



We Don't Need the ORPP

Description

The game of chicken usually ends in disaster if it's played on the nation's highways. That also seems to be the case with the Province of Ontario's attempt to force Ottawa to expand the Canada Pension Plan (CPP) by threatening to launch its own pension scheme, dubbed ORPP, for the Ontario Retirement Pension Plan.

There's no love lost between Prime Minister Stephen Harper and Ontario premier Kathleen Wynne, who chose to release details of how the ORPP will work right in the middle of Harper's bid to be re-elected. Harper declined to help Ontario use the CPP infrastructure to collect the payroll taxes required to fund the plan.

Here's why it's a bad idea

What seems to have begun as a bluff now looks to be yet another payroll tax grab foisted upon the public by a high-spending Liberal government that hasn't even costed out this plan. Little wonder it's being panned by many financial experts, notably University of Calgary president's fellow Jack Mintz, who labeled the ORPP a "hare-brained idea," and backed up his *Financial Post* column of August 12 with 10 reasons why he felt the plan should be killed before it's too late.

Mintz said 80% of Ontario workers already have sufficient retiring savings and that the ORPP will hurt the middle class, many of whom will be seeing Old Age Security (OAS) benefits clawed back if the plan helps push retirement incomes to the range of \$73,000 to \$90,000.

Wynne has been criticized for her attempt to portray the ORPP as a benign program intended to help people save. Statistics Canada chief economic analyst Philip Cross says that since the ORPP is intended to be compulsory, that makes it a tax. In this respect, the ORPP uses the same principle as the Ontario Health Premium did when the same Liberals introduced it in 2004: calling it a premium when in fact it was another compulsory tax.

The pity is that the alternative of expanding the existing CPP doesn't have to be all that complicated. Morneau Shepell chief actuary Fred Vettese (also author of *The Real Retirement*) has repeatedly made a point with which I agree.

"While many Canadians are saving enough for retirement with the plethora of programs already available (RRSPs, TFSAs, group RRSPs and employer pensions, PRPPs, RDSPs and taxable savings), Vettese believes that as things stand, 15% to 20% of middle-income households will have significantly less income in retirement than in their working years. 'It is for this low-saving, middle-class minority that an expansion of CPP makes sense, though not the type of expansion that big labour would like to see.'"

A real solution to retirement savings

Vettese's simpler solution is something I've long wondered about myself. Why can't upper-middle-income earners contribute more to CPP if they earn more? "There is nothing wrong with the benefit accrual rate under the CPP, which is 25% of pensionable earnings," Vettese argues. "What really needs changing is the CPP earnings ceiling, which currently sits at \$53,600. It should be increased immediately to at least \$100,000, and even then it would still be lower than the comparable ceiling under U.S. Social Security, which is \$118,500."

This modest CPP expansion would have the benefit of helping all Canadians, not just those in Ontario. It would build on the existing system, so there's no need to reinvent the wheel. From what we've seen about the ORPP so far, the province isn't even sure whether the wheel will be round and will function on the highway to retirement, let alone costing it out. Never mind the negative economic impact of a payroll tax that will force employers without comparable pensions to ante up 1.9% of salary per year, with another 1.9% extracted from the workers themselves.

Your choice at the ballot box

As of mid-August, the ORPP will be phased in by 2017 for larger employers with 500 or more workers, followed by medium-sized firms by January 1, 2018 and smaller firms (50 or fewer employees) by January 1, 2019. Space precludes discussion of the monstrous addition of extending the ORPP to the self-employed, but suffice it to say that now is the time for voters to let politicians know how they feel about this issue at the ballot box.

My view is that Vettese's simple proposal would be a way out for both Mr. Harper and Ms. Wynne, and more importantly, would be the last major tweak necessary for a retirement system that is already pretty comprehensive.

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Author

jchevreau

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