

April 30, 2010

Mr. Chris Forbes  
Federal-Provincial Relations and Social Policy Branch  
Department of Finance  
L'Esplanade Laurier  
15<sup>th</sup> Floor, East Tower  
140 O'Connor Street  
OTTAWA ON K1A 0G5

Dear Mr. Forbes:

**Re: Ensuring the Ongoing Strength of Canada's Retirement Income System**

OMERS welcomes the opportunity to comment and to contribute its expertise on retirement income issues. We will continue to engage in these important discussions as they unfold.

The OMERS organization is:

- a jointly-sponsored pension plan with an over forty year tradition of strong employer/member governance;
- a large multi-employer defined benefit plan with a highly diversified membership of more than 400,000 members from about 920 employers;
- a large pension fund investor pursuing a global investment mandate; and
- an investor of over 25 billion dollars in the Ontario and Alberta economies through major infrastructure, real estate and energy assets.

One in twenty working Ontarians is a member of OMERS.

**Introduction**

OMERS supports options that strengthen the pension system and OMERS ability to continue to provide efficient retirement income to its members, their spouses and beneficiaries. Multi-employer and jointly sponsored defined benefit pension plans are an important piece of the retirement landscape and any reform should maintain and build on the strengths of these models. OMERS believes Canadians who lack pension coverage should have competitive choices through access to pension solutions that best meet their needs. Because we strongly believe that OMERS can and should contribute to greater pension coverage, we support reforms that encourage innovation and growth at large, actively managed pension plans like OMERS.

OMERS is concerned with any mandatory option that could undermine the strengths of the existing system. While a mandatory option would provide coverage for those who do not have it now, it could reduce pension benefits to lower levels for existing plan members – rather than raising levels of overall retirement income. Greater choice between various forms of retirement savings arrangements would help to maintain strong pension plans like OMERS, and create options for those with no retirement plan.

OMERS first focus is on its members. OMERS is one of the largest pension plans in Canada, with recognized administration and investment expertise. We bring this broad perspective to our comments in these important deliberations.

### **Research**

During 2009, both the Ontario Ministry of Finance and the Federal Department of Finance engaged researchers to look at pension coverage and the retirement income system.

Both sets of research concluded that there are groups in the middle class that are not saving enough currently and their numbers may grow in the future. However, there is vigorous debate about the magnitude of the issue and whether the situation warrants major reform or limited and targeted improvements.

Researchers acknowledged further work must be done and assumptions tested. If Canada is to improve its retirement income system, its governments must continue to engage in research to monitor the effects of any changes on retirement income and on existing pension arrangements.

Public policy on the retirement income system cannot be made at 20-40 year intervals, but must be monitored and improved on an ongoing basis.

### **Options for Improving Pension Coverage**

The federal consultation paper reviews three primary options or approaches to the retirement income system:

1. Government-sponsored, voluntary defined contribution (DC) plan(s) – often suggested as an added “tier” on the CPP.
2. Canada Pension Plan (CPP) Enhancement – increasing mandatory defined benefits (DB), by increasing the benefit rate or upper limit on income.
3. Increased Flexibility for workplace pension plans and private savings – including higher contribution limits, different kinds of pension benefit designs and flexibility in the groups of employers in a pension plan together.

Some see a government-sponsored solution as being the most effective. However, if any government-sponsored option (either 1 or 2 above) is chosen, OMERS believes it should allow

choice for Canadians. Competition amongst the most efficient pension providers in Canada will improve the results for Canadians.

Over time, the experience (in terms of administration and investment costs and the increased closure of existing pension plans) of such an option would have to be transparently monitored so that Canadians can evaluate the results. Since experience may be different from expectations, governments should be prepared to modify any selected approach on an ongoing basis.

The third option could allow:

- higher benefit accumulation in a registered pension plan,
- blended DC and DB benefits, such as target benefit plans, and
- multi-employer pension plans for groups such as small employers, self-employed or professionals through an association.

Innovation through reforms to tax and pension rules has been recommended in a number of reports, including that of Ontario's Expert Commission. In response to these calls, the Ontario government has initiated a number of reforms (e.g. Bill 236). Both the Ontario and the federal governments have signalled their intention to move this year on a broad range of further beneficial pension investment and administration reforms and tax changes. Some of these reforms are as needed as they are overdue and should be implemented without delay.

The goals of these reforms should be to raise levels of retirement income for those Canadians with inadequate retirement savings through improvement and growth of the existing system, and generally allowing more efficient and cost effective provision of pensions through larger, consolidated pension plans. Through these reforms, many individuals who are currently not covered by a pension could be covered by existing and new plans. All of these elements would enhance existing workplace pension arrangements and can increase pension coverage.

OMERS has a proven track record on investment and administration of pension plans – investing one of the largest pools of capital in Canada while administering benefits for over 900 employers. OMERS is uniquely placed to participate in further innovations. We have the experience, the people and the capacity to make a significant contribution to any effort to increase pension coverage and strengthen the pension system in Canada.

## Conclusions

In many ways, Canada has a successful pension system. OMERS believes its jointly-governed, multi-employer, defined benefit plan provides an important model. To make our system stronger for the future, OMERS supports reforms that:

- allow additional pension arrangements for Canadians without workplace pension coverage or with inadequate levels of benefits through:



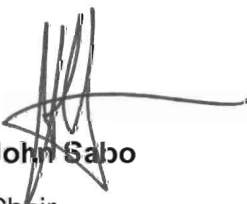
- flexible plan designs,
- new multi-employer plan structures,
- competitive choice of service provider, whether or not a government-sponsored option is available
- improve the existing pension system for current plan members through up-to-date rules and more flexibility; and
- at a plan level, encourage innovation and growth at large, actively-managed pension plans like OMERS to harness the benefits of economies of scale – in investment and administration.

All of the options under consideration have advantages and risks. OMERS strongly recommends a phased-in approach to reform, coupled with ongoing research – it is the most prudent approach. Indeed, a federal-provincial task force to more fully develop viable options would be an appropriate next step to ensure these decisions are made in a transparent manner, with stakeholders across the country having an accurate, common set of facts about the implications of the options.

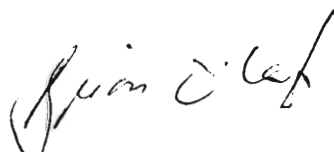
One of Canada's current economic and social strengths is the diversification of our retirement income system – a retirement income system focused on government programs will need to address that risk head on.

We support the agendas of the federal and provincial governments to continue the current examination of the adequacy of pension coverage for Canadians and believe it is in the best interests of all Canadians to do so.

OMERS would be pleased to elaborate on these comments on a date and at a time convenient to the Department of Finance.



**John Sabo**  
Chair  
OMERS Administration  
Corporation



**Brian O'Keefe**  
Co-Chair  
OMERS Sponsors  
Corporation



**Marianne Love**  
Co-Chair  
OMERS Sponsors  
Corporation

copy: The Honourable Dwight Duncan, Minister of Finance