Ontario Retirement Pension Plan (ORPP) – Implications of Universality

Context

- The Ontario government has passed legislation indicating it will implement the ORPP effective January 1, 2017 with a phase in period over two years. Key components of the ORPP are:
  - Employees and employers will contribute an equal amount, capped at 1.9% each (3.8% combined) on an employee's annual earnings up to $90,000.
  - Earnings above $90,000 (in 2014 dollars) will be exempt from ORPP contributions.
  - Contributions would be invested by the Ontario Retirement Pension Plan Administration Corporation, an independent pension organization at arm's length from the government.
  - The ORPP contributions and investment funds would be held in trust for ORPP beneficiaries and would not form part of general government revenues.
  - The retirement benefit depends upon how many years members contribute to the pension plan and their salary throughout those years.
  - ORPP benefits will be indexed to inflation.
- While the ORPP is intended to generate an annual retirement income of about 15% of the members' pre-retirement income, it is unlikely these benefits will be guaranteed (like the OMERS benefit).
- The government originally announced that any member in a "comparable workplace pension plan" would be exempt from required participation in the ORPP.
- Comparable pension plans were initially defined as defined benefit and target benefit plans – including OMERS (although it is not clear whether part-time employees not yet in OMERS would be required to participate in the ORPP, as noted in the February joint Board letter in response to the consultation).
- Throughout a consultation process, the Province heard many divergent objections to the comparable pension plan approach. The Budget papers noted that some stakeholders believe DC plans should also be considered comparable, while other stakeholders prefer mandatory membership for all Ontario workers ("universality").
- In addition to input through the consultation process, we understand the ORPP implementation team believes that universality will make operational processes more straightforward . However, nothing about launching ORPP will be easy. For example, even if the ORPP is universal, the government will have to develop processes to accommodate workers who move in and out of the Ontario workforce (and hence the ORPP). As such, we believe that the same or a similar process could be applied when workers move in and out of exempted plans.
- An ORPP with universal application would impact OMERS on three fronts: cash flows into the plan, benefit levels, and part-time membership levels. It was also reported that Associate Minister Hunter had stated in a recent conference that employers with DB plans like OMERS would be the first expected to comply with the ORPP on Jan 1, 2017. This timing could create additional administrative challenges relating to re-tooling existing systems and processes to be able to comply with ORPP administration and the associated communications and costs for OMERS employers.

Cash Flows – Contributions and Benefits

- Contributions to the ORPP would likely drive an offsetting reduction in OMERS contribution rates and benefits which would shift our cash-flow to a negative position. We anticipate that this could require changes to our investment strategy. It could also impact our ability to recover from market downturns.
  - If OMERS members and employers are required to contribute 3.8% of payroll (1.9% per side is the current government commitment) to the ORPP, it is highly likely that there would be pressure to reduce contributions to OMERS to offset those contributions that will be paid to the ORPP.
    - *For illustration purposes, if OMERS contribution rates are correspondingly reduced*, *the reduction in annual contributions is estimated to be $650 million. This would immediately put OMERS in a negative cash flow position (when pension and benefit payments are higher than contributions).*
  - Such a change in contributions could drive a reduction in benefits that would be provided by OMERS in the future.
  - However, the benefits accrued to date must still be funded and the cash flow mismatch would create additional challenges. It could necessitate a change in the Primary Plan investment mix and could ultimately increase the cost of benefits earned to date, as well as future benefits.
  - In addition, being cash flow negative creates a situation where it could be more difficult to recover from market downturns.

Benefit Levels

- Mandatory ORPP enrollment may reduce the overall value of benefits delivered to our members for the same contribution dollars.
  - While the ORPP design is not yet clear, it is unlikely that the ORPP will provide benefits that are designed to best satisfy the needs of OMERS members (e.g., specific ancillary services we offer).
  - This would reduce the overall value of the benefits our members receive for each dollar they and their employers contribute toward their retirement. The impact would vary by individual and membership class.

Part-Time Member Levels

- Mandatory ORPP enrollment could divert potential members, such as part-time employees, away from OMERS, which in turn could lead to decreased pension coverage for these individuals and detract from the government's objective to promote retirement security.
  - Eligible part-time employees who are not yet in OMERS would likely be less inclined to elect to join OMERS if forced into the ORPP. Since part-timers are a large part of how OMERS grows every year, an ORPP which draws in OMERS potential part-timers will likely increase our plan maturity faster than currently projected potentially increasing the cost of benefits under OMERS.
  - Those part-time employees who choose not to join OMERS as a result of having to join ORPP will most likely end up with a less generous benefit.

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