Technical Report

A Roadmap for a Nonprofit Sector Pension Plan

1 million workers

A Decent Work Movement

ONTARIO NONPROFIT NETWORK

March 2017

About the Ontario Nonprofit Network (ONN)

ONN is an independent nonprofit network
for the 55,000 nonprofits and charities in Ontario
focused on policy, advocacy, and services
to strengthen Ontario's nonprofit sector
as a key pillar of our society and economy.

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A Decent Work Movement

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Background and context

This is the ONN Pensions Task Force's report to ONN's Board of Directors and Policy Committee.[1] Our recommendations are intended to provide a way forward for the creation of a nonprofit sector-wide pension plan in Ontario. We also include recommendations for partners of the sector (government, funders, researchers, etc.) where relevant, particularly with respect to pensions literacy and labour market information. We have tried to make the report informative and accessible to nonprofit workers, management, and boards of directors.

The pensions landscape in Ontario's nonprofit sector

> "The vast majority of Canadians [aged 55-64] retiring without an employer pension plan have totally inadequate retirement savings. … The overall median value of retirement assets of those aged 55-64 with no accrued employer pension benefits is just over $3,000. For those with annual incomes in the range of $25,000-$50,000, the median value is near just $250."
>
> \- Richard Shillington, *An Analysis of the Economic Circumstances of Canadian Seniors*

In broad strokes, Ontario workers are having a difficult time saving for retirement in the context of a tough economy and the disappearance of workplace pension plans. People are living longer, low interest rates mean having to save longer to reach the same goal, and, for many people, wages are simply not keeping up with the cost of living. This is especially true for those in precarious employment, working on a casual, short-term or part-time basis. Many workers are focused on paying off student loans, covering childcare costs, managing the cost of housing, or helping their children pay for post-secondary education – very few have the bandwidth and financial planning expertise to give serious consideration to their retirement plans. Given this context, it is no surprise that voluntary savings mechanisms like RRSPs have low take-up and are not adequately preparing workers for retirement. If anything, these trends are heightened in Ontario's nonprofit sector.

As one of Ontario's fastest-growing economic sectors, the nonprofit sector employs almost a million people. Almost half of these jobs (47 per cent) are part-time and/or non-permanent.[2] Many people think of the sector as focused on "good works" and neglect the question of whether nonprofit jobs are also "good jobs" in terms of stability, earnings, and benefits. The challenges of providing "decent work" in the sector are complicated by unique funding pressures and a legacy of doing more with less.

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[1] The ONN Pensions Task Force is grateful for support provided to this project by the Atkinson Foundation Decent Work Fund. We would also like to acknowledge Toronto Neighbourhood Centres, ONN's partner on the Decent Work and Pensions projects. The Task Force is indebted to the insight and expertise shared with us by Michel Lizée of the Quebec nonprofit sector's Community and Women's Groups Member-Funded Pension Plan.

[2] Ontario Nonprofit Network. *Shaping the Future: Leadership in Ontario's Nonprofit Labour Force*. Final Report on Human Capital Renewal Strategy, Phase One. Mowat NFP and the Ontario Nonprofit Network. 2013. p. 15. Available at: http://theonn.ca/wp-content/uploads/2011/06/ONN-Mowat-Shaping-the-Future-Final-Report.October2013.pdf.

There is growing evidence, however, that precarious work and uncompetitive compensation are hampering nonprofits' recruitment and retention efforts and consequently constraining the impact of nonprofit organizations as they strive to fulfill their missions. With the baby-boom generation of nonprofit leaders set to retire in the coming years, and increasing demands on the sector in terms of professionalization and performance, the challenges of recruitment and retention are only expected to increase.

> *"*Next year marks my 40th year working in the not for profit sector. I am 57 and have no pension. For most of my years there were not RRSP contributions, or private pension plans. Because the wages were relatively low there was no opportunity to save. As a single mother with 2 kids I often worked 2 jobs just to make ends meet. I have had a wonderful career; however as retirement looms I am very concerned for myself and those like me. It seems so unfortunate that those of us who have dedicated our lives to helping others in need will have insufficient income with which to retire.*"*
>
> - ONN Survey respondent

A lack of pension coverage has serious consequences for the sector's workers: after a lifetime of serving the public good, more and more of them will have to delay retirement or face a significant drop in income as seniors. While experts suggest that individuals of modest income can comfortably retire on 70 to 75 per cent of their pre-retirement income (known as the "replacement rate"), this threshold would not be met by most in the sector because of the lack of plan coverage coupled with the rising cost of living, lower savings and interest rates, and longer life expectancy.

The Task Force has heard from nonprofit workers who are surprised when they realize that their organization is not going to provide anything for them when they retire. Others assume that public programs will be adequate. Beyond financial considerations, pensions literacy is a challenge and there are few tools that provide practical, unbiased help for individuals to navigate retirement planning.

The impact of retirement insecurity among nonprofit workers extends beyond the workforce and organizations themselves. Attracting and retaining talent is vital to the quality of the services the sector provides. Workers are on the front lines, providing community-based health and social services, arts and cultural experiences, recreation opportunities for youth and seniors, religious services, environmental preservation, and more – and without them, the quality of life in Ontario communities would quickly deteriorate.

The impact of retirement security in the nonprofit sector thus goes far beyond the needs of workers and organizations and can be felt in our communities across Ontario. Retirees with inadequate or unpredictable retirement income spend less in their communities. One economic analysis estimated that defined-benefit pension plans pay out $29 to $31 billion in Ontario, generating a significant boost to spending, as well as $3 billion in income tax.[3] There are thus

[3] Ontario Municipal Employees Retirement System (OMERS). "Defined Benefit Pension Plans: Strengthening the

spin-off benefits to local economies of ensuring income security for the nonprofit sector's retired workers.

The opportunity for change

ONN's 2013 report, *Shaping the Future: Leadership in Ontario's Nonprofit Labour Force* identified employee benefits and pension plans in the nonprofit sector as a key factor in recruitment and retention. With a looming demographic shift expected as baby boomers retired, ONN was determined to address these gaps in the sector. And with the 2014 announcement of the Ontario Retirement Pension Plan (ORPP),[4] ONN saw an opportunity to open up the pension question to address broader pension gaps in the nonprofit sector. Pensions were on the public's radar and the nonprofit sector's, and it was time to act.

ONN's Pensions Task Force was brought together in 2015 to provide recommendations for a pension plan for Ontario's nonprofit sector. Our goal was to provide a roadmap for a modest plan that is affordable for workers and nonprofits, that shares risks carefully, that provide adequate benefits, and is easy to administer. **Such a plan would make a tremendous difference for workers' wellbeing and the ability of the sector to recruit and retain the talent it needs.**

ONN's Pensions Task Force

Mandate

We had two key elements in our mandate:

1) Examine the policy implications and implementation of the Ontario Retirement Pension Plan in the nonprofit sector.
2) Develop recommendations on a proposed structure and process for establishing a dedicated registered pension plan for the Ontario nonprofit sector, whether new or added onto/adapted from an existing plan.

The complete terms of reference for the Task Force are available in Appendix 2.

A note on the Ontario Retirement Pension Plan (ORPP)

The Task Force spent considerable time early in our mandate exploring and modelling options that would have worked in the context of the ORPP. For instance, there was much deliberation on whether the proposed nonprofit sector plan should be designed to exempt participating workplaces from the ORPP. At the end of the day, much of this work had to be re-done to take

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Canadian Economy." 2013. http://www.omers.com/pdf/DBPlans_Strengthening_CDN_Economy_Summary.pdf
[4] The Ontario government has introduced legislation to repeal the Ontario Retirement Pension Plan in the wake of a federal-provincial agreement to enhance the Canada Pension Plan.

into account the federal-provincial decision to proceed with a Canada Pension Plan enhancement and the subsequent cancellation of the ORPP. Because of the new policy context, the Task Force has obviously elected not to include any recommendations about the ORPP in its report.

There is one element of the ORPP discussions that remains relevant, however. There was considerable anxiety in the Ontario nonprofit sector over the cost of ORPP premiums and whether government and non-government funders would incorporate the cost of these premiums into their funding agreements. **The Task Force emphatically supports the principle that funders should pay for the full cost of the programs that nonprofits deliver, including compensation costs for a professional workforce.** Government funders in particular have a tendency to undermine nonprofit delivery budgets with arbitrary rules about "ineligible expenses" (in some cases that includes pension contributions where they are not required by a collective agreement) and this is often an indirect cause of the depressed salaries, absence of benefits, and lack of access to pensions we see in the nonprofit sector.

"I would love to pay more and have a better pension plan, but I don't feel that I currently make enough to be able to afford putting much of my income into it. This connects to the low wages that can be found throughout much of the nonprofit sector."

"From a management standpoint, adding more costs to the business will take away from the services we are here to provide...the money has to come from somewhere."

- ONN Survey respondents

Process

When ONN started talking about a pensions project as part of building a decent work movement in the nonprofit sector, many people showed interest. The Task Force was assembled in fall 2015 to balance expertise in pension design, pension policy, and nonprofit sector knowledge. We have on the Task Force an executive director, a nonprofit worker, a social policy statistician, a retired senior public servant, a retired lawyer who has advised on multi-workplace pension plans, and a retired nonprofit sector leader who has established pension plans at his former workplaces.

One of the Task Force's first steps was to meet with Michel Lizée, who was the catalyst behind the Community and Women's Group Member-Funded Pension Plan, a multi-workplace pension plan for nonprofit workers in Québec. Michel was kind enough to present to the ONN Conference in 2015 about the Quebec sector's experience and explain why its Quebec group landed on the plan design it has now. The ONN Task Force was pleased to take lessons learned from the Quebec experience into account in coming up with our own recommendations for the Ontario nonprofit sector.

The Task Force has met nine times since then to deliberate and advance the conversation, and along the way has directed ONN to:

- conduct comparative research on the size, governance, design features, and funding status of existing multi-workplace pension plans in Canada
- develop financial models to show what "adequacy" and "affordability" might look like for different plan designs, first taking into account the ORPP and then the CPP enhancement
- undertake a survey of ONN subscribers in June 2016 (Pension Survey Highlights Report is available here)
- conduct focus groups in fall 2016 with board members and executive directors in the sector to further explore the sector's level of interest, concerns, and needs
- reach out to existing pension plans in Ontario that either would have good advice for our process or might even be good platforms on which to build a sector-wide plan
- reach out to labour union representatives for advice
- communicate regularly with the nonprofit sector to raise awareness of this project specifically, as well as the need to talk about pensions in our sector more generally

The challenges were considerable: balancing affordability with adequacy; dealing with limited labour force data on the sector; and handling the changing landscape in terms of the cancellation of the ORPP and negotiations over the CPP enhancement. The Task Force was encouraged by the ONN survey results that showed individuals in the sector think they should be making significant pension contributions over and above existing CPP premiums (and this was even more encouraging since the survey was conducted at a time when people were expecting to start paying ORPP contributions).

Building on past work

There are two reports on which we relied heavily to come to our own conclusions on the need for and type of pension plan the sector should consider.

Shaping the Future: Leadership in the Ontario Nonprofit Labour Force

The Mowat NFP research team was retained by ONN in 2013 to work with ONN's Partners' Advisory Council to collect data to inform the development of a human capital renewal strategy for the nonprofit sector in Ontario. This report provides a summary of the research findings from key informant interviews, online survey, and focus groups.

The report is helpful because, despite the fact that the nonprofit sector is a significant employer representing 2.6 per cent of Ontario's GDP, sector-specific research and comprehensive databases are largely unavailable, posing a barrier to meaningful human resource planning and development for the sector. One of our recommendations is that ONN continue to advocate for better labour market information in, and for, the nonprofit sector. For more specific advice on this need, please see Appendix 8.

The *Shaping the Future* report provides information of particular value when looking at retirement issues. In this report, we rely on the findings about such things as size of workplaces, average salaries, provision for pensions and RRSPs, rate of unionization, and the higher prevalence of health and welfare benefits and pensions in unionized workplaces.

One of the themes that emerges from the data collected by the researchers is that the sector is in competition with other industries to attract and keep employees. Provision of benefits, including pensions, is an important component of that competition.

A Fine Balance ("The Arthurs Report")

The Ontario Expert Commission on Pensions was established in November 2006 by the Minister of Finance, the minister responsible for pensions. It was chaired by Harry Arthurs, former president of York University and former dean of Osgoode Hall Law School. The Commission's mandate was to review Ontario's occupational pension system, the first such review in over 20 years. As Professor Arthurs was the sole Commissioner, we call its findings and recommendations "The Arthurs Report."

The issues the Commission grappled with were obviously much broader than those assigned to the ONN Task Force, but there are many elements of his report[5] that are pertinent to our own mandate. Arthurs does a careful and thorough examination of the types of pension plans available and the pros and cons of and risks inherent in each. He struggles with many of the same issues we do. We borrow heavily from his report in describing concepts and identifying pensions innovation and best practices.

Arthurs makes a point of saying that there is a need for more innovative pensions policy and practice. We take that to heart in our own report.

What follows are a set of questions and answers that tell the story of how the Task Force arrived at its recommendations. Our questions address the design elements for a sector-wide plan that seek to balance the need of nonprofit workers to maintain their standard of living upon retirement, on one hand, and the realities of the budgets of nonprofit organizations and workers, on the other.

[5] *A Fine Balance* ("The Arthurs Report") (2008), Report of the Expert Commission on Pensions is available at: http://www.fin.gov.on.ca/en/consultations/pension/report/Pensions_Report_Eng_web.pdf There is also a useful summary of the report at:
http://www.fin.gov.on.ca/en/consultations/pension/report/summary.html

15 Questions about a Nonprofit Sector Pension Plan

The ONN Pensions Task Force grappled with a large number of questions in developing our recommendations. We decided to frame our report in a question-and-answer format and we ended up with fifteen questions that were central to the task.

Q1. Does the sector need a pension plan?

Discussion:

> "[Developing a pension plan] would be a definite benefit (and a good role for ONN to undertake) especially if it was consistently available throughout the nonprofit sector. It would help create a level playing field when hiring. Also it contributes to equity in society. Young people with education debts should not disregard working in the nonprofit sector just because they do not want to retire poor."
>
> - ONN Survey respondent

The lack of pensions available to nonprofit workers poses a barrier to recruitment and retention, according to Mowat NFP and the Ontario Nonprofit Network's *Shaping the Future*. With 50 per cent of the labour force working for organizations with 10 or fewer employees, and only 14 per cent of nonprofit organizations covered by collective agreements, pension coverage is low. Among the vast majority of nonprofits that are non-unionized, only a minority (41 per cent) of permanent, full-time employees have access to a workplace pension or employer RRSP contributions – and only 2 per cent of contract part-time staff do.[6] Since almost half of nonprofit workers are on part-time or short-term contracts, this means a large part of our workforce has no coverage.

Aren't the CPP and other public programs enough?

The question of what is "enough" is a matter of some debate, although it is generally accepted that an adequate retirement income replacement rate is 70 per cent of pre-retirement earnings. That is to say, a person at the average annual wage in Canada in 2016 of $54,900 would have an adequate retirement income if they received 70 per cent of that, or $38,430. The Task Force has adopted this standard.

The Canada Pension Plan (CPP) provides a retired worker (or their beneficiary in certain circumstances) with a retirement benefit that depends on how much they and their employer have contributed over the years. Old Age Security (OAS) (and the Guaranteed Income Supplement, GIS, which "tops up" OAS to a certain minimum income for low-income Canadians) is a social security benefit that is not tied to a person's participation in the labour force.

[6] *Shaping the Future* (2013), p. 12-16.

In many other OECD (Organisation for Economic Co-operation and Development) countries, the retirement income that a worker would receive through the equivalent of the CPP and OAS/GIS would be enough to live on. Many industrialized economies have pension plans that are much more generous than what we have here in Canada. Here, retirees receive only 36.7 per cent of their pre-retirement earnings from public programs (CPP, OAS/GIS) in retirement. Pension experts Bob Baldwin and Richard Shillington note in a forthcoming article that, for employees at or above average wages, Canada's replacement rate is 7th and 4th worst among OECD countries. In other words, Canada's public programs are nowhere near adequate.

Let's take a closer look at the CPP and the effects of the recent enhancement. Unlike OAS/GIS, which are funded through general revenues, the Canada Pension Plan is funded in equal parts by the employee and employer (4.95 per cent each). The CPP is a defined benefit plan (see the Appendix 1 glossary for an explanation of key terms), indexed to inflation. Benefit amounts depend on how much and how long a worker contributes up to the "year's maximum pensionable earnings (YMPE)" ($54,900 in 2016). It aims to replace one-quarter of average earnings up to this threshold. The maximum monthly benefit in 2016 was $1,092. As the chart below demonstrates, many Canadian workers will experience a drop in their standard of living when they retire if they rely exclusively on public programs.

Gap with existing CPP

Annual income

	0% of average industrial wage	**50%** of average industrial wage	**75%** of average industrial wage	**100%** of average industrial wage (CPP YMPE)	**114%** of average industrial wage (Upper Earnings Level)
	$0	**$27,450**	**$41,175**	**$54,900**	**$62,600**
OAS	$6,846	$6,846	$6,846	$6,846	$6,846
GIS	$9,283	$5,375	$3,736	$2,097	$2,097
CPP	$0	$6,555	$9,833	$13,110	$13,110
Total	**$16,129**	**$18,776**	**$20,415**	**$22,053**	**$22,053**
Replacement	**n/a**	**68%**	**50%**	**40%**	**35%**
Remaining gap	n/a	$439 **2%**	$8,407 **20%**	$16,377 **30%**	$21,767 **35%**

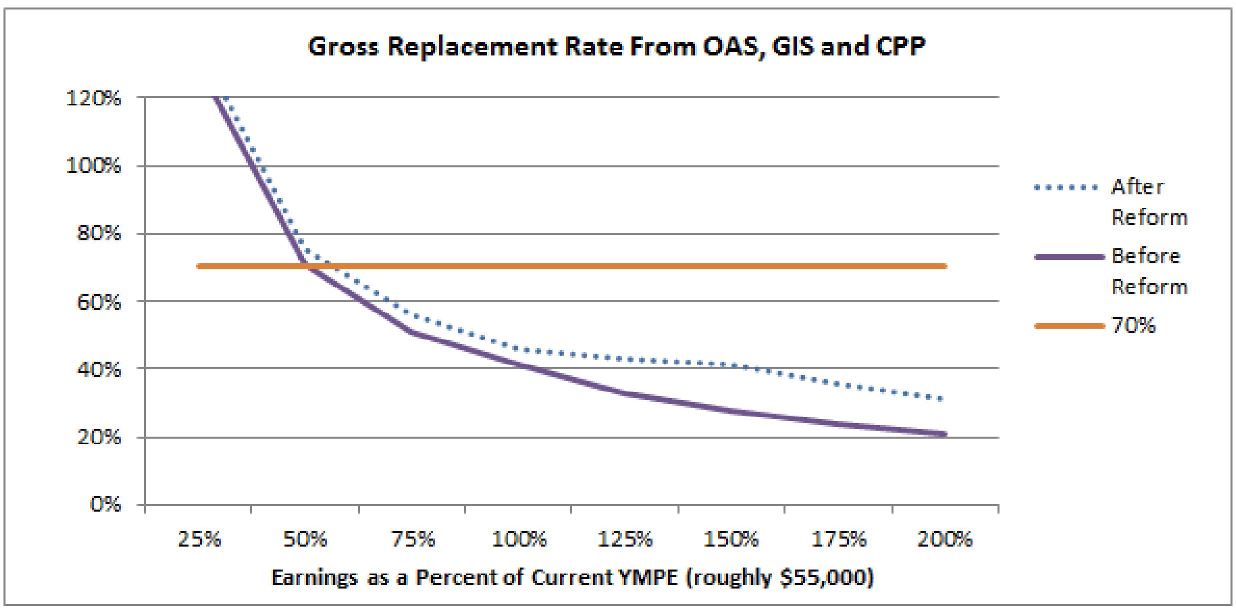
- Public programs (in their current design) are not enough to enable most workers to replace 70% of their pre-retirement incomes
- Workers with lower pre-retirement earnings already have full (or close to full) income replacement through OAS, GIS and CPP

1

What does the CPP enhancement look like? [7]

Even with the enhancement that will be implemented as a result of the June 2016 agreement by federal and provincial governments, there is still a big adequacy gap. Contributions up to the YMPE threshold will rise by one per cent each (employers and employees), rising from 4.95 per cent to about 5.95 per cent of earnings. Contributions will also be made on a higher range of earnings up to the "upper earnings limit" (increased by 14 per cent, which brings the upper threshold to approximately $82,700 at full implementation in 2026, or $62,600 in 2016 dollars). Contributions are expected to be about four per cent each (employer and employee) on this portion of earnings.

Following full implementation, the CPP will aim to replace one-third of earnings, up from one-quarter, for workers who have contributed at the new rate for 40 years, up to the YMPE. For workers with above-average earnings, benefits will also reflect coverage of a larger portion of their income.



In the graph above,[8] the increase in benefits from the CPP enhancement is represented by the difference between the dotted line and the solid line. For most workers in the nonprofit sector, it will make only a modest difference to their retirement income.

[7] Note that the design details of the *enhanced* CPP are still being confirmed at the time of writing as Bill C-26 is passing through the Senate of Canada.
[8] Shillington, Richard and Baldwin, Bob (Forthcoming) Publication based on OECD, Pensions at a Glance 2015; OECD and G20 Indicators. https://data.oecd.org/pension/gross-pension-replacement-rates.htm

Gap with <u>enhanced</u> CPP

Annual income

	0% of average industrial wage	**50%** of average industrial wage	**75%** of average industrial wage	**100%** of average industrial wage (CPP YMPE)	**114%** of average industrial wage (Upper Earnings Level)
	$0	**$27,450**	**$41,175**	**$54,900**	**$62,600**
OAS	$6,846	$6,846	$6,846	$6,846	$6,846
GIS	$9,283	$4,282	$2,098	$0	$0
CPP	$0	$8,739	$13,109	$17,478	$19,930
Total	**$16,129**	**$19,867**	**$22,053**	**$24,324**	**$26,776**
Replacement	**n/a**	**72%**	**54%**	**44%**	**43%**
Remaining gap	n/a	n/a	$6,769.26 **16%**	$14,105.76 **26%**	$17,043.76 **27%**

- With the CPP enhancement, a worker who earns 50% of the average industrial wage over their whole career would now have an income replacement rate of over 70% through public programs alone.
- The gap is also reduced for higher-earning workers, although a gap still remains.

2

The CPP enhancement will not significantly affect today's workforce. Changes will be phased in between 2019 and 2026. Because it takes decades to accumulate significant benefits at the new rate, today's young people who will soon enter the workforce and retire in forty to fifty years will be the first generation to truly benefit from the enhancement.

Even once the CPP enhancement has taken effect, a significant gap for modest-income workers will remain, especially if their work has been part-time, seasonal, intermittent, or through self-employment – as is the case for almost half our nonprofit workers. We need a plan to fill more of the remaining gaps in retirement income for workers.

What about RRSPs?

Conventional thinking is that individuals without a workplace pension plan are expected to save for retirement with registered retirement savings plans (RRSPs). There is ample research that shows, however, that there are three problems with relying on RRSPs: they are voluntary and take-up is low, they cost too much in fees, and they leave too much of the burden on individuals when they would do much better to pool their risks, reduce their fees

> "I really worry about our employees who have moderate salaries and who are not contributing to their personal RRSPs. A pension for them would be a boost for our sector and our retention of employees."
>
> - ONN Survey respondent

through economies of scale, and collectively purchase professional investment expertise.

First, there is the voluntary nature of RRSP contributions. A recent study shows that RRSPs, even though they are supported by significant tax incentives, are not up to the task of securing an adequate retirement income. People are simply not saving enough while working to afford a comparable lifestyle for the years or decades they may expect to live after retirement:

> "The vast majority of these Canadians [aged 55-64] retiring without an employer pension plan have totally inadequate retirement savings. For example, roughly half have savings that represent less than one year's worth of the resources they need to supplement OAS/GIS and CPP/QPP. Fewer than 20 per cent have enough savings to support the supplemented resources required for at least five years. The overall median value of retirement assets of those aged 55-64 with no accrued employer pension benefits is just over $3,000. For those with annual incomes in the range of $25,000-$50,000, the median value is near just $250."[9]

Second, the mutual funds in RRSPs do not provide individuals with nearly the same returns as pooled plans can provide. There are two reasons for this: fund performance and fees. According to Keith Ambachtsheer, in a recent academic study involving 500,000 Canadian mutual fund investors and their 5,000 advisors, "over the course of the last 15 years these investors underperformed the market by an average 3 per cent per annum" and the advisors' own investment portfolios underperformed by 4 per cent per annum.[10] Furthermore, the mutual funds in RRSPs have management fees that average *five times as much* as those for pension plans. The high cost of mutual funds means that, according to a recent study, "the average mutual fund investor will have to work until age 72 to accumulate the same amount as the pension plan holder had by age 65."[11] The poorer performance of mutual funds combined with their high fees mean that individual savers have little hope of securing an equivalent retirement income, compared to their counterparts with pension plans, without investing much more.

Finally, there is the burden that RRSPs place on individuals. There are two types of burdens: the burden of risk (longevity risk, market risk) and the burden of decision-making.

There is no opportunity to pool risks in RRSPs (and the same is true for Group RRSPs[12]).

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[9] Shillington, Richard (2016) *An Analysis of the Economic Circumstances of Canadian Seniors*. Broadbent Institute, p. 7. Available at: http://www.broadbentinstitute.ca/an_analysis_of_the_economic_circumstances_of_canadian_seniors

[10] Ambachtsheer, Keith (2016) "Is the New Canada Pension Plan Expansion Based on Myths or Facts? A Reader's Guide." Available at: http://kpa-advisory.com/policy-papers/print/is-the-new-canada-pension-plan-expansion-based-on-myths-or-facts-a-readers-guide/

[11] Macdonald, David (2015) *The Feeling's Not Mutual: The High Cost of Canada's Mutual Fund Based Retirement System*. Canadian Centre for Policy Alternatives, p. 5. Available at: https://www.policyalternatives.ca/publications/reports/feeling%E2%80%99s-not-mutual

[12] Group RRSPs are vehicles for employers to contribute to their workers' individual RRSP accounts. They generally have lower investment management fees than individual RRSPs but these fees are still much higher

One's standard of living, and even ability to retire at all, depends on how well the market performs. RRSPs are a form of savings, not a pension plan, in which it is possible to know how much is contributed but not how much will be available to live on in retirement. By contrast, the Canada Pension Plan or any defined-benefit or target-benefit plan can manage market volatility across large groups of people and across generations. No one received less CPP in the wake of the 2008 Great Recession, but many people worked longer or retired on less if they relied on RRSPs.[13]

With RRSPs, an individual also runs the risk of outliving their savings. Investment advisors tell individuals to plan to live to age 90, even though the average life expectancy is lower than this. In a pension plan, there is the opportunity to pool longevity risks so that contributions reflect average life spans and no one faces the prospect of outliving their savings.

On the subject of the decision-making burden, our survey of the nonprofit sector indicated that many people do not feel confident in making decisions about choosing the right savings tools and investment funds. Only six per cent of respondents indicated that they would prefer to manage their own investments rather than take advantage of a sector-wide or workplace plan. The Task Force firmly believes that pensions literacy is needed in our sector – but not everyone has time to become investment experts. Workers should not be penalized financially for their lack of knowledge. We have concluded that it is better for an individual to participate in a pension plan that is managed by professionals than to have to make personal investment decisions that may or may not turn out well.

> "I feel grotesquely under-informed about retirement planning, and the most accessible information is provided by people who are trying to sell me things."
>
> \- ONN survey respondent

Even if nonprofit workers could find the money to invest, refrain from diverting it from other expenses like down payments on housing, and develop the confidence needed to select good investment options, mutual fund fees mean that RRSPs are probably the least efficient way to support the retirement income security of our sector's workers.

Pensions as a component of decent work in the nonprofit sector

ONN has been an advocate for advancing a decent work movement in the nonprofit sector. It has recently launched an employee benefits program for nonprofit sector workers in Ontario and this pensions project is another key component of improving working conditions in the nonprofit sector. Making this a reality will take a concerted effort on the part of nonprofits,

than the fees associated with pensions plans.

[13] Grant, Tavia (2011) "Freedom 68: Canadians feel retirement dreams fading." Globe and Mail. March 8, 2011. Available at: http://www.theglobeandmail.com/globe-investor/retirement/freedom-68-canadians-feel-retirement-dreams-fading/article569919/

governments, and other funders.

Recommendations:

The Task Force recommends that Ontario nonprofit workers should have access to a sector-wide pension plan. We recommend that ONN proceed with the next phase of this initiative, which should begin by sharing the major conclusions of this report with the sector. If, as we anticipate, the sector indicates it is interested in proceeding along the lines of our recommendations, ONN should seek legal, actuarial and related expertise to flesh out our broad proposals.

The Task Force specifically recommends that, on the basis of this demonstrated need and the importance of providing decent work in the nonprofit sector, the cost of pension premiums should be factored into all government and non-government funding agreements with the sector, regardless of whether contributions are a requirement of a collective agreement.

Q2. What level of pension benefit is needed in the sector?

The Task Force deliberated on what level of retirement income should be considered "adequate." There is no consensus on this question in financial planning literature and a great deal depends on individual lifestyle. In general, higher-income earners need a lower replacement rate because more of their spending is discretionary. Lower-income workers, by contrast, have many fixed monthly expenses (such as rent) that continue past retirement and therefore may need a higher replacement rate, such as 80 per cent or possibly even higher. Furthermore, lower-income workers are less likely to have private savings that they can rely on in retirement.

The Task Force landed on a 70 per cent replacement rate as a reasonable benchmark for "adequacy," taking into account combined income from all public (OAS, GIS, and CPP) and workplace pension sources.[14] It is worth noting that our models of "adequacy" are based on reaching 70 per cent replacement at the average industrial wage for Canada, which is the level at which the CPP "year's maximum pensionable earnings" is set ($54,900 in 2016).[15] Because benefits from OAS/GIS have a bigger impact at lower-income levels, this means that lower-income workers could reach higher than 70 per cent with a sector-wide plan if contribution

[14] The study group that developed the Quebec nonprofit sector Member-Funded Pension Plan used the same threshold for adequacy.

[15] As noted above, the Task Force was limited by a significant lack of labour market income (LMI) information on Ontario's nonprofit sector. We used the Canadian average wage for calculations in the absence of current statistics on the average and median wages in the nonprofit sector. We have made specific recommendations to support the development of LMI in/for the nonprofit sector in Appendix 8.

rates are a fixed percentage of income.[16]

The 2014 proposal for the Ontario Retirement Pension Plan would have replaced 15 per cent of a worker's income when they retired – adding to the 25 per cent replacement rate that comes from the CPP and a modest amount that most people can expect from Old Age Security, and from the Guaranteed Income Supplement if they are very low-income. In this way, the ORPP would have provided a significant improvement to many workers' retirement income.

The enhanced CPP, by contrast, will provide only 8 per cent more of a worker's income – bringing the replacement level from 25 per cent to 33 per cent. This represents just over half what the ORPP benefit would have provided. Furthermore, the CPP enhancement has a long phase-in process and the new level will not be reached until today's teenagers retire. The modest nature of the CPP enhancement means that many nonprofit workers without a workplace pension could still experience a significant drop in their standard of living when they retire.

It is clear that the CPP will be important, but not sufficient to provide adequate retirement income security for our workers. It will not bring most workers anywhere close to the 70 per cent adequacy threshold that we have established, and it will not bring lower-income workers to the 80 per cent or 90 per cent that they may need.

Recommendation:

The Task Force recommends that a nonprofit sector pension plan, together with public plans, should aim to provide workers at the average industrial wage for Canada with a 70 per cent income replacement rate during retirement.

Q3. Should participation in a nonprofit sector pension plan be mandatory if the plan is available at a workplace?

Discussion:

When discussions take place about introducing a pension plan in a workplace, there is often a debate as to whether it should be mandatory for all employees. Sometimes the pension arrangement will be that an employer will match contributions voluntarily made by an employee. If the employee decides not to contribute, neither does the employer.

[16] Note that the pensions literature is not consistent in calculating the replacement rate. At times, OAS/GIS are included and at other times they are not. The Task Force decided to include all public programs.

While the mandatory/voluntary issue might be thought of as a “detail” to be decided later if and when ONN puts forward a proposal, we feel it is a critical enough to flag at this stage.

It is sometimes framed as a philosophical issue about “individual freedom,” “self-reliance,” and “personal responsibility.” Employers often favour a voluntary arrangement. This may be because they have strong views on the philosophical question. They may also be motivated by their cost savings if not all employees are in the plan. Some employees may resist a mandatory plan as well, often due to more bread-and-butter reasons such as a preference for seeing a greater portion of their compensation come to them directly as take-home wages.

We don’t need to answer the philosophical question. It is sufficient that we point to the earlier discussion in Q1 of this report about the need for a pension plan for the sector. That shows the woefully inadequate levels of personal retirement savings, despite a significant tax inducement for RRSP contributions. The pension literature shows clearly that people don’t generally contribute adequately to their retirement savings when arrangements are voluntary. The current voluntary system for retirement savings (in the form of RRSPs) has proved to be inadequate. We note that many other pension plans make participation mandatory and the sector plan would be far from unique in this respect.

In the interest of maximizing pension coverage and economies of scale, it makes sense for workplaces that are subject to a collective agreement to include non-bargaining positions (including management) in the pension plan on a mandatory basis as well.

There are legitimate concerns that it can be cumbersome, administratively difficult and of minimal benefit to some employees to be forced into a plan if they are short term, temporary or work few hours. We note that Ontario pension legislation does permit a waiting period before employees are enrolled in a plan based on a minimum period of employment or dollar amount of wages and ONN could elect to adopt those features. For instance, the ONN Employee Benefits Program available to ONN member organizations has a threshold of 20 hours per week for part-time workers to be eligible to join. It would make sense to choose a similar threshold for part-time workers to be eligible to join the pension plan.[17]

[17] The Pension Benefits Act has a provision that applies to part-time workers such that “A pension plan may require not more than twenty-four months of less than full-time continuous employment with the employer, with the lesser of: (a) earnings of not less than 35 per cent of the Year’s Maximum Pensionable Earnings; or (b) 700 hours of employment with the employer, in each of two consecutive calendar years immediately prior to membership in the pension plan.*”* That works out to about 14 hours per week, taking into account two weeks’ vacation. The same provisions apply for a Multi-Employer Pension Plan and all hours at all relevant employers count.

Recommendation:

We recommend that participation in a sector-wide plan should be mandatory for all employees (including management and contract/part-time workers above a threshold) where the plan is to be available in a workplace. Our recommendation is not intended to preclude the plan establishing a reasonable waiting period or other minimum eligibility requirements as permitted by legislation.

Q4. What level of contributions is needed to provide an "adequate" retirement income – and can the sector afford this?

Discussion:

What level is needed?

It is not possible to secure adequate retirement benefits without making regular contributions over the course of a working life. As the chart below demonstrates, Canada has unusually low mandatory contribution rates for public and private pension plans by international standards. There are many OECD countries that have rates twice as high as ours. In Canada, those of us who are not independently wealthy will either need a workplace plan or substantial private savings on top of OAS and CPP in order to enjoy an adequate retirement income.

9.1. Mandatory pension contribution rates for an average worker in 2014

	Public		Private		Total
	Employee	Employer	Employee	Employer	
Australia		9.5			9.5
Belgium	7.5	8.86			16.4
Canada	4.95	4.95			9.9
Chile			11.2	1.15	12.3
Denmark	0.54	0.82		12	13.4
Finland	7.05	17.75			24.8
France	6.8	8.45	3.0	3.0	21.25
Germany	9.5	9.5			18.9
Iceland		7.79	4	8	19.8
Israel	3.75	3.75	5.5	12.0	25.0
Italy	9.19	23.81			33.0
Japan	8.737	8.737			17.5
Korea	4.5	4.5			9.0
Luxembourg	8.0	8.0			16.0
Mexico			1.125	5.15	6.275
Netherlands	4.9		16		20.9
New Zealand			3	3	6
Poland	9.76	9.76			19.5
Sweden	7.0	11.4		4.5	22.9
Switzerland	4.2	4.2	7.7	10.4	26.6
Turkey	9.0	11.0			20.0

Note: In some cases, pension contribution revenues have been calculated assuming that the revenues are split between different social security programmes in the same proportion as the contribution rates. The total contribution includes payments from people who are not employed (principally the self-employed). In Denmark the ATP contribution is expressed as percentages of AW earnings DNK 397 484.
Source: OECD (various years), *Taxing Wages*; OECD (2013), *Revenue Statistics*; Social Security Administration, United States (various years), *Social Security Programs throughout the World*; OECD pension and tax models.

StatLink http://dx.doi.org/10.1787/888933301228

9.2. Social insurance contribution and mandatory private contribution rates for an average worker in 2014

	Public		Private		Total
	Employee	Employer	Employee	Employer	
Austria	10.25	12.55			22.8
Czech Republic	6.5	21.5			28.0
Estonia		16.0	2.0	4.0	20.0
Greece	6.67	13.3			20.0
Hungary	18.5	28.5			47.0
Ireland	4	10.75			14.75
Norway	8.2	14.1			22.3
Portugal	6.4	13.8			20.2
Slovak Republic	7.0	20.0			27.0
Slovenia	15.5	8.85			24.4
Spain	4.7	23.6			28.3
United Kingdom	9.05	11.9			20.95
United States	6.2	6.2			12.4

Note: In some cases, pension contribution revenues have been calculated assuming that the revenues are split between different social security programmes in the same proportion as the contribution rates. The total contribution includes payments from people who are not employed (principally the self-employed).
Source: OECD (various years), *Taxing Wages*; OECD (2013), *Revenue Statistics*; Social Security Administration, United States (various years), *Social Security Programs throughout the World*; OECD pension and tax models.

StatLink http://dx.doi.org/10.1787/888933301233

We know that public plans will get many workers nowhere near the 70 per cent replacement rate, even with an enhanced CPP. What level of contributions are required, then, to get to this level? The Task Force asked a policy researcher to estimate a basic contribution and benefit structure for both defined benefit/target benefit (DB/TB) and defined contribution (DC) plan types. Contributions were set so that a worker at the average Canadian wage would achieve a 70 per cent replacement rate.[18]

[18] Although a precise calculation for the sector is impossible without doing actuarial studies, the conclusion is that, based on reasonable assumptions, a contribution rate in the range of about 2.3 per cent each (employer and employee) to a typical DB or TB plan would help nonprofit sector workers achieve an adequate retirement income when combined with public plans like CPP. Because of the higher costs associated with a DC plan, contributions of about 3.4 per cent each (employer and employee) would be needed to reach those same levels. Despite all this, we think something in this range should generate 70 per cent. Assumptions: The individual worked and

Filling the Gap with a DB or TB Plan

Annual Benefits in Retirement

	Status Quo				With TB/DB Sector Plan			
	$27,450	$41,175	$54,900	$82,350	$27,450	$41,175	$54,900	$82,350
OAS	$6,846	$6,846	$6,846	$6,846	$6,846	$6,846	$6,846	$6,846
GIS	$4,282	$2,098	$0	$0	$714	$0	$0	$0
CPP	$8,739	$13,109	$17,478	$19,930	$8,739	$13,109	$17,478	$19,930
TB/DB plan	$0	$0	$0	$0	$7,137	$10,706	$14,274	$21,411
Total	$19,867	$22,053	$24,324	$26,776	$23,436	$30,661	$38,598	$48,187
Replacement	72%	54%	44%	33%	85%	74%	70%	59%
Remaining gap	-$652	$6,770	$14,106	$30,869	-$4,221	-$1,839	-$168	$9,458
	0%	16%	26%	37%	0%	0%	0%	11%

Annual Contributions Pre-Retirement 4.58% = 2.3% each (employer + employee):

CPP	$2,850	$4,483	$6,117	$8,313	$2,850	$4,483	$6,117	$8,313
TB/DB Plan	$0	$0	$0	$0	$1,256	$1,884	$2,512	$3,769
Total	$2,850	$4,483	$6,117	$8,313	$4,106	$6,367	$8,629	$12,082

Filling the Gap with a DC Plan

Annual Benefits in Retirement:

	Status Quo				With DC Sector Plan			
	$27,450	$41,175	$54,900	$82,350	$27,450	$41,175	$54,900	$82,350
OAS	$6,846	$6,846	$6,846	$6,846	$6,846	$6,846	$6,846	$6,846
GIS	$4,282	$2,098	$0	$0	$700	$0	$0	$0
CPP	$8,739	$13,109	$17,478	$19,930	$8,739	$13,109	$17,478	$19,930
DC plan	$0	$0	$0	$0	$7,165	$10,748	$14,330	$21,495
Total	$19,867	$22,053	$24,324	$26,776	$23,450	$30,703	$38,654	$48,271
Replacement	72%	54%	44%	33%	85%	75%	70%	59%
Remaining gap	-$652	$6,770	$14,106	$30,869	-$4,235	-$1,881	-$224	$9,374
	0%	16%	26%	37%	0%	0%	0%	11%

Annual Contributions Pre-Retirement 6.75% = 3.4% each (employer + employee):

CPP	$2,850	$4,483	$6,117	$8,313	$2,850	$4,483	$6,117	$8,313
DC Plan	$0	$0	$0	$0	$1,853	$2,779	$3,706	$5,559
Total	$2,850	$4,483	$6,117	$8,313	$4,703	$7,262	$9,823	$13,872

As the charts above show, a contribution rate of about 2 to 3.5 per cent each (employer and employee)[19] would help nonprofit sector workers achieve an adequate retirement income when

contributed to the *enhanced* CPP and workplace plan for 40 years, with earnings constant over these years. The individual does not have any private savings. OAS and GIS benefit rates for the first quarter of 2016 were prorated to calculate the annual payment. The management expense ratio was calculated at 1.0 per cent, determined to be a reasonable level based on the fact that David Macdonald (2015, p. 11, cited above) reports an average rate of 0.36 per cent for DB plans and 0.69 per cent for DC plans. We also note that all the Ontario pension plans consulted for our report have managed to reduce their administrative cost ratio below 1.0 per cent. A rate of return of 4.80 per cent, an interest rate of 0.5 per cent, and a retirement period of 25 years were assumed. Further details on the methodology can be found in Appendix 10.

[19] Note that this rate provides no buffer in terms of building a reserve fund or offering ancillary benefits such as past service credits or cost-of-living increases. That is why we recommended a higher contribution rate in the

combined with public plans like CPP.[20] The contribution rate would be higher if a DC plan structure is chosen compared to a DB or TB plan structure.[21] [22]

To provide a sense of comparison, the Task Force reviewed the contribution rates for a dozen existing plans in Ontario and other Canadian jurisdictions. Publicly available information on contribution rates indicate that they can vary from 6 + 3 per cent (not all plans require 50-50 contributions) to 11 + 11 per cent of earnings (employer + employee contributions). Sometimes higher rates are applied to earnings over the cut-off for the CPP coverage. In general, target benefit and defined contribution plans had more flexibility to choose contribution rates at the workplace level (with rates starting at 2 + 2 per cent and 1 + 1 per cent, respectively) compared to defined benefit plans, at least in the plans we surveyed. The exception is the Quebec nonprofit sector plan, a defined benefit plan that allows workplaces to join with contributions as low as 1 + 1 per cent (employer + employee).

What can the sector afford?

Knowing that public/mandatory contribution rates in other countries are generally much higher than in Canada and that contribution rates in typical Canadian pension plans are quite high, the Task Force sought the perspectives of the nonprofit sector on what would constitute an affordable contribution rate. Through our survey, we were pleasantly surprised that the majority (68 per cent) of respondents were willing to make contributions in the range of 3-5 per cent – a range that, as we will soon show, has the potential to get our sector's workers to the 70 per cent adequacy threshold. The most popular arrangement by far (82 per cent) was a flexible

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range of 3 to 5 per cent each (employer + employee).

[20] It is important to note that lower-income retirees may see some of their Guaranteed Income Supplement (GIS) clawed back as a result of receiving a workplace pension benefit. The Task Force grappled with this problem and considered structuring the plan in a way that would see low-income workers exempt from paying benefits that could eventually have the effect of disentitling them from GIS. We decided not to pursue this possibility because it was seen as too complicated (it is difficult to know at what level contributions would trigger a GIS reduction, particularly since earnings fluctuate over the course of a career). There was also a concern that this design feature would be difficult to explain to members, especially since on the surface it would appear to exclude the workers most in need of a pension plan from enjoying the benefit of having one.

[21] Reasons for DC plans requiring a higher rate than DB/TB plans to achieve the same retirement income include lower investment returns, higher administrative costs, and individualized risk – meaning that individuals must plan to live to age 90. According to a recent study, "Investment fees, which typically account for 80-90 per cent of total expenses, are the most likely reason that defined contribution plans earn lower returns than defined benefit plans. The reason for the higher fees is that defined contribution plans invest through mutual funds, while defined benefit plans do not." (Munnell, A.H., Aubry, J.P., and Crawford, C.V. [2015] "Investment Returns: Defined Benefit versus Defined Contribution Plans." Center for Retirement Research, Boston College. December 2015. Number 15-21. p. 5. Available at: http://crr.bc.edu/wp-content/uploads/2015/12/IB_15-21.pdf). Costs for DC plans may also be higher because they must manage individual accounts for employees/plan members (who may change their investment options periodically) and provide them with basic investment education. Higher investment fees and account management costs therefore outweigh the costs incurred by DB and TB plans for actuarial services (not required in DC plans).

[22] Note that rates might also need to be set higher in a DB or TB plan type if provisions such as indexation or credit for past service were built into the structure (see Question 8). These "extras" cannot be built into DC plan types as they require the sharing of risk across a group of people.

plan that starts small (with 1 + 1 per cent contributions) and builds over time.[23] Our own view is that such a small contribution would never generate an adequate pension, so it would be essential to build in an increase up to a minimum contribution after a reasonable initial period of participation in the plan.

In fall 2016, ONN also hosted focus groups with executive directors and board members in Ontario's nonprofit sector. The focus group participants generally agreed that, with board education and a discussion of where the funding would come from, their boards would consider contributions in the range that produced "adequate" (70 per cent) levels according to our modelling (2.3 to 3.4 per cent each). There was also a request to consider phasing this rate in over time. All but one board member who responded to the question said that their organization would consider joining a plan with 2 to 3.5 per cent contribution levels (each, by the employer and the employee). A number of them already contributed in this range to a Group RRSP or similar mechanism.

It is worth pointing out that the Ontario Retirement Pension Plan (ORPP) would have imposed new premiums of 1.9 per cent on both employers and employees unless they participated in a comparable pension plan. The CPP enhancement is expected to raise premiums (at least up to the $54,900 threshold) by only 1 per cent. This change may mean that some organizations that had planned for ORPP premiums may have a little more room in their budgets for contributions. It also suggests that individuals in our survey who at the time thought they would be contributing to an ORPP and were willing to contribute an additional 3 to 5 per cent to a workplace plan, would be comfortable at the higher range of contributions.

Recommendation:

To meet the aim of seeing the average worker reach the 70 per cent adequacy threshold, the Task Force recommends that employers and employees should each contribute 3 to 5 per cent of earnings per year. The plan type should be structured if at all possible to allow for:
1) contributions rates that are set at the workplace level, and
2) contributions being adjusted over time as budgets allow.

According to our consultation with the sector, this level should be considered reasonably affordable among the majority of nonprofits and their employees.

[23] See the ONN survey in Appendix 4 for more details. Percentages provided are combined "somewhat interested" and "very interested" responses.

Q5. Is a sector wide plan a good option?

Discussion:

Our mandate was to develop recommendations for a sector wide plan. We thought we should first address the implicit assumption that a sector-wide plan is a good option (in contrast to separate plans at individual workplaces).

The Arthurs Report says this about the advantages of a large plan:

> "Large pension plans generally achieve better results than small plans or individuals who manage their own investments... Large plans are able to employ extensive teams of financial analysts, pay lower investment management fees, and gain access to private equity placements and other investment opportunities not available to smaller plans or individuals. Moreover, large plans are able to spread the risks inherent in pension plans across a larger member base. And finally, these plans can achieve significant economies of scale in their administration and in providing service to their members."

While Arthurs doesn't define what he considers "large," he refers to plans with several thousand members that are able to achieve meaningful economies of scale.[24] There are no single employers in the nonprofit sector with that many employees and so the advantages that come with size would not be available except through a sector-wide plan.[25] Economies of scale are so important to pension plans because administrative costs are a key factor in the success of a plan – and the bigger the plan, the lower the per capita administrative cost. It will be much easier for nonprofits to see their employees retire with an adequate income if they can minimize their administrative costs. As we noted earlier, individual or Group RRSP arrangements, with their annual fees often in the range of 2 to 2.5 per cent, siphon off a large portion of investments over the years. The same would hold for a small workplace plan in comparison to a sector-wide plan.

In addition, we note that there is considerable mobility within the nonprofit sector.[26] Having a

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[24] Arthurs notes multiple advantages of scale, including the fact that "spreading certain risks across large populations results in more predictable outcomes and less volatility. Examples of these variables include life expectancy and age at retirement. This size advantage is compounded along almost every vector of plan success. For example, large plans pay far lower fees." In his report, "large" refers to plans with $10 billion or more, which pay 0.28 to 0.35 per cent in administrative fees, as compared to individual (e.g. RRSP) accounts, which pay 2.5 to 3.0 per cent (Arthurs, 2008, p. 183).

[25] The sector may be able to take advantage of further economies of scale by seeking to use the newly-created nonprofit agency, the Investment Management Corporation of Ontario, for fund investment services. This would bring the assets of the nonprofit sector plan into a pooled fund with $50 billion invested, thereby reducing administrative costs even further. Successful application would depend in part on the interpretation of "broader public sector" in determining eligibility for the nonprofit sector plan.

[26] As evidenced by the fact that "69 per cent of nonprofit organizations have faced at least one retention challenge

sector-wide plan available to many workplaces means employees would be able to continue their plan membership without a break if they move between contributing employers.

There is no reason that all employees in the sector, both non-unionized and unionized, should not be eligible to participate. In addition, employees in non-bargaining unit positions at a unionized workplace should be allowed to participate as well. There are many examples in Ontario of pension plans where both union and non-union employees participate. The Quebec nonprofit sector plan allows both union and non-union organizations to participate.

Aside from achieving the low costs that come with an economy of scale, there may be tangential benefits to a sector-wide plan. For example, until recently there was little recognition that there is a group of organizations that are sufficiently similar in structure and activity that they should collectively be considered a “nonprofit sector” in Ontario. A pension plan could be another unifying force in reinforcing the strength of a nonprofit sector.

Recommendation:

The Task Force recommends a sector-wide plan over individual workplace-level plans for those who are not already served by one.

Q6. What are the critical elements of a pension plan from the employee and employer perspectives, and how do we bridge the gap between them?

Discussion:

Employee perspectives

From our research and consultations, critical features in a pension plan for employees (other than the overwhelming importance of *having* a plan – any plan!) include adequacy of retirement benefits, affordable contributions, and security of the plan (will it still be there when they retire). Given that our modelling resulted in an “adequate” benefit level at a contribution rate that the majority of our survey respondents said they could consider, it remains for us to discuss plan features that would help to maximize plan security.

From an employee perspective, “plan security” means the extent to which they can count on a predictable income when they retire, and whether it will last until they die. The “gold standard” plan type from this perspective is a defined benefit plan, in which the employer (or group of employers) is responsible to make up any plan shortfall if the investments do not perform as

in the past three years.” ONN, *Shaping the Future*, pp. 15, 22.

well as expected.[27] In this plan type, employees are responsible only for predictable monthly contributions while they work. Investment risk and longevity risk are shared, so that workers cannot outlive their retirement income.

We conclude that employees as a group are best served by a plan that is affordable in terms of contribution rates, adequate in terms of retirement benefits, and that provides a predictable retirement income until death. These features are traditionally found in a defined benefit plan.

Employer perspectives

From our sector survey and focus groups with executive directors and board members, it is clear that employers recognize the importance of a pension plan as a recruitment and retention tool. However, employers are concerned about being able to afford pension contributions, given existing pressures on nonprofit budgets. In the words of one ONN survey respondent, "From a management standpoint, adding more costs to the business will take away from the services we are here to provide...the money has to come from somewhere." It is fair to say that affordability and predictability of costs are the key factors from an employer perspective.

Neither the group of executive directors nor the group of board members we engaged in focus group discussions believed that their organization would buy into a plan that puts employers on the hook for unpredictable costs if a plan's investments did not perform well. All were wary of the defined benefit plan type because of liability issues and would not support this option.

Instead, employers wanted a plan type that gave them affordable and predictable costs. For almost all focus group participants, contributions in the range of 2 to 3.5 per cent were considered affordable, given adequate pensions literacy education for board members. Ease of administration was also a key concern for this group. (The answer assumed the employee would make the same amount of contribution as the employer.)

We conclude that affordability and predictability of costs, and avoiding further liability are the critical issues from an employer perspective. These features are traditionally found in a defined contribution plan.

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[27] It is worth noting that this security depends on a plan not having folded when the employee retires (and beyond). Many single-employer defined benefit plans in Canada found themselves underfunded following the 2008 recession. Even before that, there have been high profile instances of single-employer plans (Nortel being the most prominent) that left many people high and dry. Many multi-employer defined benefit plans, by contrast, are in better shape than ever – primarily because they have been able to reap the benefits of economies of scale and better governance that we see as attractive features of a potential nonprofit sector multi-employer plan.

Bridging the gap

To recap, the best plan from an employee perspective is one that has adequate benefits, affordable contribution rates, and is guaranteed by the employer with no risk to the employee that the promised benefits will not be available at retirement. Employers are more interested in a plan in which they make a modest contribution and have no ongoing liability or administrative responsibilities. That kind of plan can create uncertainty and risk to the employee, as well as being inefficient in terms of administrative costs.

Thus, at their extremes, there is clearly a difference of interests between them. We have taken as our mandate that we should identify a viable plan type in which employers will voluntarily participate and which provides a reasonable assurance of decent pensions to employees. The question becomes then how to balance those interests.

On a cost (efficiency) basis alone a defined contribution (DC) plan would not be recommended. The administrative costs of DC plans are higher which means they typically lead to lower retirement income than defined benefit (DB) plans.[28] More significantly, the investment returns in DC plans are lower because investment decisions are made by individuals, and not by professional advisors. Arthurs notes this point is not trivial. A U.S. study showed that from 1995 to 2006, the investment performance of DB plans, on average, exceeded that of DC plans by 1 per cent a year; over the 11 years under study, the cumulative effect was a 14 per cent advantage in favour of DB plans (Arthurs, 2008, p. 179). In a sector where budgetary considerations may keep contribution levels low, minimizing administrative costs and maximizing returns on investment will be critical.

At the same time, employers are unwilling to buy into DB structures that set them up for unpredictable liabilities. (Indeed many employers have been converting or winding up DB plans in Ontario.) This was echoed in the focus groups we conducted with executive directors and board members in the nonprofit sector. Relatively recent poor stock market returns in 2008-2009 and ongoing low interest rates have added fuel to the concern. And so, while employer reluctance to participate in a pure DB plan may be regrettable, it is also understandable.

We are not, however, limited to the DB and DC options. There are several varieties of pension plans that offer a way to limit employers' obligation to making fixed contributions while giving some level of predictability to employees as to their pension amount. Risks can be shared between employers and workers or they can be transferred entirely to workers as a collective, while still providing the significant advantage of risk pooling. Efficiencies of scale can thus be achieved without subjecting employers to unlimited liability. The Task Force considered several plan types (see Appendix 1) and decided to recommend a target-benefit plan structure:

[28] See footnote 21.

Target benefit plans: combining the advantages of DB and DC plan types

In a target benefit (TB) plan, in the words of Arthurs:

> “Contributions are fixed, and on the basis of a best estimate of what the funding will provide, benefits are promised. However, if it is later determined that the “target” benefit cannot be achieved with the available resources – contributions and the return on investment – both accrued and future benefits can be adjusted downward and, for that matter, upward, if and when the plan’s fortunes recover. Thus, from the viewpoint of the member, the plan may be perceived as a DB plan. Indeed, the benefit is defined and has all the characteristics of a DB plan except one: it is contingent on the plan’s success. However, from the viewpoint of the plan sponsor or sponsors, the plan functions like a DC plan. Contributions are fixed or defined: once those contributions have been made, the sponsor has no obligation to make good any notional deficiency, because the benefits will be adjusted rather than paid in full. Target benefits may presently be provided only by multi-employer plans, subject to two limited exceptions” (Arthurs, 2008, p. 182).

The above provides a succinct description of one of the major considerations for a sector-wide plan: the balancing of employer concerns about financial liability with the need of employees to have some predictability of their retirement income. As we note in earlier questions, a TB plan can offer many advantages usually associated with a DB plan. Accordingly, we put a TB type plan at the top of the list of most suitable plans for the nonprofit sector.

The critical element of a TB type plan for purposes of this discussion is that the obligation of participating employers is limited to making a fixed contribution. We say “target benefit type plan” because under current Ontario pension legislation, it appears that target benefit plans are only available in unionized workplaces. A multi-employer pension plan (MEPP) is able to limit the employer obligation to making a fixed contribution in the same way that a TB plan does. MEPPs are typically established by way of collective agreements in unionized workplaces. However, they can also be structured through a trust agreement to be open to participation by both non-unionized and unionized employers. Accordingly, ONN could under current legislation establish a MEPP which would provide assurance to participating employers that they will not have additional financial obligations beyond those contributions.

The Government of Ontario is currently looking to establish a regulatory framework for target-benefit MEPPS, including the feasibility of a framework for MEPPS with target benefits outside a unionized environment. [29] There may be an opportunity to influence or clarify the types of arrangements which would be permitted as target benefit plans, and specifically in the

[29] The Ontario government consulted on this question in summer 2015 but as of the time of writing has not proceeded with a regulatory framework. The government’s commitment to the process was reiterated in the Fall Economic Statement. http://www.fin.gov.on.ca/en/budget/fallstatement/2016/chapter1d.html

nonprofit sector. ONN submitted a letter to the Ministry of Finance in 2015 requesting that the door remain open to this kind of arrangement.

Recommendation:

It is our recommendation that ONN choose a plan type that balances the needs of employers and workers. A pension plan suitable for the nonprofit sector must offer a way to limit employers' obligation to making fixed contributions while giving some level of predictability to employees as to their pension amount.

We therefore recommend that the nonprofit sector-wide plan be designed as a target-benefit multi-employer pension plan because it meets these criteria. A target benefit multi-employer pension plan for the nonprofit sector would resolve the employer liability concerns and still provide a reasonable level of retirement income security to employees.

Q7. What other characteristics should a pension plan have in order to meet the diverse needs of the nonprofit sector?

Discussion:

We have identified the difference in interests between employers and employees in the form of pension plan, but otherwise have talked about "the sector" as if it were a homogenous entity. There are a number of commonalities to nonprofit organizations (which is of course why it is considered "a sector"). But there are variations within the sector which are relevant to a discussion the kind of pension plan best suited to the sector as a whole.

We see the sector's characteristics needing a sector-wide plan that takes into account:

- the modest and uncertain funding of many organizations means the nonprofit sector (and their employees) generally cannot afford the high contribution levels we see in some public sector pension plans
- because it is a low wage industry, employees have limited ability to save. Accordingly, it becomes critical that a plan for the sector provide a benefit, which is based on a formula to give them some reasonable predictability of the amount of retirement income.
- considerable mobility of employees within the sector, along with high rates of contract and part-time work, mean that a sector-wide plan (to which a large number of workplaces belong) with a simple career-average formula is more suitable than either employer-specific plans or a more complex benefit formula. A simple career-average formula makes it easier to calculate benefits for part-time and contract workers.
- some organizations have more financial stability and may be able to contribute at higher

levels to a pension plan; hence permitting different levels of contributions to a plan by different organizations would be ideal

- nonprofit employers need to have reasonable certainty about their contribution obligations and limits on any future liability
- must be able to accommodate both non-unionized and unionized workplaces
- the uncertain future of precariously funded nonprofits means a plan with many contributing employers gives the plan more stability and means the plan is unlikely to fail if one employer ceases operation
- since the sector contains a large number of smaller employers, and affordability is a significant issue for both employers and employees, a large plan that creates economies of scale and greater efficiency is essential
- if the plan is susceptible to reduction of benefits (as in a target benefit plan), the plan could permit employees to collectively decide to make additional contributions rather than take a reduction in benefits
- because of the economic vulnerability of retirees, if benefit reductions were to be necessary, a plan in which retirement benefits being paid to already retired persons should be the last to be reduced

Recommendation:

Given the unique characteristics of the nonprofit sector, we recommend that a sector-wide pension plan must prioritize efficiency and flexibility (over time and across organizations) without taking away from the ability of workers to be able know in advance their retirement income with reasonable certainty. We also recommend that such a plan should be as inclusive as possible to facilitate intra-sectoral mobility and to achieve an economy of scale and a sense of reliability and permanence for everyone from contract and part-time employees to large, established nonprofits.

Q8. Are there other elements of basic plan design that should be taken into account?

Discussion:

Because funding of a pension plan is such an important feature, we have spent much of this report on that issue. However, funding is not the only feature that should be considered. Below we summarize a number of other elements of a plan that are also important.

Some of these, such as a simple contribution formula and the ability to transfer assets into a new nonprofit sector-wide plan, would be possible in DB, TB, or DC type plans. Others, such as the ancillary benefits described below, are only possible in DB or TB type plans.

Ancillary benefits

Optional features available in a DB or TB plan (called “ancillary benefits” in pension regulation), but not available in DC plans include the following:

- Past service credits. This feature would permit, for example, granting of credit for service prior to the date the pension plan came into effect and would assist older workers in particular.
- Subsidized early retirement. This would reduce or eliminate the “penalty” for early retirement.
- Indexation of benefits. This could be mandatory or conditional on plan performance. It is a way to protect plan members from having the value of their benefits eroded by inflation.

Contribution and benefit formulas

The amount of the contributions is, of course, critical and we have dealt with the affordability factor elsewhere in the report. In addition to that, though, the formula for determining contributions and its relation to the calculation of the benefits is an important consideration. We described earlier some of the characteristics of the sector including a large number of part-time employees, the significant mobility of employees, the spread in wage levels (senior managers in large organizations to front-line workers and support staff in small ones), and the need for affordable contributions. These characteristics, in our opinion, call for a simple formula that is relatively easy to understand and to calculate no matter how many times a worker changes jobs among participating employers. It must also accommodate different contribution levels at different workplaces. A benefit which is determined by the total contributions to the plan made by or on behalf an employee through his or her work-life (a “career average”) would best satisfy that. For more information on benefit formulas, please see Appendix 6.

Transfers into the nonprofit sector plan

When employees terminate employment or a pension plan is wound up, pension plan members are entitled to transfer out an amount of money equal to the value of their accrued pensions. Pension legislation requires that individuals be given certain options as to what should happen with their money.

One of those options is to transfer the value to another pension plan, provided the recipient plan agrees to accept the transfer. However, few pension plans outside the public sector permit such transfers. Arthurs favours making such transfers possible. Like Arthurs we believe such transfers should be accommodated.

The above are only some of the features ONN could incorporate into its own plan design or look for in a plan it contemplates joining. But they are important ones and worthy of specific consideration.

Recommendations:

The Task Force recommends choosing a plan design that allows for ancillary benefits, such as past service credit. These should be considered carefully as they could require higher contribution rates and have implications for intergenerational equity.

The task force recommends a simple career-average benefit formula.

The plan should also permit incoming transfers of pension assets to provide a safer and more efficient retirement vehicle for members' pension assets earned in previous jobs.

Q9: What are the potential liabilities for nonprofit organizations that participate in a pension plan? How can these liabilities be minimized or eliminated?

Discussion:

Because the issue of potential employer liability has been raised specifically in our focus groups as of particular concern to executive directors and boards, we feel it should be highlighted as a separate matter.

We have had ongoing discussions with ONN about our report. When it became clear that the Task Force was leaning toward recommending a target benefit plan, ONN obtained a legal opinion on the issue of employer liability in a TB plan. The legal opinion confirms our basic understanding that employer liability can be limited in a target benefit type plan.

There are two main aspects to consider. First, is the liability for making regular ongoing contributions to a plan. The second is potential liability for deficiencies of a plan in case of a funding shortfall. Subsidiary questions are whether there is potential for liability in the event an employer withdraws from the plan, the plan closes, and whether one employer might be liable for another participating employer's funding obligations.

Regarding the first issue, if an organization participates in a pension plan, it will incur obligations to make its regular contributions to the plan. That type of obligation is no different from other obligations of an organization to make remittances, for example, to governments for the CPP. The obligation to pay these fixed contributions would apply to all plan types. In the context of a discussion about liability, the issue is whether the financial obligation of the employer can be limited to those contributions.

The second issue is that of potential responsibility of an organization for unfunded pension liabilities. Unfunded liabilities can involve significant amounts of money. It can mean obligations in the form of increasing ongoing contributions, making significant lump sum payments, and/or remaining liable for a funding shortfall if the plan is wound up. Whether an employer has any liability for these amounts depends on the type of pension plan.

It is clear that these liabilities do not arise in a defined contribution plan and that is one of its main attractions for employers. The obligation of the employer is limited to its fixed, agreed upon contributions.

The high-profile stories many people have heard about pension failures are the ones involving a defined benefit, single employer pension plan. The employer is responsible on an ongoing basis and on plan wind up to contribute to the pension fund sufficient amounts to fund the benefits, in accordance with pension regulations. Poor returns on plan investments can increase employer liability. Thus, the employer contribution may have to increase, sometimes significantly, to bridge the difference. If the employer becomes bankrupt, the shortfall may not be made up, thereby resulting in a reduction in pension benefits, even though the benefits are meant to be “guaranteed” by the employer. (Note that the Ontario government has a Pension Benefits Guarantee Fund that provides limited benefits to pension recipients in the case that a private-sector single-employer pension plan becomes insolvent.[30]) These cases have prompted many employers to wind down their defined benefit pension plans or convert to DC plans. They have created uncertainty and anxiety among employees who worry their DB plan may not be there to see them through retirement.

It is for these reasons that we are not recommending a defined benefit plan and instead recommend a target benefit type plan that does not expose employers to the liability of making up a funding shortfall. A target benefit multi-employer pension plan for the nonprofit sector would resolve the employer liability concerns and still provide a reasonable level of retirement income security to employees.

At the moment, under Ontario pension legislation, it appears that target benefit plans are only available in unionized workplaces. However, a MEPP is open to both non-unionized and unionized employers. MEPPs have attributes of TB plans. In particular, a MEPP can provide that the obligation of participating employers is limited to a fixed contribution. As we noted above in Q6, then, ONN could, under current legislation, establish a MEPP which would provide assurance to participating employers that they will not have additional financial obligations beyond those contributions.

[30] See https://www.fsco.gov.on.ca/en/pensions/pbgf/Pages/default.aspx for more details.

The legal opinion obtained by ONN notes there is no definition of "target benefit plan" in the current legislation. There is a consultation being conducted by the Ontario government on target benefit plans that may ultimately provide a precise definition and establish broader rules for participation in a TB plan.[31]

However, for purposes of the discussion about liability, a nonprofit sector-wide plan could be designed in the form of a MEPP where contributions to the plan are fixed, employers are not subject to making up a funding deficit in the plan, and employees will receive a defined benefit, all of which are features of a Target Benefit plan.

The legal opinion obtained by ONN states that "....**a MEPP can be structured such that an employer does not have any obligation to make contributions in respect of a plan deficit.**" The opinion goes on to confirm that an employer participating in a MEPP will have no liability on withdrawal from the MEPP or on plan windup and is not responsible for contribution obligations of other employers in the plan.

So what happens if there is a funding shortfall which will not be covered by additional employer contributions? The answer is that the benefits can be reduced to the extent required to allow the plan to meet the funding rules. Hence the "target" nature of benefits in a MEPP.

This means there is potential uncertainty or volatility for benefits in a MEPP. We do recognize that, but have concluded that the advantages of a MEPP with target benefit features outweighs that disadvantage. The risk can be reduced by establishing realistic benefits initially and having a diligent plan administrator monitoring the plan returns and expenditures.

Arthurs summarizes it this way:

> "In defined-benefit single-employer pension plans, benefits are by definition "defined" or fixed. Moreover, once accrued, they cannot be reduced. As noted, the obligation to provide these benefits defines the amount the sponsor must provide to keep the plan solvent. If the plan has insufficient assets to make good the pension promise, the sponsor must make good any deficiency by way of special payments amortized over a number of years. In multi-employer pension plans, however, the plan is committed only to providing a target benefit. If the target cannot be achieved with the available funds, benefits may be reduced (including accrued benefits and pensions already in pay). Jointly-sponsored pension plans are somewhere between the two: accrued benefits are normally regarded as fixed, but can be reduced if, upon being wound up, the plan turns out to be under-funded" (Arthurs, 2008, p. 66).

Legislation and regulatory provisions in Ontario mean that a MEPP will have the necessary features of a TB plan to satisfy concerns about limiting liability for contributing employers.

[31] See http://www.fin.gov.on.ca/en/pension/mepp.html for more details.

However, the situation involving TB plan rules is fluid and ONN should monitor the provincial consultation process.

Recommendation:

The Task Force recommends that the nonprofit sector-wide plan should be a multi-employer pension plan with target benefits.

Q10. Should the sector-wide plan be a new plan or are there existing plans the sector could join?

Discussion:

There are pros and cons to nonprofit sector workers becoming members of an existing pension plan, as contrasted with the sector establishing a plan of its own. To a certain extent, it would depend on the particular features of the prospective plan. But, more generally, it can be said there are some basic factors that should be considered:

- joining an existing plan would be less expensive than starting a new one, both in terms of start-up costs as well as having a larger asset base that provides economies of scale for better investment returns and lower administrative costs
- an existing plan will have a track record and thus provide some comfort that it will work
- it is likely easier to sell a known quantity, i.e. an existing plan, to employers and employees
- setting up a new plan would be time consuming and the sector has no time to waste in enrolling its workers in a pension plan
- on the other hand, a new plan could be tailored to sector needs and ensure sector representation on the governing board
- a nonprofit sector plan may need specific legislative change to accommodate features ONN would like or needs. That may be easier if done by way of legislation for a specific plan rather than changes to the pension regulations more generally.

In deciding which existing plans might be potential suitable candidates, we established the following priority features:

- target benefits
- available to non-unionized and unionized workplaces
- allow for portability between contributing employers
- have a simple benefit formula
- have low administrative costs
- allow for different contribution levels at different workplaces and allow changing contribution rates over time at any individual workplace

- ONN employers and employees have a role in governance of the plan

There are existing plans that would meet at least some of these objectives. We approached a limited number of plans on an informal basis to see whether these plans were able and willing to have nonprofit workplaces join. The Task Force has identified two pension plans that already serve multiple workplaces and that would be open to new workplaces from the nonprofit sector:

- The **multi-sector pension plan (MSPP)**, a target-benefit plan created by the Canadian Union of Public Employees (CUPE) and the Service Employees International Union (SEIU) in 2002 to address the lack of pension coverage in smaller, primarily female-dominated workplaces. The MSPP now has over 13,000 active (working) members in over 166 workplaces. All of MSPP's Trustees are appointed by CUPE and SEIU.
- A new **"OPTrust Select**" option currently in development by OPTrust, a plan jointly sponsored by the Government of Ontario and the Ontario Public Service Employees Union (OPSEU). OPTrust has approximately 44,000 active (working) members in the public service and broader public sector. OPSEU and the provincial government each appoint five trustees to OPTrust's Board. The features of "OPTrust Select" have yet to be determined but may align well with the ONN Pensions Task Force recommendations.

There are three main challenges with respect to these plans. First, it remains to be seen whether they can accommodate the Task Force's governance recommendations. Second, a critical question remains as to whether the OPTrust Select plan will be a TB plan that limits employer liabilities in the way that the Task Force recommends. Third, non-unionized workplaces may have concerns about the MSPP being governed exclusively by labour union trustees, even if employer liability is strictly limited.

The Task Force would like to emphasize that representatives of these plans, and others from whom advice was sought, have been incredible helpful, generous with their time, and supportive of the overall venture of developing a sector-wide plan for Ontario nonprofits.

It appears that, for a variety of reasons, there are relatively few plans that could accommodate our sector's workforce needs.[32] Accordingly, ONN should consider the reasonable possibility that it may have to establish its own plan. Note that it may be easier to get legislative/regulatory change for a specific plan than to secure more general changes to the pensions regulatory landscape.

[32] Some plans require membership in a provincial association that many of our sector's organizations are not eligible to join. Others are not looking for new members or would not be interested in the large number of small organizations that our sector brings to the table.

Recommendation:

The Task Force recommends finding a suitable existing plan rather than building from scratch, if possible. ONN should consider carefully its preferences and needs for a pension plan and determine whether these are available through existing plans. We suggest that ONN should give priority to the following features:

- target benefits
- available to non-unionized and unionized workplaces
- allows for portability between contributing employers
- a simple benefit formula
- low administration costs
- allows for different contributions from different employers and allows adjusting contribution rates over time at any individual employer
- nonprofit sector employers and employees have a role in governance of the plan

Based on our preliminary research and outreach, it may be that some but not all of these would be satisfied through an existing plan. If ONN were to decide that no current plan meets enough of these criteria, or if there is no suitable plan willing to take on the sector's workforce, ONN should consider establishing its own plan. If ONN were to establish its own plan, there are additional considerations which we set out in Q11.

Q11. What other plan design models are worth considering?

Discussion:

There are several plan types that fulfill some but not necessarily all of the ideal features for a sector-wide plan. In addition, there are legal constraints and regulatory requirements which may limit the options (see Question 9). ONN should decide what general form of plan would come closest to meeting the criteria it believes a sector plan should have. If current pension regulations do not contemplate that type of arrangement, ONN might consider seeking legislation or regulatory changes to accommodate that. We note at the outset that the nonprofit sector is a major employer and economic force in Ontario with a million full and part time employees. ONN could argue that specific legislation for such a potentially large group is justifiable.

We are fortunate that Arthurs has done very useful descriptions of various plans which we believe ONN should consider. In addition, Michel Lizée, as a founder and trustee, has provided a description of the Quebec nonprofit sector member-funded pension plan. Below we borrow from those descriptions and provide some analysis of their features which make them candidates for a sector-wide plan. We have touched on aspects of some of these in earlier questions but think it is useful to lay them out.

Jointly sponsored pension plans

Arthurs notes that, at the time his report was written (in 2008), jointly sponsored pension plans (JSPPs) accounted for 35 per cent of active defined benefit (DB) plan members in Ontario. At the moment all JSPPs are in the public sector or broader public sector.[33] As their name implies, the distinguishing feature of JSPPs is that both employers and workers must sponsor – “contribute” to a DB plan, and both are “jointly responsible” for its governance. Both groups are required to make contributions in the event of a funding shortfall in the plan. The employers or entities which make contributions and the members of the pension plan are jointly responsible for making all decisions about the terms and conditions of the pension plan and jointly appoint the administrators of the plan.

Arthurs find this form of pension very attractive. Among other reasons, he says:

> “For example, because the parties share responsibility for funding the plan, proposals to increase benefits require that both look carefully at how these will be paid for and whether they will be proposed for this purpose. Both parties also have an interest – a direct and considerable financial interest – in ensuring that governance decisions are taken on the basis of the best available information and professional advice. In short, the sharing of funding responsibilities may lead not only to the sharing of governance responsibilities, but also to improvements in the quality of governance decisions and, ultimately, in the funded status of plans.”

We agree with Arthurs’ analysis of the merits of this type of plan. However, as we note elsewhere, in the nonprofit context, many organizations have tenuous and often inadequate funding. That fragility means it would be difficult for them to participate in a plan which could require potentially large and unanticipated contributions in the event of a funding shortfall. And so, while the JSPP is something ONN should look at, this critical facet of the plan makes it less suited to the nonprofit sector.

The Quebec nonprofit sector’s member-funded pension plan

Michel Lizée was one of the prime movers behind the establishment of the Régime de retraite des groupes communautaires et de femmes. It is a member-funded pension plan (MFPP). He notes that a MFPP is a new type of defined benefit pension plan legally authorized in Québec since 2007. It was meant to cater to small and medium-sized employers. The particular plan he helped establish has seven main characteristics as follows:

[33] Examples include the Healthcare of Ontario Pension Plan (HOOPP), the Ontario Municipal Employees Retirement System (OMERS), and the Ontario Teachers’ Pension Plan.

> “1. Defined benefit pension plan: pension is guaranteed for life and may not be reduced, whatever the plan’s financial situation or its return.
> 2. A single multi-employer pension plan for all community and women’s groups who voluntarily decide to join the plan, with a joint administration and management of assets.
> 3. Each group chooses its contribution rate (at least 2 per cent of wages) and may modify it over time. Employer must contribute at least 50 per cent of total contribution, but does not have to contribute [more] in case of a deficit; employer contribution is fixed.
> 4. Each $100 contributed is sufficient to finance an annual guaranteed pension of $10 at age 65, and to index it to the cost of living each year for all active and retired participants (indexing conditional on the plan’s financial situation). We increase the total contribution by about 46 per cent in order to build an indexing reserve, which also serves as a buffer to absorb shocks when returns are low.
> 5. Should a deficit arise, part of the employee contribution of ensuing year(s) must be used to eliminate it. The indexing reserve is precisely in place to reduce this risk as much as possible.
> 6. Retirement age is 65 with a possibility of retiring as early as age 55 (with a reduction) or postponed as late as age 71 (with an upward adjustment).
> 7. Each member may use individual tools in order to increase his or her guaranteed pension: past service buyback, direct transfer, voluntary contributions.”[34]

Like Michel Lizée, we believe that there are a number of attractive features of MFPPs. The plan is a defined benefit plan which comes with many advantages that we have previously outlined. And unlike a target benefit plan in which benefits can be reduced in the event of a funding shortfall, the Quebec plan is structured to eliminate that possibility. We understand the Quebec plan includes both union and non-unionized workplaces, a feature also relevant to the sector in Ontario.

There are some drawbacks to the Quebec model, however. First, the plan became possible in Quebec only as the result of unique legislation in that province. The equivalent does not yet exist in Ontario. ONN would have to consider whether it wanted to take on the task of getting legislation enacted here.

Second, the mechanism used to eliminate the possibility of a benefit reduction creates some downsides. The Quebec plan builds up a reserve which is used to conditionally index benefits. That reserve also acts as a buffer against benefit reductions. And, while the already earned benefits of plan members may not be reduced, the plan also provides that future contributions of the members will be used to pay off the deficit. In effect, those contributions will not earn the plan members making them any additional benefits. And to reduce the risk of any of these coming to pass, the plan has established a very conservative benefit formula. We note that the benefit earned by a member of the Quebec plan for each $100 of contributions is only slightly

[34] Lizée, Michel (2015) “A Nonprofit Sector Pension Plan For Ontario: A Model To Consider.” Presentation to the Ontario Nonprofit Network Conference 2015. Toronto, October 21, 2015.

more than half that earned by a member of the MSPP. The Quebec plan does have an indexing provision, but it is invoked only when very safe to do so. And so, the basic benefit is low. We are concerned that it may be difficult to sell this type of plan to new plan members as a result.[35]

Third, unless and until the features of a member-funded pension plan are clarified in Ontario, the very fact that the Quebec plan is a defined benefit plan may make it a difficult sell to both employers (who may not give attention to the fact that their liability is limited in this model) and employees (who, if they understand how the liability is structured, may not accept this liability even in the context of a cautious funding model). We heard clearly from our focus group participants that we should rule out the DB model entirely.

However, if ONN is considering establishing its own plan, it should look at many features of the Quebec plan as a possible model. The plan is operational in Quebec and appears to be successful in terms of attracting participating employers and appears to be financially healthy.

Arthurs' "innovative model": The jointly-governed target benefit pension plan

Arthurs believes that there is a need for new type of plan which encompasses features from both a target benefit plan and jointly sponsored pension plan. He calls it a jointly-governed target benefit pension plan (JGTBPP). He says this:

> "I introduce JGTBPPs […] in order to clarify that these proposed new plans will resemble MEPPs in that they will offer target benefits, and will resemble JSPPs in the sense that they will be jointly governed with enhanced capacity to adjust benefits and contributions. Accordingly, they should be funded in a similar fashion to MEPPs and JSPPs…
>
> Plan sponsors should be permitted to enter into an agreement with a union or similar representative organization to establish a jointly governed pension plan that will provide target benefits. Such plans should be governed by a board on which active and retired members hold not less than 50% of the seats, and should be subject to the same […] funding as JSPPs and MEPPs."

We have already said we favour a plan with target benefits and have identified the merits of

[35] The Quebec nonprofit sector plan has built in a "liability driven" investment approach, including a conservative asset allocation plan that minimizes the risk of a deficit. By requiring a higher contribution level relative to promised benefits and building up significant reserves, such a plan is less likely than a target benefit plan with typical reserves to have to reduce benefits. As Michel Lizée (independent trustee of the Quebec plan) has written, scaling back benefits paid in a target-benefit plan could "undermine the confidence of both employers and employees in the pension plan and create an additional obstacle for getting more organizations to join the pension plan" (personal correspondence, October 2016). The ONN Pensions Task Force views this as a trade-off between more security and lower benefits and less security and higher benefits (most of the time).

JSPPs. The difficulty with the Arthurs proposal is that it relies on a collective bargaining relationship. It is anticipated a nonprofit sector plan should include but not be exclusively for unionized employees. The nonprofit sector would have to establish a structure that could provide joint governance, as there is no pre-existing body to play this function. That would also be true of participation in a JSPP. Once again, it might be necessary for ONN to seek legislative or regulatory change to create this type of plan for the sector.

Recommendation:

We gave serious consideration to four plan types: the target benefit multi-employer pension plan, the jointly sponsored pension plan, the (Quebec nonprofit sector) member-funded pension plan, and Arthurs' "innovative model," the jointly-governed target benefit pension plan. Any of these would likely require legislative or at least regulatory change. It is our view that a target benefit multi-employer pension plan (TB MEPP) is the best option given the regulatory landscape but that these others are worth pursuing if a TB MEPP is determined not to be feasible.

Q12. How should the plan be governed?

Discussion:

Single employer plans are typically administered by the employer. In those plans, the employer holds the financial risk for delivering on pension benefits. Hence the employer has an incentive to ensure that the plan takes the necessary steps to be well managed.

Historically, large MEPPs have been established through collective bargaining and their governing structure reflects that. They are usually governed by a board of trustees with an equal number of employer- and union-appointed trustees although there are some MEPPs which, by agreement of the participating employers, are governed exclusively by union- or employee-appointed trustees.

Why would employers in MEPPs choose not to participate in the administration of the plan? Issues such as time commitment and the potential legal risk of being a trustee may be factors. But the main reason is likely that a typical MEPP is a target benefit plan. In those plans, the employers are not responsible for funding a shortfall. Their obligation is limited to making regular fixed contributions. And so they have less interest in how the plan is managed.

In his discussion of JSPPs, Arthurs ties governance to funding. Where funding is shared between employers and employees, he says, there should be shared governance. The shared financial interest means they will both want to make the plan efficient, well managed and well funded.

There is also a values issue as to whether employees (or their representatives, such as unions) should have a say in running their pension plans. There is a general culture of cooperation in the nonprofit sector that is distinct in many ways from the private sector. We believe it is a good general principle that employees should have a say in how their pension plans are managed. Retiree interests may be different from those of both the employers and active employees and so there should be some form of retiree representation as well.

We also believe there is value in having employers participate in the administration of a pension regardless of their liability. We believe that employers who can "buy-in" to the plan through participation in its governance are more likely to support it and help it grow and succeed.

There may be side benefits to shared administration of a pension plan as well. Trustees of a pension plan have fiduciary duties toward the plan members, including ensuring that the plan is adequately funded and managed and staying current on potential legislative/regulatory changes. Good trustees take that responsibility very seriously and both employer and employee representatives recognize it is in all their interests to work together to ensure a well-managed plan.

Recommendation:

Governance will be determined in large part by the funding responsibilities. However, in general the Task Force recommends that there should be employer, employee, and retiree representation in the administration of a nonprofit sector plan.

Q13. Should the day-to-day operations of a sector-wide plan be administered by a third party or should it be done in-house?

Discussion:

Pension plan administration requires expertise and significant infrastructure to be done properly. If a plan is small, third party administration makes sense. There are a number of plan administrators who can be contracted to provide services such as collecting contributions, processing pension applications and paying benefits.

If the plan is large, it is typically less expensive for the plan to hire its own staff to perform these tasks and thus be "self administered." Self-administration also allows for a level and type of service suited to the sector rather than a more "cookie cutter" approach through third party administration.

The form of day-to-day administration could also change over time. At the beginning, it may be difficult to predict how large the plan will become. Third-party administration might be put in place until the plan has a critical mass (likely a few thousand members). Also, it may help provide comfort to prospective plan participants, particularly when the plan is in start-up mode, if an experienced third-party administrator is in place.

Recommendation:

The Task Force recommends that, if a new plan is being established, it should initially use an experienced third-party service provider. Over time, as the plan grows, self-administration should be considered.

Q14. Should it be possible for existing plans in the sector to merge with the new sector-wide plan?

Discussion:

In Q1, we outlined the current rate of pension coverage in the nonprofit sector. It is quite limited and tends to be higher for employees of larger employers. Hence our recommendation that there be a sector wide plan that can provide an opportunity for a pension plan for small and medium-sized workplaces as well.

There may be questions about whether existing plans could or should merge with a new sector plan. We understand that, under current pension regulations, it should be possible for such mergers to happen. Short of that, an employer with an existing plan may choose to join the new sector-wide plan and simply wind up its existing plan.

Why would an employer want to do that? We hope that in this report we have made a good case for having a sector wide plan. Among other things, because of its potential size, a sector-wide plan could provide a more efficient and secure vehicle than many existing plans. The administrative responsibilities that employers currently have for their own plans would be assumed by the ONN plan. Thus, it may be attractive for employers with existing pension plans to join a new sector plan.

This could have advantages for the new plan as well. The initial viability and long term efficiency of the new plan will depend in part on its size. If it were possible to bring in significant numbers of members immediately, it would help kick-start the new plan. That can be done most easily by dealing with the larger employers in the sector, some of which already have some sort of plan for their employees.

We should be clear that we are not suggesting the ONN plan should “raid” existing plans. And we certainly do not want employers with more generous plans to abandon these in favour of a sector-wide plan with lower contribution and benefit levels. We do believe, however, that it should make itself open and attractive to employers/employee groups that already have pension plans in place.

Recommendation:

While the new plan should be careful not to “raid” existing plans, and we do not want employers with more generous plans to abandon these in favour of a sector-wide plan, we recommend the ONN plan be structured to allow for mergers with existing plans.

Q15. How should employers and employees be educated about the overall need for pensions and the attractiveness of the sector-wide plan in particular?

Discussion:

Through our survey and focus groups, we confirmed our expectation that pension literacy rates are quite low in the nonprofit sector (as elsewhere in society). Fortunately, discussions about the ORPP and enhanced CPP have elevated the prominence of the issue of pensions with the public generally. There has been considerable discussion about the current inadequacy of pensions and more people are aware that public plans are not enough.

However, there remains some risk that many people will believe the enhanced CPP will solve the problem, especially when they see their CPP premiums start to rise in 2019. As we outline in Q1, there is still an acute need for pension plans despite the modest CPP enhancement. The challenge of the retirement income gap must be effectively communicated.

Our survey results suggest that many employees and employers recognize the need for pensions and are willing to contribute to them. We know, however, that nonprofit organizational budgets are stretched and employers will be hard pressed to contribute at a level that will see their workers receive an adequate pension income.

The specifics of the proposed sector-wide pension plan will be an even bigger challenge to communicate. The financial services industry devotes considerable resources to promoting retirement savings options for individuals and employers. These often have higher-than-necessary administrative costs and hence result in suboptimal retirement income levels (Group

RRSPs, defined contribution pension plans). ONN will need to devote attention to plan promotion and develop plain-language tools to help employers and employees understand the benefits of a sector-wide plan.

We suggest that these plain-language communications tools include a clear description of the risks inherent in the pension arrangement. It would be helpful to explain it in terms of our analysis of the attempt to balance those risks between employer and employee. This would be particularly important in explaining the target benefit model. Communications must also be clear about the role of employers, unions, employees and retirees in administration of the plan.

Recommendation:

We recommend that ONN facilitate a comprehensive education/outreach program in 2017 as part of its Decent Work project in order to help employers and employees in the sector understand the issue and the advantages (and risks) of a sector-wide plan. An effective communications campaign about the need for a pension plan—notwithstanding the enhancements to the CPP – is essential. So too are targeted communications materials directed at boards of directors, management, and front-line workers, so that each group understands what is to be gained by a sector-wide plan.

We also recommend that ONN work with partners to catalyze efforts to improve pensions literacy in the nonprofit sector (more specific recommendations are included in Appendix 7) and that government and non-government funders support ONN to do so.

Conclusion

There is a clear need for a pension plan to serve the nonprofit sector and we recommend that ONN take on this ambitious task. The plan should be designed to offer target benefits, it should be structured to provide flexibility at the workplace level concerning contribution levels, and participating workers and employers should be permitted to ramp up contributions over a short time to the point where each is contributing 3 to 5 per cent of earnings per year.

Whether ONN facilitates the participation of nonprofits in an existing plan or establishes one of its own, the task will be major. Launching a new plan, however, provides an opportunity for ONN to do something ambitious and important. The need is clearly there for a sector-wide plan and the successful creation of one would have a tremendously positive impact on the nonprofit sector's most valuable resource – its people.

We have noted that not many existing pension plans have expressed an interest in taking in the nonprofit sector's workforce. Even if there is interest, there will likely be negotiations over the terms on which sector workers may participate. That could include whether ONN or sector employers/employees/retirees would have a say in the governance of the plan, something we believe is an important issue.

Setting up the plan will take significant time and resources. Legal, actuarial and other advice should be sought early on as there are a number of technical issues that need to be resolved at the outset. We have identified some challenges in this report and no doubt there will be others. We have suggested that legislative or regulatory change may be necessary and that may require public policy advocacy.

We have referred to and quoted extensively from the Arthurs Report. He also has ideas for innovation, many of which require modernization of the pension policy landscape. ONN would do well to take its cue from Arthurs and aim to develop a plan that is innovative in design. Doing so would make ONN a model for other sectors in Ontario and nonprofit sectors elsewhere.

Appendices

Appendix 1: Glossary

The Task Force developed a pensions glossary which can be found online here. For the purpose of this report, it is helpful to understand the following pension plan types:

DEFINED BENEFIT (DB) PENSION PLAN
A DB plan aims to provide you with a lifetime retirement income. You can know in advance how much income you will receive after you retire (until death) based on a formula that takes into account how long you contributed and how much you earned. Employers and workers contribute a set percentage of salary. Funds are invested by a professional. **Longevity risk** (how long you will live) is shared across a group of members (or even multiple workplaces) so that no one runs the risk of outliving their savings. In most DB plans, an employer (or group of employers) bears the **market risk** (so they have to make up a shortfall if investments do not perform well), while the workers' contributions are fixed.

DEFINED CONTRIBUTION (DC) PLAN
A DC pension plan helps workers accumulate retirement savings. Employers and workers contribute a set percentage of their salaries. Funds are held in a personal account for each worker. Individuals decide how their money is invested, usually chosen from a range of options. The cost of a DC plan to employers and workers can be known in advance. However, the worker's retirement income varies depending on how the investments perform and it is not certain the income will last for life.

Arthurs points out that there are specific design features of both DB and DC plan types that are worth considering and combining. This is what led the ONN Pensions Task Force to choose a target benefit plan, which attempts to provide the best of both worlds. The following is paraphrased from the Arthurs Report:

- In DC plans, the investment risk (risk of investments not performing as well as expected) is borne by individual plan members; in DB plans, it is borne by the employer and/or spread across the plan membership which may include multiple workplaces.

- In DC plans, the longevity risk (risk of living a long time) is generally borne by individual plan members; in DB plans, it is spread across the entire present and future membership of the plan. That's why individuals with DC plans (including Group or individual RRSPs) must plan for their savings to last them to age 90, while DB plans can use average lifespans to determine benefit levels.

- In DC plans, the individual account format leaves little room for insolvency risk (there is no promised benefit, so no measurable "shortfall"); in DB plans, members — particularly of single-employer plans — do bear the risk that a sponsor may fail (i.e. go out of business or stop paying benefits) with an under-funded plan.

- In DC plans, if members leave, their entitlements can be easily calculated and transferred to another plan or a locked-in account (an RRSP account that you may not access until retirement age); in DB plans, individual entitlements are difficult to calculate and more difficult to transfer.

- In DC plans, members end up with a range of options around investment decisions, including making their own; in DB plans these are made by professional advisors. Arthurs notes this point is not trivial. A U.S. study showed that from 1995 to 2006, the investment performance of DB plans, on average, exceeded that of DC plans by 1 per cent a year; over the 11 years under study, the cumulative effect was a 14 per cent advantage in favour of DB plans (Arthurs, 2008, p. 179).

Based on that analysis, Arthurs concludes that “the key advantage of DB over DC plans is the greater capacity of the former to insulate individual workers from risk. In DB plans, the investment risk is, to some extent, transferred from the members to the employer, while the longevity risk is spread across the entire present and future membership of the plan — the larger the membership, the more efficiently managed is the risk.”

He concludes: “Risk-sharing makes the difference, and size allows risk-sharing and other efficiencies to work better” (Arthurs, 2008, p. 180).

TARGET BENEFIT (TB) PLAN

A TB plan pools longevity risk, but market risk is borne to some degree by individual plan members. Benefits may be reduced if the funding level falls below a given threshold—or increased if it exceeds expectations. To avoid a reduction, TB plans are governed by more formal funding and benefit policies than typically found in defined benefit plans. In addition, cautious assumptions can be used in the setting of the target benefit with benefit improvements granted only if there is a significant funding surplus. This more conservative approach means less generous benefit payouts than in a comparable DB plan, but the pooling of longevity risk means individuals do not risk outliving their retirement income.

Beyond these basic types which simply identify contribution/benefit structures, there are a number of plan types which take into account the importance of governance structures. The following descriptions are taken from the Arthurs Report:

Jointly Sponsored Pension Plan (JSPP): “JSPPs are defined-benefit plans in which the employer or employer representatives and the members [i.e. employees] share responsibility for its funding and governance. JSPPs may be either multi- or single-employer pension plans.”

Multi-Employer Pension Plan (MEPP): *"*MEPPs are pension plans covering workers employed by a number of employers, usually in the same economic sector. MEPPs are typically target benefit plans. They are customarily funded by fixed contributions; in the event these contributions are insufficient to pay for the benefits provided, the benefits may have to be reduced. MEPPs are administered by boards of trustees at least 50% of whom must represent the active members of the plan. MEPPs in which funding and governance are both shared with the members may qualify as JSPPs."

Member-Funded Pension Plans (MFPP): "A new defined benefit plan design developed in Quebec — contemplates that, as in a DC plan or an Ontario-style MEPP, the sponsor's obligation will be limited to the contribution of a fixed amount. Whatever additional funds are required to pay the promised benefits will be contributed by the members who thus collectively assume the financial risk" (Arthurs, 2008, p. 182).

MFPPs are defined benefit plans where the risk of a shortfall is borne by workers as a collective. Like target benefit plans, employers in member-funded plans pay fixed contributions. Workers also pay into the plan. Whatever additional funds are required to pay the promised benefits will be contributed by the members who thus collectively assume the financial risk. Given the limited capacity of workers to do so, however, these plans are subject to very strict funding rules that effectively require them to be fully funded at all times. Arthurs states that MFPP governance structures are carefully prescribed and they must be embedded in a collective bargaining relationship. The Quebec nonprofit sector's plan, however, includes both union and non-union workplaces because of new Quebec regulations that went into effect in 2007. To do so in Ontario would likely require regulatory and possibly legislative change.

***Jointly-Governed Target Benefit Pension Plans (JGTBPP)*:** This is an ideal type that is proposed in the Arthurs Report.

"These proposed new plans will resemble MEPPs in that they will offer target benefits, and will resemble JSPPs in the sense that they will be jointly governed with enhanced capacity to adjust benefits and contributions. Accordingly, they should be funded in a similar fashion to MEPPs and JSPPs...

"Plan sponsors should be permitted to enter into an agreement with a union or similar representative organization to establish a jointly governed pension plan that will provide target benefits. Such plans should be governed by a board on which active and retired members hold not less than 50% of the seats, and should be subject to the same […] funding as JSPPs and MEPPs" (Arthurs, 2008, p. 72).

Appendix 2: ONN Pensions Task Force terms of reference

Available at:
http://theonn.ca/wp-content/uploads/2015/12/ONNTaskForce_Pensions_TermsOfReference.pdf

Appendix 3: ONN Pensions Task Force members

The Task Force has been composed of:

- **Rich Bailey**, Retired CEO of YMCA Canada
- **Dr. Isla Carmichael**, retired pensions consultant, current member of Canada Post Pension Plan Investment Advisory Committee (union-appointed), PhD from OISE (dissertation on worker control of pension funds and social investment)
- **Jennifer Closs** [co-chair], Team Leader, DeafBlind Ontario Services (Simcoe County)
- **Iris Fabbro**, Executive Director, North York Women's Centre (Toronto)
- **Howard Green**, retired senior public servant; current President of St. Stephen's Community House (Toronto) board of directors
- **Michael Kainer** [co-chair], retired lawyer, now a documentary filmmaker, who assisted in the establishment of the Multi-Sector Pension Plan terms for CUPE/SEIU
- **Richard Shillington**, social policy consultant, Tristat Resources

The Task Force was supported by Liz Sutherland, Policy Advisor, ONN, and Jamille Clarke-Darshanand, social policy researcher, Open Policy Ontario, as well as other ONN staff and volunteers.

Appendix 4: Pensions Sector Survey – Highlights Report

Available at:
http://theonn.ca/wp-content/uploads/2015/06/2016-08-02_PensionsSurveyHighlights.pdf

Appendix 5: List of pension plans analyzed for comparison of structures, features, and premium/benefit/admin cost levels

- Alliance of Canadian Cinema, TV & Radio Artists (ACTRA) Group RRSP
- Canada Pension Plan (CPP)
- Colleges of Applied Arts and Technology (CAAT) Pension Plan
- Community and Women's Groups' Member Funded Pension Plan/Régime de retraite des groupes communautaires et de femmes (Quebec nonprofit sector plan, MFPP)
- Cooperative Superannuation Society (CSS) Pension Plan
- Healthcare of Ontario Pension Plan (HOOPP)
- Multi-Sector Pension Plan (MSPP)
- Nursing Homes and Related Industries Pension Plan (NHRIPP)
- Ontario Municipal Employees Retirement System (OMERS)
- Ontario Pension Trust (OPTrust) – including its "Plan Select" option
- Ontario Retirement Pension Plan (ORPP)
- Pension Plan of the United Church of Canada
- Saskatchewan Pension Plan
- YMCA Plan, managed by Proteus Performance

Appendix 6: Funding in target benefit Multi-Employer Pension Plans

In this report, we have tried to avoid overly technical or detailed discussions about funding rules for pension plans. However, because there is a difference between MEPPs and TB plans with regard to funding, it is necessary to elaborate somewhat on those rules.

In broad terms, a defined benefit pension plan must meet two funding tests, going concern and solvency, details for both of which are set out in the pension legislation and regulations. A MEPP is treated as a DB plan for funding purposes.

Going concern funding is a measurement of whether the plan is financially sustainable in the long term. By contrast, solvency funding measures whether a plan will be able to satisfy its benefit obligations if the plan were to be immediately wound up.

In a single employer DB plan, if the tests show that the plan is unable to meet either (or both) of these financial tests, the employer will be required to make additional payments to the plan to make up the shortfall. A going concern unfunded liability must generally be paid off over 15 years and a solvency deficiency over 5 years.

The financial crisis in 2008 that resulted in low stock market returns and low interest rates which persist to the present day meant that many plans have had significant solvency deficiencies. Because there is a short period (5 years) in which to pay off that that deficiency, employers may have to make large, potentially unaffordable, payments into their plans.

Accordingly, there have been various machinations by the Government of Ontario and pension regulator to exempt plans from the solvency funding rules or to provide temporary relief from them to avoid putting the employer at risk.

In July 2016, the Ontario Ministry of Finance released a consultation paper for a review of solvency funding rules for DB plans. As of December 2016, the Ministry's review had not moved beyond the consultation phase.

Appendix 7: Pensions literacy recommendations

1. ONN should include a financial/pensions literacy component in the communications tools developed for the purposes of marketing a sector-wide plan to nonprofits across Ontario. Where feasible, ONN should connect nonprofits with tools available online to enable staff and board members with low financial/pensions literacy levels to be empowered to make pension decisions confidently in collaboration with others. Communications should take into account the income profile of the sector and highlight materials targeted to low-income workers, such as John Stapleton's guide "Planning for retirement on a low income."

2. ONN should seek out opportunities to partner with financial literacy organizations and other nonprofits to adapt and share existing materials targeted to: a) Boards of directors of Ontario nonprofits with paid employees, b) management, and c) frontline staff. In addition to basic pensions literacy, materials should address such issues as the impact of pension fund/mutual fund administrative costs/fees on retirement income and the costs and benefits of offering pension plans in the nonprofit sector (including impact on recruitment and retention).

3. Building on the model of HOOPP's "DB Advocacy Campaign," ONN should develop and support a network of pensions champions who are available to speak to nonprofits about pensions literacy and the benefits of pension plans to employers and workers.

4. ONN should inform the federal and provincial governments, the academic sector, and community-based researchers of the need for data on pension literacy levels in the nonprofit sector in order to draw attention to the challenges and identify ways to measure improvements over time.

Appendix 8: Labour Market Information (LMI) recommendations

While Statistics Canada, academic research, and independent surveys provide detailed information on labour markets in many sectors of Canada's economy, there is a critical shortage of high-quality, relevant, and current data on the nonprofit labour force in Ontario and Canada. The two main coding systems for national labour market data (*industrial* and *occupational* classification systems) do not take into account sector boundaries (nonprofit vs. business, nonprofit vs. public sector). Furthermore, data specific to the nonprofit labour force consists of national surveys that are out-of-date (Statistics Canada's "occasional" Satellite Account of Non-profit Institutions and Volunteering was last conducted in 2007) and smaller-scale surveys that are not necessarily representative of the sector as a whole.

Without a robust source of nonprofit sector LMI, we cannot answer many questions that will be important for the next phase of the nonprofit pensions project (detailed plan design) and that, more generally, would allow the nonprofit sector to engage in workforce planning and to quantify labour force policy challenges, such as retention rates, training and development, and retirement planning.

The task force has identified major gaps in labour market information on the nonprofit sector. Specific gaps are listed below along with recommended principles and potential information sources that would help in filling these gaps. We recommend that Statistics Canada, the Ontario government, academic researchers, and nonprofit sector representatives work together to fund and implement sector-specific labour market research.

The Ontario government recently gave the Ministry of Advanced Education and Skills Development (formerly Training, Colleges and Universities) a mandate to develop a provincial Labour Market Information Strategy. We encourage the ministry to involve nonprofit sector representatives in the development of this strategy.

Gaps in nonprofit sector LMI

Basic sector data

- Number of incorporated nonprofit organizations that have paid staff, in total and disaggregated by:
  - Charitable versus member serving nonprofit versus public benefit nonprofit
  - Sub-sector (health, social services, environmental, arts, sports, religious, etc.)
  - Region (Greater Toronto Area, other urban, suburban, rural, remote)
  - Budget size
  - Proportion of budget that is staffing costs (total compensation)
  - Major revenue source(s), including:
    - provincial funding (disaggregated by funding stream and by ongoing vs.

        one-time funding)
        - federal and municipal funding
        - earned income
        - donations
    - Size of reserves (expressed in dollars and in number of months of operation)
    - Workplaces covered by a collective agreement vs. those that are not.

Labour force data

- Composition of the work force
    - Diversity and inclusion statistics - e.g. proportion of the workforce that is visible minority, persons with disabilities, Indigenous, and LGBTQ
    - Number of employees in total and disaggregated by full-time, part-time, permanent, contract, seasonal for: a) charitable and b) all other nonprofits
    - Age profile of the sector
- Collective bargaining
    - Proportion of the workforce that is covered by collective agreements -- and how that segment of the workforce differs in terms of earnings, job security, benefits, pensions, size of organization etc.
    - Number of strikes and lockouts in the sector over a given time-period
- Salaries
    - Average and median salaries in the sector - total and disaggregated by sex, born in Canada vs. immigrant, educational attainment, etc.
    - Earnings broken down by quintiles
    - Prevalence of unpaid internships and what proportion of these lead to a full-time job
    - Executive compensation - average and mean Executive Director/CEO salary, broken down by organization size/budget, region and sub-sector
- Occupations, occupational risks, occupational codes
- Employment precarity index applied to the nonprofit sector based on methodology described in Appendix B (p. 170) of "The Precarity Penalty" report
- Absenteeism: Disability claims compared to industry average; sick days compared to industry average, etc.
- Career patterns
    - Number of jobs held over a career (or a decade, etc.) compared to the Ontario average
    - Average number of years an employee has worked in the sector, continuously and in total

  Employee turnover rate
    - Qualitative information about career patterns, such as reasons for moving between sectors, reasons for leaving particular places of employment
    - Proportion of employees who have received an internal promotion 1) at their

current workplace, 2) ever at a nonprofit, compared to the Ontario average

- Income tax paid by the sector at the aggregate level
- Employee benefits
    - Proportion of employees covered by extended health benefits and the dollar value of those benefits (total and per covered employee)
    - Proportion of a typical nonprofit worker's career during which they are covered by extended health benefits

Data on pensions and sector retirees

- Workplace pension plans
    - What proportion of nonprofits (in total and disaggregated by charitable/other nonprofit, budget size, number of employees, region, collective agreement, etc.) have a registered plan?
    - What proportion of nonprofit workers have a registered plan?
    - What is the average and median level of contributions (employer/employee, percentage of salary)?
    - What proportion are defined benefit (DB) versus defined contribution (DC) versus target benefit (TB)?
    - What proportion of workplaces and workers have a Group RRSP?
    - How much are the average fees (administrative and investment costs) for DB plans, DC plans, TB plans, and Group RRSPs in the sector?
    - What are the average and median RRSP holdings for nonprofit employees in total and for those whose employers contribute to their Group RRSP or personal RRSP?
- Canada Pension Plan (CPP)
    - How will nonprofits manage the cost of increased CPP premiums, starting in 2019?
        - Ensure increased premiums are incorporated into all government and private funding agreements
        - Cut staff/salaries/other expenses to pay premiums
        - Etc.
- Average and median CPP benefit paid out to a retired nonprofit worker
- Average and median OAS/GIS benefit paid out to a retired nonprofit worker
- Average and median pension plan benefit paid out to a retired nonprofit worker, disaggregated by DB, DC, and TB plans.

How LMI gaps should be addressed

Principles:

1. **Nothing about us without us:** Data development should take place as a collaborative initiative with the sector. For larger-scale research projects, researchers should establish advisory bodies of nonprofits to ensure the research is relevant and accessible.

2. **Open data:** Where possible, data-sets should be made available without cost to researchers in machine-readable format. Reports should be made available without cost to nonprofit organizations.

3. **Conflict of interest:** All research should be conducted at arm's length from vested interests. Researchers should declare any related interests, including any commercial or private interests.

4. **Capacity building:** Work needs to be done to help nonprofits see the value and contribute to LMI research and use. Expertise needs to be developed within the sector to collect, analyze, and make use of data sets.

Sources:

1. **Data on the Canadian nonprofit labour force:** Foundational data on the Canadian nonprofit sector should be developed by creating nonprofit categories in **Statistics Canada surveys**, such as by incorporating nonprofit status into the National Occupational Classification (NOC), the North American Industry Classification System (NAICS), and labour force surveys. This practice is common in other industrialized countries and would, if implemented in Canada, provide the foundation for much higher quality research on the sector's labour force.

2. **Data on registered Ontario nonprofits:** The Government of Ontario should ensure that data from Ontario Not-for-Profit Corporations Act (ONCA) registrations are shared with the nonprofit sector when they are available. ONCA was passed in 2010, but will not take effect until the government passes amending legislation and puts in place a technology to support online registration. **Administrative data from ONCA registrations** will provide critical information on the Ontario nonprofit sector.

3. **Data on Ontario nonprofits receiving provincial funding:** The Government of Ontario should share data from the implementing common registration for all nonprofits engaged in transfer payment agreements and receiving grant funding from the Ontario Trillium Foundation, using the Canada Revenue Agency (CRA) single business number (starting 2016-2017).

4. **Surveys and Qualitative Studies:** Aside from Statistics Canada surveys and provincial administrative data, many of the LMI gaps will likely only be filled by dedicated surveys and studies of the sector. This research will require dedicated funding from granting councils and/or government and foundations. Research will likely need to be undertaken primarily by the academic sector in partnership with:
    a. Networks and provincial/regional associations in the Ontario nonprofit sector
    b. Labour unions and staff associations in the sector
    c. Policy researchers embedded in the sector
    d. The HR Council and the Human Resources Professionals Association (HRPA)
    e. Senior-serving organizations such as CARP and the Ontario Society (Coalition) of Senior Citizens' Organizations (OCSCO) and their local counterparts (on pensions and retirement-related questions).
    f. Existing surveys such as the Boland Survey and various sub-sector-specific surveys (e.g. the Training Resources for the Environmental Community salary survey)

Appendix 9: Further information on optional design features

Below is an elaboration on the plan features described in Q12.

Ancillary Benefits

Defined benefit plans and target benefit plans allow a plan to be tailored to meet the needs of plan members in a way that defined contribution plans cannot. These plan types, for example, permit a variety of additional or ancillary benefits in addition to the basic retirement benefit. Those include:

- Past service credits: This feature would permit, for example, granting of credit for service prior to the date the pension plan came into effect. (The Multi-Sector Pension Plan has such a provision.) The impact is to give additional benefits to individuals who are nearing retirement when they become members of the plan. The past service credit would allow a modest increase in the pension amount for older workers.

- Subsidized early retirement: The value of a retirement benefit is usually based on retirement at age 65, but individuals can retire early with benefits that are subject to a reduction (roughly six per cent per year). This is also how the CPP works. With "subsidized early retirement," a plan can provide for early retirement with a smaller "penalty."

- (Conditional) indexation of benefits. The purchasing power of a pension is eroded over time due to inflation. There is a variety of ways to index benefits to address this. Full indexation is possible, but rare due to cost. More typical is indexation as a percentage of Consumer Price Index increases, often to an annual maximum. The indexation can be automatic or conditional (usually depending on the plan's financial performance). The Quebec Member-Funded Pension Plan provides an example of conditional indexation.

There are a number of factors to consider in deciding whether to establish these types of benefits. In particular, they involve a cost. Some of them (particularly indexation) can be very expensive. Others, such as subsidized early retirement, might be regarded as a form of intergenerational transfer, with younger employees in effect paying the cost of the subsidy. The interests of all plan members and overall intergenerational equity should be considered in making such decisions.

Benefit Formulas

Defined Contribution Plans

Defined contribution plans can establish contribution rates in ways similar to defined benefit plans e.g. as a percentage of wages, so many cents or dollars per hour worked or an amount per week or month of employment.

However, it should be noted that DC plans do not involve formulas for the calculation of an individual's pension benefit on retirement. There is no formula because the amount of the benefit in that kind of plan depends on the returns on investment of funds.

Because returns are unpredictable and longevity risks are not shared with other plan members, the amount of a pension benefit available to a DC plan member will be uncertain at least until he or she retires. At that point, it would be possible to purchase a form of annuity which provides a guaranteed amount for life. However, the amount of an annuity is dependent on interest rates and the rate can't be known until the individual retires. Identical amounts of accumulation in a DC account by two different individuals will thus result in very different retirement benefits if interest rates are substantially different at the time each retires. The higher the interest rate, the more the annuity will be. And so interest rate risk is yet another risk assumed by individuals in DC plans.

The effect of all this is that DC plan members have no way of reasonably predicting what their pension will be. This is unfair to employees.

Defined Benefit Plans

DB plans have benefit formulas that allow an individual to have a predictable pension amount on retirement. Those formulas vary considerably from plan to plan. Generally though, they are one of two types: final average or career average.

In a final average plan, the amount of the pension benefit will be calculated on the average of the last few years of the individual's income, usually the last 3 or 5 years. Typically the formula is that average of that last few years of income is multiplied by a fixed percentage (the accrual rate) for each year of service.

Here is an example:

An individual earned $48,000, $50,000 and $52,000 in her last three years of employment. The average would therefore be $50,000. She has worked in the job and been a member of the pension plan for 25 years. If the plan is a 3 year final average plan with a 2 per cent accrual rate, her benefit would be calculated as $50,000 x 2% x 25 = $25,000 annual benefit.

The other basic benefit type is a career average plan. As the name implies, the benefit at retirement is a reflection of contributions and service over an employee's entire work life, not just the last few years. The costs are generally less than for a final average plan. An example of this kind of plan is the Quebec member-funded plan, in which a member earns $10 of annual benefits at age 65 for each $100 of contributions.

Target Benefit Plans

TB plans use similar possible benefit formulas to DB plans to calculate the "targeted" benefit—but this may be adjusted upward or downward. The Multi-Sector Pension Plan is a TB plan with a career-average formula in which a member earns $18.60 of annual benefits at age 65 for each $100 of contributions.[36]

We described earlier some of the characteristics of the sector including a large number of part-time employees, the significant mobility of employees, the spread in wage levels (senior managers in large organizations to front-line workers and support staff in small ones), and the need for affordable contributions. These characteristics, in our opinion, call for a simple formula that is relatively easy to understand and to calculate no matter how many times a worker changes jobs among participating employers. It must also accommodate different contribution levels at different workplaces.

Transfers into a sector-wide plan

When employees terminate employment or a pension plan is wound up, pension plan members are entitled to transfer an amount of money equal to the value of their pensions. In those circumstances, pension legislation requires that individuals be given options as to what should happen with their money.

One option is to transfer the money into a personal locked-in retirement vehicle. The individual must then manage their own investments. Elsewhere in this report we have pointed out the shortcomings of having individuals manage their own pension savings. Among other things, the fees for a modest amount in an individual self-administered account are generally high. This is therefore not an attractive option.

Another option the individual must be given is to transfer the value of the pension to benefit to

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[36] The careful reader will note that the benefit for the MSPP is much higher than for the Member-Funded Pension Plan in Quebec. Michel Lizée of the Quebec plan notes that: "We increase the total contribution by about 46 per cent in order to build an indexing reserve, which also serves as a buffer to absorb shocks when returns are low." Their aim is to ensure that the plan is never in shortfall so they use a very cautious funding policy. This means that members receive a lower benefit but the benefit is a guaranteed level.

another pension plan (for example, at the individual's new workplace). To our minds, this is a much better option as it relieves the individual of the investment responsibility and is a more efficient way to generate a pension on retirement. However, the receiving plan must be willing to accept the transfer.

Arthurs emphasizes that transfers of members among plans should be facilitated by requiring employers to develop a standard policy dealing with the pension rights of newly-hired employees and by providing full information and a range of options to employees seeking to transfer their former pension rights to their new plan.

At the moment, the standard policies that Arthurs recommends are not in place. However, it would be possible for a new ONN plan to make such transfers easily available.

Appendix 10: Further information on modelling contributions and benefits

Below is the methodology used to calculate the contribution and benefit levels in Question 4.

DC Plan Methodology:

To model a hypothetical DC plan, a formula was created using two calculations:

1. The **future value (*FV*)** of annual contributions made over a 40 year career, (i.e. total accumulated savings)
2. The **annuity payment (*A*)** that one would receive annually if they converted their savings (***FV***) into an annuity (i.e. annual retirement benefit)

The contribution rate in a hypothetical DC plan was fixed so as to enable a person with annual earnings equal to the CPP's YMPE (based off the average industrial wage) to have enough pension income to meet their 70 per cent replacement target when combined with OAS, GIS and CPP alone (assuming no other sources of income). Based on the existing retirement savings gap, this person would need $14,106 per year to replace 70 per cent of their pre-retirement income.

The formula was set to yield an annuity payment equal to approximately this amount. This was achieved with a combined (employer + employee) contribution rate of **6.75 per cent**. (Note that intervals of 0.25 per cent were tested for simplicity.)

This rate was then used to calculate the savings and annuity for a person with different annual earnings. Persons with annual earnings lower than the YMPE would achieve replacement >70 per cent, while persons with annual earnings greater than the YMPE would achieve replacement <70 per cent.

DB Plan Methodology:

To model a hypothetical DB plan, a formula was created using three calculations:

1. the **annual retirement benefit (B)** guaranteed based on a pension accrual rate
2. the **future value (FV)** (i.e. total accumulated savings) of annual contributions which would be required to provide the guaranteed benefit (**B**)
3. the amount of **annual contributions** which would need to be contributed annually to yield the necessary savings (**FV**)

An accrual rate was chosen that would enable a person with annual earnings equal to the CPP's YMPE (based off the average industrial wage) to have enough pension income to meet their 70 per cent replacement target when combined with OAS, GIS and CPP alone (assuming no other sources of income). Based on the existing retirement savings gap, this person would need $14,106 per year to replace 70 per cent of their pre-retirement income.

The formula was set to yield an annual benefit equal to approximately this amount. This was achieved with an accrual rate of **0.65 per cent**. (Note that intervals of 0.05 per cent were tested for simplicity.)

Using this accrual rate, calculations #2 and #3 were performed to calculate the necessary annual contributions to realize this benefit level. The percentage (or contribution rate) was then calculated with reference to annual earnings.

The formulas for the DC and DB plans made use of the following **assumptions**:

- a person works and contributes over 40 years
- earnings are stable over a career
- contributions are made on the full amount of earnings
- an annual rate of return of 4.80 per cent
- a management expense ratio (MER) of 1.0 per cent
- a retirement period of 25 years (25 annuity payments)
- an interest rate of 0.5 per cent