribution rate. This can be done in two ways:

- Permit optional contributions that exceed the contributions made by the employer under section 3.1(1)(1) under the regulations in the PBA. In doing so members would be allowed to contribute towards more pension as the remittances would go directly into their accrual. This should be done *without* adding additional contributions to the employer.
- While *Income Tax Act* provisions may restrict the Government of Ontario from moving forward with the above objective on its own, the Government should also

consider reforming AVC rules to a place where such contributions could be used to buy additional pension.

With workers seeking greater supports from their employers, such changes would make it easer for employers to support their workers by allowing them to contribute more to their pension when they can afford to do so. **As a result, the Government should consider including this in their review as part of the work to create a portable benefits scheme in Ontario.**

Recommendation 2: Facilitate greater innovation in the pension space by removing the need for employer relationship in a registered pension plan.

Based on existing pension legislation, the only way for an employee to participate in a registered pension plan is if there is an employer relationship and the employer sponsors its own or participates in a pension plan. This provision has its roots in a different era when workers predominantly worked for one employer throughout their entire career. Today's employment landscape looks vastly different than it did when this provision was enacted, with the following paradigm shifts showcasing a more representative experience for most Ontario workers:

- More workers are working as self-employed or individually contracted which prevents them from joining benefits and pension programs. According to Statistics Canada, self-employed and contract work represents 14-20% of Ontario's workforce.[1]
- Workers are likely to work for several employers throughout their career. If future employers do not participate in a registered pension plan, it could prevent workers from accumulating their savings under a common platform. A recent study from the Healthcare of Ontario Pension Plan (HOOPP) has shown that the fragmentation of savings between employers can make a material negative difference in one's level of total savings.[2]

With that in mind, the CAAT Pension Plan recommends that the Government should review removing the employer relationship requirement as part of developing its portable benefits scheme so that Ontarians can save under a common platform throughout their career.

Recommendation 3: Permit non-solvency exempt jointly sponsored pension plan (JSPP) asset transfers to multi-employer going-concern only funded JSPP.

The fallout from the COVID-19 pandemic has shown us that now more than ever, workers are looking beyond pay and re-evaluating all aspects of total compensation, of

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[1] Statistics Canada data on self-employed and Statistics Canada data on term workforce

[2] *The Business Case for Good Workplace Retirement Plans*, Page 26

which retirement security is increasingly in focus. Workers are demanding additional supports from their employers, and employers are responding in kind with retention tools such as greater pension offerings as they seek to compete in a now larger market for talent.

With this in mind, CAAT proposes that **the government can allow greater participation in sustainable JSPPs by permitting non-solvency exempt JSPPs to transfer into a legislated going-concern only funded JSPP** (those plans indicated under Section 1.3.1(3) of the Regulations in the Ontario *Pension Benefits Act* (PBA))**.** A well-defined asset transfer process exists within Section 80.4 of the PBA and can be extended to a JSPP to JSPP transfer. As a result, **the CAAT Pension Plan recommends that prior to the forthcoming election the Government of Ontario hold consultations with the pension industry to determine the best legislative structure for a JSPP to JSPP transfer regime.**

Recommendation 4: Align commuted value rules to the way in which plans are funded.

On January 24, 2020, the Actuarial Standards Board (ASB) released its updated commuted value (CV) standards. In their report, the ASB gave merit to the long-standing Ontario JSPP argument that CVs should be paid out using going concern assumptions so as to be consistent with their funding obligation, and provided public policy officials with the opportunity to make such a change. The CAAT Pension Plan continues to advocate for a CV payout methodology that aligns with the way in which the Plan is funded – on a going concern funding methodology.

The current CV standards lead to equity issues among existing members in JSPPs. As JSPPs are funded on a going concern basis, yet have to pay out CVs on a solvency basis (generally are of a larger amount in the current low interest rate market), this discrepancy leads to existing members subsidizing the payouts of those leaving the plan. As a result, plans are forced to put mitigating strategies in place, such as higher contribution rates, to ensure remaining members are not worse off. **With this in mind, the CAAT Pension Plan is asking the Ministry of Finance to review and make amendments to how CVs should be calculated by JSPPs. Alternatively, the Ministry could raise this issue with the Canadian Institute of Actuaries to advocate for their standards to change.**

Background:

Over the past four decades. employers across Canada have moved away from creating their own defined benefit pension plans. This trend is understandable from an employer standpoint given the tremendous amount of risk, cost, and administrative burden it places on an organization if they go it alone by managing their own pension plan. This trend, however, is very troubling as it has led to a growing coverage gap where only 38% of private sector workers have access to any form of retirement savings program through their employer.[3]

Even more concerning, for those workers that do have access to a savings plan, the burden of investment decisions, contribution amounts and retirement budgeting is increasingly being placed on the individual without the comfort of having a predictable stream of income in retirement, payable for life. This transfer of risk from the employer to worker leads to inferior results where workers participate in less efficient individual savings programs which forces savers to save more to pay for fees, manage investment risk and to ensure that they have enough for their retirement. The more efficient path would be for more workers to participate in pooled arrangements where risk is minimized and the volume of membership leads to better outcomes in terms of cost and benefit levels for workers.

The decline in sustainable workplace retirement coverage creates a future risk for the government. Additional public intervention will be required to not only support those that have not saved enough in retirement, but the broader economy as well due to decreased spending from this cohort and its multiplier effects.[4]

By acting now, the Government of Ontario has an opportunity to get ahead of this looming crisis and work to break down barriers, allowing more workers to participate in sustainable, large and pooled retirement pension plans that better serve the needs of todays workforce. By acting, this Government can build on their previous success in removing red tape in the single employer pension plan (SEPP) to Jointly Sponsored Pension Plan (JSPP) asset transfer process, and through creating a new JSPP - the University Pension Plan. Both decisions have permitted more workers in both the private and public sectors to gain access to greater retirement security.

The CAAT Plan appreciates the Government's continued work to reduce red tape in the pension sector and for its consideration of these requests. We would be happy to discuss these matters further and I can be reached at the coordinates below.

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[3] *The Business Case for Good Workplace Retirement Plans*, Page 8

[4] See *Economic* Benefits of Canadian Public Sector Pension Plans

Sincerely,

Evan Howard

Evan Howard
Chief Legal & Regulator Affairs Officer
647-837-3377, ehoward@caatpension.ca

About the CAAT Pension Plan

Established in 1967, the CAAT Pension Plan is an independent, jointly governed plan that offers two designs of a defined benefit pension. CAAT's award-winning DBplus plan is leading an extraordinary pace of growth for the Plan. Originally created to support the Ontario college system, the CAAT Plan now proudly serves more than 200 participating employers in 11 industries including the for-profit, nonprofit, and broader public sectors. Currently, it has over 74,000 active and retired members. The CAAT Plan is respected for its pension and investment management expertise and focus on stability and benefit security. At January 1, 2021, the Plan was 119% funded on a going-concern basis. Learn more at: www.caatpension.ca.