



Pensions as Problem Solvers: The Future of Retirement in Ontario

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CHECK AGAINST DELIVERY

Good afternoon. Thank you for the invitation to speak today and for that kind introduction. The C.D. Howe Institute is truly an unparalleled forum for thoughtful exchange on the public policy issues of today. At a time when we face daunting economic and policy challenges, I believe that the best way to solutions is through debate and research of all sides of an issue.

As a sign of our commitment to the role that the Institute plays and the importance of taking part in public policy debate and solutions, I'm pleased to announce that OPTrust has become a member of the C.D. Howe Institute.

Before I begin my remarks, I'd like to tell you a little bit more about me. First and foremost, I'm a pension guy. I've been involved in pension policy in government. I have worked for and with public sector jointly-sponsored pension plans. I have worked to defend and advance that model and I've also been involved in restructuring and protecting defined benefit plans in the private sector. I have spent my career defending DB plans. I believe jointly-sponsored defined benefit plans are the highest and best form of pension plan.

Since I am a pension guy, I'd like to talk to you today about the state of pensions and retirement in our province.

First I'm going to tell you about my own organization, since I'd guess that when most of you in this room think big, public sector pension, OPTrust doesn't immediately spring to mind. Second, I'm going to share my views on the current state of retirement security in this province and the ORPP. Finally, I want to explain why I believe public sector pension plans can be problem solvers for a host of policy and economic issues.

So let me begin by telling you about the organization I have the honour and privilege to lead.

OPTrust – The Hidden Gem of the Canadian Pension Industry

OPTrust, or as it is more formally known, the OPSEU Pension Plan, is a jointly-sponsored, defined benefit plan with over 84,000 members and \$16 billion in assets.

Our Plan members are primarily front-line workers for the Government of Ontario, and its agencies, boards and commissions. Our members are a diverse group who perform a wide range of services for our province.

Let me give you some examples.

- Our members are the inspectors from the Ministry of the Environment who make sure your drinking water is safe.
- They are the counter representatives who help you when you visit Service Ontario and the people who work behind the scenes as traffic analysts, corrections officers and project schedulers.
- And I'm sure many of you have met one of our members when you've gone shopping at the LCBO.

As a jointly-sponsored, defined benefit plan, we provide our members with an annual pension based on a formula that takes into account their years of service and their salaries, and once earned, they can count on us for a modest, but predictable stream of income in retirement as long as they live - on average, around \$20,000 a year.

As a jointly-sponsored defined benefit plan, our members share equally in the risks and costs of the plan with their employers, and both groups are represented on the Board with equal numbers of Trustees appointed by OPSEU and the Government of Ontario. Contributions are split 50-50 between employee and employer and decisions about contributions and benefits must be agreed to by both its sponsors.

This governance model is an incredibly effective one, ensuring that members have a voice but also have accountability for helping achieve their own retirement security.

OPTrust, the organization, has a global presence with offices in Toronto, London and Sydney and an investment reach that spans much further. Our investment professionals have built a diversified portfolio of public, private and real estate assets that span over 50 countries across the globe.

Our size offers us a unique advantage – we are big enough to participate in large opportunities, either on our own or as a consortium partner. We can also take advantage of smaller deals that the giants of our industry such as CPPIB are too large to get involved in.

Our investment approach has been highly successful over the years. Since the Plan began operating, our investment portfolio has realized an average annual return of 8.3%. We'll be officially announcing our 2014 investment results next month, but for now I'm confident in telling you that it will be a double-digit year for the Plan.

Complementing our investment activities is a sophisticated responsible investment program. We are an active participant and work with leading organizations that seek to promote sound

corporate governance, shareholder advocacy and RI in Canada and around the world. We work with the:

- Canadian Coalition for Good Governance;
- United Nations-backed Principles for Responsible Investment; and
- The Carbon Disclosure Project, amongst others.

In 2014, OPTrust was nominated for the second consecutive year for a global RI Reporting Award recognizing excellence in responsible investing reporting. We haven't won yet, but as many stars said at the Oscars a couple of weekends ago: it is an honour to be nominated. I'm confident our time will come.

We are more, however, than just investors. We devote equal time to managing and administering the Plan for our members.

From the very beginning, OPTrust has taken a personalized and proactive approach to service, helping our members make informed decisions about what is likely their most valuable asset. I believe that providing peace of mind to our members is an important part of the commitment we've made to them. Behind every pension, behind the formulas and the calculations, there is a person who is counting on us.

In return, our members regularly let us know how much they value the service they receive and rate us very highly – on average, we score 8.75 out of 10 for service satisfaction and we're always looking for ways to do more and do better.

Of course, the bottom line for any defined benefit pension plan these days is its funded status and, there again, we continue to deliver for our members. OPTrust is fully-funded with a comfortable surplus, one of the few pension plans in Canada that can make that claim.

Like just about everyone, the 2008 financial crisis pushed us into deficit. But by 2011, we were back to fully-funded again, the result of prudent funding decisions and strong investment results. We have kept our contribution rates aligned with or lower than many other public sector plans. And we continue to strengthen our actuarial assumptions to enhance the sustainability of the Plan for the future.

Strong investment returns, excellent service, fully-funded. And we have produced these results at a cost of 53 basis points, far below the cost of a group RRSP or a DC plan. Not bad for a pension plan a lot of people have never heard of. Clearly our model works.

I like to think of OPTrust as the hidden gem of the Canadian pension industry, but my goal is for us simply to be known as the gem of the Canadian pension industry.

OPTrust is celebrating its 20th anniversary this year. 20 years ago, a group of thoughtful, committed and visionary people from OPSEU and the Government of Ontario created our plan, ensuring the continued retirement security of thousands of Ontarians and setting the stage for all the accomplishments I've shared with you.

I highlight this because we find ourselves at another inflection point in the evolution of our retirement income system in this province. When OPTrust was founded, the pension industry was probably best characterized as sleepy and somewhat dull. Pensions and retirement weren't on the average person's mind, never mind being front page news.

Times have changed. Although we face tremendous challenges, it is also an incredibly exciting time for our industry. The future of our retirement system is being debated in the press, in living rooms, and in fora like this.

Many people are worried about the future and the increasingly likely outcome that their standard of living in retirement will slip from what their parents enjoyed. So how did we get here? And where is here exactly?

Our Retirement System by the Numbers

To help you understand the state of retirement in Ontario today, I'm going to start by sharing a few numbers. When we look at some of the more recent research on public attitudes and behaviour toward retirement, those numbers paint a grim picture.

RBC's annual RRSP poll found that only 39% of respondents put money away for retirement last year.

The Gandalf Group has found that two-thirds of Ontarians are worried about having enough money for retirement and that 32% of Canadians are more likely to have saved zero for retirement as opposed to the 29% who have saved more than \$100,000 for retirement.

Sunlife's 2015 'Unretirement' report shows that almost 60% of respondents expect to continue working in some capacity after 65, and of these, 32% expect to be working full-time. That's a higher number than those who expect to be fully retired for the first time in the survey's history. The report goes on to show that, while the number has lowered over prior years, 59% of those who plan to work at 66 will be doing so because they need to.

Because they need to.

There are a wide variety of opinions on how much is enough to retire on, or, put another way, the income an average person needs to have a dignified retirement. The numbers I've quoted tell us that, no matter the figure, Ontarians today are not confident they will be able to fully support themselves in retirement. Too many people in our province continue to struggle to save or plan for the future.

I see the problem as threefold:

First, many Ontarians simply do not have access to a workplace pension plan. Only 34% of workers in this province are enrolled in a workplace pension plan.

Second, most of the vehicles we have today are voluntary. We know that voluntary options, such as RRSPs, are not particularly effective at getting people to save. Each year around RRSP season we see reports about the hundreds of billions that Canadians have in unused

contribution room. In 2013, a year when the contribution limit was almost \$24,000, the median contribution to an RRSP across Canada was only three thousand dollars.

We could have a lengthy discussion about the reasons for that, but ultimately, what the numbers tell us is that, despite having the opportunity to save more for retirement, Canadians are not able to take advantage of it.

Third, as much as we would like them to be better, the reality is that financial literacy levels among Canadians are low.

Statscan did a Financial Capability Survey in 2014. Around 17% of men and 23% of women rated themselves in the lowest category - as not very knowledgeable. In fact, the majority of respondents put themselves in the bottom two categories for level of knowledge.

And yet, as our retirement system stands today, we expect people who are not confident about their financial knowledge and capabilities to make effective choices on their own and ensure they have enough for retirement.

This same survey also asked respondents if they knew how much they'd have to save to maintain their desired standard of living in retirement. Almost 6 in 10 did not know.

2008 shone a light on retirement insecurity in Canada. The shift from defined benefit pensions to defined contribution plans has also shifted investment risk onto individuals. In some ways it's like playing the lottery, except a market event at the wrong time will mean a huge loss of financial security rather than putting you on easy street.

With so many in our province and across the country in danger of having financial difficulty in retirement, it's no wonder that retirement has become an issue that is top of mind for both policy makers and ordinary citizens. What will the cost be to future generations, to our economy if we sit back, do nothing, and hope for the best? We've seen this play out before in a different, but equally important sector: healthcare.

Decades ago, planners and policy makers were well aware of the impact the Baby Boomers could have on our healthcare system. When people age, they make greater use of medical services, from prescriptions to long-term care beds. We had the opportunity to intervene early, to build capacity and capability before the wave began to hit. But, as is so often the case, the future took a backseat to the demands of the present and we're all paying the price today.

We find ourselves with a similar situation today, only the matter at hand is our retirement system. And it is encouraging to see so many people thinking about the issues and proposing solutions to resolve them, now, while we still have some runway.

The Ontario Retirement Pension Plan

The main solution before us is, of course, the Ontario Retirement Pension Plan. With it, our province is taking bold steps into uncharted territory to renew our retirement income system.

The ORPP is intended to provide an alternative retirement savings option that will allow more Ontarians to retire in dignity.

Some may call it a blunt instrument; others may question whether it is necessary or will create new issues down the road. What is undisputed is that the people of Ontario have recognized that their own retirements are a huge challenge and they are looking for help.

Let's not forget that retirement security was a major issue in our most recent provincial election and the Liberal party won its mandate – and a majority – in large part by promising to do something about it. When you think about it, it is almost unprecedented that voters essentially chose something that was going to cost them more money.

This is how important the issue of retirement has become to the people of this province.

The design of the ORPP is still being finalized, but let me state here that I support an ORPP that is both defined benefit and mandatory for those without comparable workplace pensions. If we are serious about delivering security and dignity in retirement for more people, they need to know they can count on a predictable and reliable stream of income for as long as they live.

Only a defined benefit plan can do this. And another voluntary program cannot overcome the challenges of undersaving. They simply don't work.

However, as with many things, the devil can be in the details. While I believe that, if the ORPP is established as a mandatory, defined benefit plan we will have gotten the broad principles right, equally important is ensuring that it works in concert with existing low income support programs such as GIS and GAINS. The end result must be an improvement in retirement income, particularly for the poor, not a reshuffling of income sources.

The relationship of work and retirement is also changing. Although many Canadians believe they will remain working after 65 out of necessity, a growing number plan to continue some form of work in retirement because they want to. As a society, our lifespans and health are improving and, along with them, our ability to work longer. Working in retirement should be a personal choice. As we make changes to our retirement income system, we need to find ways to avoid penalizing with clawbacks those who want to continue working and contributing to our economy.

Finally, we need to consider solutions for the self-employed and precariously employed. I think it's also important to recognize that, when it comes to administering the ORPP, a highly effective and tested system already exists for the CPP – a system that Ontarians have already paid for. The wheel shouldn't be reinvented.

I call upon our provincial and federal governments to work together to find ways to leverage systems that are already in place so that the ORPP can be implemented in as cost-effective a way as possible for the people of Ontario. Ontario should not have to pay to develop a new system. Ontario should, for a fee, be given access to and permitted to make use of the existing CPP administration platform.

But the solution isn't just between two levels of government – as good pension citizens, there is a responsibility for us all to play a problem-solving role. The ORPP need not have a bricks-and-mortar structure – there are ways to design it to be more virtual, as it draws upon the expertise that already exists in Ontario, especially in pension plans. An investment organization need not be established for the ORPP. This cost can be avoided through the use of the investment expertise of Ontario's JSPPs.

Big ideas like the ORPP don't come around all that often – and when they do it is easy to play the role of critic. It is easier to voice opposition rather than work through solutions. And so OPTrust will be one of the first, but I hope not the last, pension delivery organization to say “we support this, and we can help make it a reality.”

Public Sector Pension Plans as Problem-Solvers

I've told you about my organization, OPTrust, and shared my views on the ORPP. Now, I'd like to conclude by telling you why I see public sector pension plans as problem solvers.

As our province works through the thorny issues of improving retirement security and implementing a new pension plan, it has one significant advantage: its jointly-sponsored, public sector pension plans. Ontario's large, defined benefit, jointly-sponsored, public sector pension plans, including OPTrust, are global leaders at what they do, both as investors and pension administrators.

The Economist has called us Maple Revolutionaries. Pension plans around the world look to our model for an example of how to get pensions right. Toronto is referred to as the Silicon Valley of the pension world. We are incredibly efficient and good at what we do.

At OPTrust, for every pension dollar we pay out, around 24 cents is funded by contributions. The other 76 cents is generated by investment returns. I think if I came to most of you in this audience, asked you to give me twenty-four cents and told you I'd give you a dollar in return, you'd agree it was a good deal.

A couple of years back, a study looked at Canada's top-10 public pension plans, 5 of which are from Ontario, including OPTrust. In addition to looking at the tremendous impact we have on the Canadian and global economy as investors, it also looked at the costs incurred to do so. Its conclusion? And I quote:

“Management expense ratios of the Top Ten on average are much lower than other actively managed pension funds, and mutual funds, and are comparable to the cost of passive index Exchange Traded Funds”.

Again, a good deal.

At OPTrust, retirement is what we do. We live and breathe pensions. I want to see our organization do more to share that expertise. I want to see more people in this province have access to the advantages of a jointly-sponsored defined benefit pension plan.

As an organization we have participated fully in the ORPP consultation process, as have our peers. The ORPP is also drawing on some of the best and brightest in our industry to help it meet its ambitious timeline.

I'd argue that the ORPP is not the only area where the province can draw on the wealth of expertise that exists in its own backyard. Improving retirement savings options is not the only issue our system faces. I challenge public policy makers to engage with us and learn how we can help solve problems, from small underfunded pension plans to strengthening the Ontario economy. The rest of the world has recognized the treasure we have in the Ontario pension industry. It's time for us to show our home province the full extent of what we can do.

Let me close by saying I believe we have a tremendous opportunity. The decisions we make now about the future of our retirement income system will have an impact for decades to come. It's a daunting responsibility. But I believe that we have the tools, the expertise and the will to do what is right. And I believe that future generations will look back at the debates we had and the decisions we made with respect for our courage, our convictions and our ability to take action.

Thank you. I'm now happy to take any questions you may have.