



Selecting a pension plan for Ontario's nonprofit sector

Final report of the ONN's Pensions Implementation Task Force

September 2018



LEGAL DISCLAIMER

This report is for information purposes only. ONN Pensions Implementation Task Force does not purport to provide legal or actuarial advice by releasing this report on a pension plan for Ontario nonprofit workplaces. The legal context and availability and status of pension plans can change over time. We recommend that organizations obtain professional advice before making a decision about joining a pension plan or taking action that would affect an existing pension plan or collective agreement.

OUR PARTNERS

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ABOUT ONN

ONN is the independent nonprofit network for the 58,000 nonprofits in Ontario, focused on policy, advocacy and services to strengthen Ontario's nonprofit sector as a key pillar of our society and economy.

ONN works to create a public policy environment that allows nonprofits to thrive. We engage our network of diverse nonprofit organization across Ontario to work together on issues affecting the sector and channel the voices of our network to government, funders, and other stakeholders.

CONTENTS

- Executive Summary 3
- 1. Context and mandate 6
- 2. Research and analysis 8
- 3. Two new pension plan options designed with the nonprofit sector in mind 11
 - OPTrust 12
 - The Colleges of Applied Arts and Technologies Pension Plan (CAAT Pension Plan) 21
- 4. Other pension plan options 26
 - The Multi-Sector Pension Plan (MSPP) 26
 - Defined Contribution (DC) Plans in general 27
- 5. Group TFSAs 29
 - Group Tax Free Savings Accounts (TFSAs) 29
 - TFSAs and the Guaranteed Income Supplement (GIS) 29
 - Group TFSAs and management and investment fees 30
 - Other disadvantages of Group TFSAs 31
- CONCLUSIONS AND RECOMMENDATIONS 33

- APPENDICES 38

Executive Summary

This is the final report of the Ontario Nonprofit Network (ONN) Pensions Implementation Task Force (PTF 2.0). ONN has been working to develop a sector-wide pension plan for Ontario nonprofits since 2015 as a way to improve the retirement income security of nonprofit sector workers and to create a powerful recruitment and retention tool for nonprofit employers. In March 2017, ONN's original Pensions Task Force (PTF 1.0) released *A Roadmap for a Pension Plan for Ontario's Nonprofit Sector*, a set of recommendations on the design of a sector-wide pension plan for Ontario's nonprofits and charities.

As ONN's second pensions task force, we were mandated to oversee the implementation of PTF 1.0's report, essentially picking up where they left off. This report fulfills our mandate to provide insight and non-binding recommendations to ONN on a sector-wide pension plan to recommend for Ontario nonprofit workplaces.

Here is a summary of the main elements in our report:

- We prepared this review while keeping in mind the recommendations of PTF 1.0, the most significant of which we identified as the need for a sector-wide pension plan that provides reasonably predictable, adequate retirement benefits for employees and which does not create unrealistic contribution requirements or unacceptable risk to participating employers.
- The PTF 1.0 report had caught the eye of two major pension plans: OPTrust Pension Plan and Colleges of Applied Arts and Technology (CAAT) Pension Plan. They both created adjunct plans meant to appeal to the nonprofit sector by including ideas from the PTF 1.0 report as refined in discussions with us. As a result, both plans were examined in some detail.
- These new plans, OPTrust Select and CAAT DBplus, are affiliated with large jointly sponsored pension plans (see glossary in Appendix D) and have many structural similarities. Also, both new plans offer a modest basic benefit that is subject to conditional increases based on inflation adjustments. The basic benefit is guaranteed while the inflation enhancements are dependent on plan funding.
- The funding formulae of both plans are such that the basic benefit should be more than adequately funded over the long term by the fixed contributions, thus limiting risk to contributing employers. This ability to limit employer risk makes both these plans far superior to traditional single employer pension plans, from an employer perspective. The inflation increases are conditional on funding so they will not be granted unless they are affordable from the plan's perspective. The size of the main plans gives both efficiency and stability. Both plans express confidence that their funding policies will minimize the chances of benefit and contribution fluctuations.
- We identify two significant differences between Select and DBplus: contribution rates and a potential role for the sector in plan governance. Select has a *fixed* contribution rate of 3 + 3 percent (for employer and employee) while DBplus has a *minimum* rate of 5 + 5 percent but which at the election of participating employers may be increased to as high as 9 + 9 percent. OPTrust

has formally established a role for Select member participation in governance once numbers warrant it. The CAAT Plan has not but would encourage informal feedback.

- PTF 1.0 recommended that the pension plan generate a post-retirement income for an average worker of 70 percent of their pre-retirement income (when combined with public programs). Select with its 3 percent contributions achieves approximately 65 percent for a worker currently earning \$40,000. DBplus at a 5 percent contribution rate (the minimum contribution) would be approximately 70 percent.
- We weighed the adequacy versus affordability of the two plans and concluded that the more accessible rate in OPTrust Select has the greater potential to grow participation among nonprofits and make pension plans the norm in the sector. There is also concern that the minimum contribution level of 5 percent in DBplus may put it beyond the reach of a number of employers thus lowering the chances of a broadly based plan (and in fact might mean no pension plan at all for many employees, a result we want to avoid). Select's lower contribution rate is thus likely to mean it will have appeal for many more workplaces. For this reason, along with those outlined above, we decided to recommend OPTrust Select. At that point, we asked ONN to commission an actuarial review of the Select Plan which confirms OPTrust's characterization of the plan's risks and benefits to employers and employees. We observe, however, that there are some employers that could contribute at 5 percent or higher and DBplus should certainly be considered an option by them. This would apply particularly to those that are already contributing to a retirement plan at 5 percent or a higher level.
- In the case of both Select and DBplus it may be possible for employers with existing plans to merge those plans and transfer assets to Select or DBplus. In addition, individual employees are able to buy back past service for periods in which they were not enrolled in a pension plan while working for their current employer. Thus these plans are in a position to facilitate consolidation of pensions in the sector which will bring with it the efficiency and stability that come with bigger plans.
- Although our emphasis is on selecting the best pension plan for the sector, we did consider other possible retirement income vehicles. We looked at Defined Contribution pension plans, Target Benefit Plans and capital accumulation plans.
- We rejected capital accumulation plans, such as Group Tax-Free Savings Accounts(TFSAs) and Registered Retirement Savings Plans (RRSPs), from consideration as the primary retirement vehicle for the sector. Our main reason for doing so is that they do not provide reasonable predictability of retirement income for employees, one of the crucial elements of a decent retirement plan. They also tend to have higher fees than DB pension plans.
- Although TF 1.0 hoped that a Multi-Employer Target Benefit Plan might provide the best solution, recent regulatory changes in Ontario have likely made participation in such plans impossible for most nonprofit sector employers and accordingly we did not pursue that option.

- Although TFSAs and Target Benefit plans are not appropriate as the primary sector-wide retirement vehicles, they may be useful in some limited circumstances that we have identified.
- We are not recommending that ONN build a new plan from scratch. Such an undertaking would be a daunting task for ONN given the cost and other resources that starting a major pension plan would entail. In addition, regulatory changes governing Target Benefit Plans means that this type of plan could not be built in any event.

Based on our review and analysis we make the following recommendations.

PTF 2.0 RECOMMENDATIONS

We recommend that the ONN board of directors:

1. Recommend OPTrust Select for the Ontario nonprofit sector
2. Forge a strong and long lasting partnership with OPTrust to facilitate the nonprofit sector joining the plan
3. Encourage Ontario nonprofits with paid staff to give serious consideration to joining OPTrust Select as part of their journey towards becoming “decent work” employers and to complement their other recruitment and retention strategies
4. Work with OPTrust to deliver pensions literacy training that is useful, accessible, and tailored to the needs of nonprofit staff and boards of directors
5. Ask that the OPTrust Select advisory committee, when established, monitors demand and capacity among participating nonprofits for higher contribution and benefit rates.
6. Continue to advocate for funders and donors to support decent work in the Ontario nonprofit sector, namely by funding decent wages, benefits, and access to a pension plan

1. Context and mandate

This is the final report of ONN's Pensions Implementation Task Force (PTF 2.0). ONN has been working to secure the development of a sector-wide pension plan for Ontario nonprofits since 2015, as part of its work to build a decent work movement in the nonprofit sector.

ONN's original Pensions Task Force

In March 2017, ONN's original pensions task force (PTF 1.0) released *A Roadmap for a Pension Plan for Ontario's Nonprofit Sector*. PTF 1.0 was formed in October 2015 with a mandate to develop recommendations on the design of a sector-wide pension plan for Ontario's nonprofits and charities.¹ PTF 1.0 consisted of nonprofit sector leaders and pensions/policy experts with an interest in seeing the nonprofit sector gain access to a pension plan to improve the retirement income security of nonprofit sector workers and to create a powerful recruitment and retention tool for nonprofit employers. PTF 1.0 refined that mandate to provide a framework for a pension plan that is affordable for workers and nonprofits and that shares risks carefully, provides adequate benefits, and is easy to administer.

The PTF 1.0 report made it clear that a sector-wide approach could provide a much more efficient vehicle for retirement income security, offering workers greater benefits and a more secure retirement income than organizations could achieve on their own with comparable contribution rates (e.g., through a single-employer plan or a Group RRSP arrangement). Their recommended approach was intended to balance employer and worker needs and highlight the importance of the sector to play a role in governing a plan that would be developed with the nonprofit sector's needs in mind.

PTF 2.0

ONN's second pensions task force was mandated to oversee the implementation of the recommendations in ONN's Pensions Task Force Report. Our role consisted of:

- Providing insight and non-binding recommendations to ONN on a sector-wide pension plan for the Ontario nonprofit sector, including:
 - Providing anonymized workforce data (like age, salary, and employment status data) to help ONN develop pension plan cost estimates
 - Identifying implementation challenges and opportunities
 - Identifying the need for expert advice as the task force work unfolded

¹ A "sector-wide pension plan" was taken to mean a plan available to incorporated nonprofits in Ontario, including their permanent and contract employees working full or part time (over a certain threshold). A sector-wide plan was recommended over individual workplace plans in keeping with the Arthurs Report observation that "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," (see Appendix A, Resources for further reading).

- Recommending whether to create a new plan or create an avenue for nonprofits to join an existing plan, and address detailed plan design issues based on the framework by PTF 1.0
- Developing recommendations to ONN on how to finance, implement and transition into the pension plan, including addressing the pensions literacy challenge for nonprofit employers and workers

The key recommendations from PTF 1.0 which we have focused on in particular are:

- That Ontario nonprofit workers should have access to a sector-wide pension plan
- 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 percent income replacement rate during retirement
- That participation in a sector-wide plan should be mandatory for all employees (including management and contract/part-time workers² above a threshold) where the plan is to be available in a workplace
- That to meet the aim of seeing the average worker reach the 70 percent adequacy threshold employers and employees should each contribute 3 to 5 percent of earnings per year
- That plan design allow for ancillary benefits, that it use a simple career-average benefit formula and that the plan should permit incoming transfers of pension assets to provide a safer and more efficient retirement vehicle for members' pension assets earned in previous jobs or previous plans
- That the plan structure limit the future liability of nonprofit employers, including boards of directors
- That the plan be available to non-unionized and unionized workplaces
- That the plan allow for portability between contributing employers
- That there should be employer, employee, and retiree representation in the administration of a nonprofit sector plan
- That the nonprofit sector plan be structured to allow for mergers with existing plans
- That there be a comprehensive education/outreach program to help employers and employees in the sector understand the advantages (and risks) of a sector-wide plan and work with partners to improve pensions literacy in the nonprofit sector

PTF 2.0 members were recruited from the Ontario nonprofit sector on the basis of their experience, knowledge, and personal interest in developing a sector-wide pension plan, as well as to represent the diversity of nonprofit workplaces (sub-sector, organization size, with and without a pension, etc.).

PTF 2.0 included two continuing task force members from PTF 1.0 along with five new members. The Chair and supporting staff would like to note that the task force members participated actively in discussions, engaging in lively debate from principled positions, and kept open minds throughout the journey. They have been an extremely hard-working and insightful group of nonprofit sector representatives and the ONN was fortunate to have them as volunteers.

See Appendix B for biographical notes on the task force members.

² Throughout this report, by "part-time and contract employees," we mean permanent, part-time employees and employees on fixed-term contracts but not self-employed independent contractors.

2. Research and analysis

Task force deliberations: A rapidly changing environment

PTF 2.0 met 12 times between June 2017 and September 2018. The task force operated in a rapidly evolving environment, with potential plan options changing every few months. Through August 2017, the task force thought there were no viable options to consider in terms of the nonprofit sector joining an existing plan, but two months later new developments meant that there were several options on the table. In fall 2017, the task force was contacted by a lawyer interested in doing the start-up work for a new pension plan designed to our specifications. One option was not announced until spring 2018, once again changing the landscape. All this meant that the task force was deliberating in an environment that was far from static.

Build vs. buy? Why we decided to go with an existing plan

One of the recommendations of PTF 1.0 was that ONN should attempt to find an existing plan to act as the vehicle for a sector-wide pension plan rather than creating its own from scratch. PTF 1.0 observed that creating a plan is a major commitment in terms of time, energy, cost, and other resources which would be a daunting challenge for ONN. In addition, a new pension plan would not have access to the same kinds of investment types or economies of scale that a large, established pension plan has. We assumed that only if there were truly no viable options available would ONN even consider attempting to start a new plan, and only then likely in partnership with an organization with expertise in pension start-up and management.

PTF 1.0 however did say it should be left open as an option if no existing plan could satisfy the basic characteristics identified for a sector plan. Our initial review of existing plans available to the sector was not encouraging. Accordingly, PTF 2.0 did not definitively rule out immediately recommending that ONN build a pension plan from scratch.

Two things then occurred.

First, a pension regulatory reform proposal³ in Ontario made it clear that developing a target benefit (TB) multi-employer pension plan (MEPP) for the (predominantly non-union) nonprofit sector was likely not feasible. The new framework created a legal definition of “target benefits” that includes a requirement that “the obligation of participating employers to contribute to the pension fund in respect of the benefit is limited to a fixed amount set out in one or more collective agreements.”⁴ That proposed change thus brought into question the possibility of building the “ideal plan” described in PTF 1.0. It also created some question about whether largely non-union sector employers could *en masse* join any existing MEPP since those plans would likely want to be eligible for the new target benefit status.

We had considered the Christian Schools International Canada Pension plan as a possible model. This plan, already operational in a nonprofit subsector, is a MEPP established by trust agreement (rather than a collective agreement) in line with the specifications of the PTF 1.0 recommendations. We understand

³ Ontario Ministry of Finance. “Description of Proposed Target Benefit Funding Rules.” April 4, 2018. Available for download at the timing of writing from [Ontario’s Regulatory Registry](#).

⁴ [Ontario Pension Benefits Act, Section 39.2\(1\) 5](#).

the proposed regulatory change likely means the Christian Schools plan will not have target benefit status. We thus focused attention on other existing plan options.

Second, around the same time as the Ontario proposed regulatory framework changed, two possible options emerged, OPTrust Select and CAAT DBplus. While neither of these plans is an exact match to the design features highlighted as priorities by PTF 1.0, they both satisfied a number of them. These options are analyzed in Chapter 3.

Given the hurdles inherent in establishing a new plan, and the emergence of at least two seemingly viable plans created by others, we turned attention to them and abandoned the idea of constructing a new plan.

The task force also carefully considered the timing of introducing a new pension plan, given the CPP premiums scheduled to increase starting in 2019 and the labour costs associated with [Bill 148 \(Fair Workplaces, Better Jobs Act, 2017\)](#) that took effect in 2017 (with other elements expected to take effect in 2018). With the decision to recommend an existing plan, the timing factor became less critical but may yet play a role in the take-up of the new plan option in the sector.

Meetings with external stakeholders

Various representatives of the task force and ONN staff met in person or by phone with the following organizations, often more than once:

- OPTrust
- Multi-Sector Pension Plan (MSPP)
- Colleges of Applied Arts and Technologies Pension Plan (CAAT Plan)
- Counsel to and a trustee of Christian Schools International Canada Pension plan
- Common Wealth (a consulting firm)

The task force is grateful to these individuals and organizations for the open discussions and willingness to consider a way forward for the nonprofit sector to gain access to a pension plan.

Payroll survey

In 2016, ONN conducted a [survey](#) and focus groups to gauge the level of interest in the Ontario nonprofit sector for a pension plan and determine what features were most important.

In early 2018, PTF 2.0 suggested ONN conduct a follow-up survey to collect more detailed payroll information. The following are the highlights of that research:

- The survey was completed by representatives of 82 Ontario nonprofits, with a combined total of 6,224 staff (including 1,396 regular part-time employees working 20-30 hours/week). Over half the organizations had fewer than 20 employees
- 48 percent of organizations were in the Greater Toronto and Hamilton Area (GTHA) and the remainder were spread around Ontario (in line with the population spread in the province) Respondents were spread across the sub-sectors (like social services, health, and arts) more or less in proportion to their size in the sector
- 73 percent of organizations had female-dominated (80 percent or higher) workforces. This is relevant to pensions modelling as women tend to live significantly longer than men

- Over 85 percent of responding organizations were not unionized
- 60 percent offered no pension plan or retirement savings option. Of the 40 percent that offered one or the other, almost 80 percent offered an individual or group RRSP. Of the seven organizations with a pension plan, four had defined contribution (DC) and three had defined benefit (DB) plans

The survey results confirmed the low prevalence of pension plans in the Ontario nonprofit sector and a willingness on the part of nonprofits to help design a plan for the sector.

Government engagement

ONN also engaged with the Ministry of Finance as it developed new regulations (not proclaimed at the time of writing) for target-benefit MEPPs. Despite ONN's requests⁵ for a regulatory framework that would take into account the needs of the (predominantly non-union) nonprofit sector, the Ontario Government's new draft framework announced in late 2017 via Bill 177 (the [Stronger, Fairer Ontario Act, 2017](#)) and confirmed in a regulatory proposal released in April 2018 (see above) made doubtful the possibility of a target benefit plan for non-collectively-bargained workplaces. At this point, the task force prioritized working with existing plans rather than attempting to design a plan from scratch for the sector that aligned with the PTF 1.0 *Roadmap* recommendations.

⁵ See ONN's 2015 [submission to the Ministry of Finance on regulatory reform consultations for Target Benefit Multi-Employer Pension Plans](#); ONN's 2018 pre-Budget [submission](#); and ONN's 2018 [submission to the Ministry of Finance's regulatory consultation on "Proposed Funding Rules for Multi-Employer Pension Plans that Offer Target Benefits."](#)

3. Two new pension plan options designed with the nonprofit sector in mind

Two major jointly sponsored pension plans (JSPPs) (see glossary in Appendix D) which until now have largely operated in the public sector have recently established adjunct plans with a view to attracting nonprofit sector participation. They are OPTrust Select and CAAT DBplus. They have considered ONN's PTF 1.0 report in devising the plans.

In the case of OPTrust, they met with us while designing their new plan and have taken many of our concerns and comments into account in their new plan. We have had presentations and answers to detailed questions from both. The result of our review is that we believe both plans deserve to be described in some detail as plans potentially available to sector.

In both cases, the "new plans" are actually part of the main plans but take the form of a separate schedule of benefits. This connection to the main plans gives both of these new plans a number of advantages: economies of scale in pension fund investment and administration costs, access to diverse and alternative investment types, and access to the staff and expertise of the main plans, which are among the best-managed funds in the world. It also gives them proven track records which can be taken into account by prospective nonprofit employers in assessing the merits of the plans. In general, both CAAT Plan and OPTrust have been well managed, successful plans and so we looked very closely at both.

One might ask why these already large plans would be establishing additional plans. So we did ask, "What's in it for you?" The answer from both was essentially the same, i.e., that there is little opportunity for the plans to grow in their current form within their original target groups, that there is an advantage for these plans to bring in new members with a fresh stream of contributions, and that their size, knowledge and expertise allows them to do so with minimal risk. In addition, they seem to be motivated, as we are, by a genuine interest in making pension plans more broadly available.

The new plans have significantly lower minimum contribution requirements and thus encourage employers who might pass on the main plans to join the affiliate plans. The question for PTF 2.0 of course is whether these plans provide an equivalent opportunity for the nonprofit sector, thus making it a win-win.

While the size of these plans creates considerable advantages, a potential concern is that the connection to the bigger CAAT Plan and OPTrust creates a risk of the smaller plans being overshadowed by the needs of employers in the main plan. Both CAAT Plan and OPTrust have addressed that issue and indicate that there are safeguards against that.

Below the plans are discussed in more detail.

OPTrust

The Main Plan

OPTrust was established in 1995. With net assets of over \$20 billion, OPTrust invests and manages one of Canada's largest pension funds. OPSEU Pension Plan is a DB plan with over 92,000 members and retirees. OPTrust was established as a JSPP, giving plan members and the Government of Ontario an equal voice in the administration of the plan through joint trusteeship. OPTrust's sponsors are Ontario Public Service Employees Union (OPSEU) and the Ontario Government.

The sponsors determine changes to the plan design, type of benefits provided and contribution rates payable by employers and employees. The trustees, who are appointed by the sponsors, are responsible for the administration of the plan.

OPTrust emphasizes sustainability (i.e., generating sufficient returns to keep the plan fully funded) and stability (i.e., reducing the likelihood of fluctuations in contribution rates or contribution levels). It has in fact been fully funded since 2009. It has a sizeable in-house group of investment professionals. OPTrust has a responsible investing program which takes into account environmental, social and governance (ESG) factors in determining investments. OPTrust states that it believes those issues are relevant to investment risk and return as well as its reputation. The plan is a signatory to the UN-supported Principles for Responsible Investment Initiative.⁶ The PRI Initiative's approach works to understand the investment implications of ESG factors and to support its international network of investor signatories in incorporating these factors into their investment and ownership decisions.

OPSEU as representative of plan members and the Province as the major employer share equally in the fortunes of the plan and this mutual interest of employer and member in having them succeed is often cited as a major selling point for JSPPs. Because it is a JSPP, by law benefits, once earned, cannot be reduced. Accordingly, if the plan experiences a funding deficit, the shortfall must be made up by any one or a combination of:

- An increase in member and employer contributions
- A reduction in benefits members earn on future contributions
- The use of reserves

The plan sponsors will determine which of these options to utilize.

Currently contributions by both the members and employers to the main plan are 9.4 percent (each) up to \$55,900 (the year's maximum pensionable earnings or YMPE for 2018 - see glossary) and 11 percent on earnings over that amount. Members earn a benefit on retirement equal to 2 percent of the average of their best 5 years of earnings times their number of years of service. The average pension for OPSEU retirees in 2017 was \$21,426.

The trustees (as distinct from the sponsors) oversee the day-to-day administration of the plan. OPTrust is governed by a 10-member Board of Trustees, five of whom are appointed by OPSEU and five by the Province.

⁶ For more information see <https://www.unpri.org/pri>.

OPTrust Select

OPTrust decided to expand its plan beyond its traditional public sector base to include broader public sector⁷ and nonprofit employers (but not private sector employers) and has done so through establishing OPTrust Select. OPTrust Select is actually part of OPTrust and thus is subject to the same governance as the main plan (i.e., the same sponsors and Board of Trustees). It is also subject to a common funding policy. OPTrust adopted a funding policy in June 2018, a summary of which is called “How OPTrust Thinks About Funding.”⁸ The summary states that it has as its main goals “benefit security and contribution rate stability without sacrificing intergenerational equity, and fairness between the main schedule of benefits and OPTrust Select.”

OPTrust Select has a separate schedule of benefits which is significantly different from and much more modest than the main plan.

OPTrust Select basic provisions:

- Members contribute 3 percent of earnings and employers match the contributions. There is an additional 0.2 percent contribution required from employers in the first two years of participation⁹
- An annual pension accrual rate of 0.6 percent of earnings
- Earnings upgrades and cost-of-living increases based on inflation, dependent on the plan’s funded status and annual Board of Trustee approval
- Ability to buy-back past service (eligibility for which depends on the individual’s own circumstances)
- Both management and regular employees are eligible to participate
- There is no bridge benefit, no subsidized early retirement benefit, and no other ancillary benefits

What does this mean for a benefit at retirement?

Calculating the basic benefit is straightforward. More complex (and less certain) is the increase in the pension benefit based on a cost-of-living/inflation factor. Provided plan funding is adequate, earnings upgrades, and a cost-of-living increase for retirees equal to 100 percent of annual inflation can be granted by the Board of Trustees.

What does this mean to employees at different wage levels? OPTrust prepared the following for illustration:^{10 11}

⁷ The broader public sector is generally understood to mean hospitals, school boards, universities, colleges, and various agencies, boards, and commissions (“ABCs”) to which the Province is empowered to appoint individuals to the board of directors/trustees.

⁸ Document provided to PTF 2.0 by OPTrust.

⁹ The 0.2 percent contribution rate for the first two years is meant to cover any contributions owing from an employer that leaves the plan. So if an employer is behind on remitting their contributions and their employee contributions then the 0.2 percent would allow OPTrust to credit the employee service. If an employer withdraws, article 95 of the participation agreement allows OPTrust to determine any additional contribution requirements in the case the plan is severely underfunded. The likelihood of that event is low because of the design of OPTrust Select. (Source: OPTrust email communication.)

¹⁰ OPTrust. “OPTrust Select.” Slide presentation prepared for the ONN PTF 2.0. June 20, 2018. Slide 22. Note that the examples have been updated for this report to use projected salaries at age 65 and a 2.2% earnings annual increase assumption, for

OPTrust Select – Retirement Examples

Annual pension benefit assuming retirement at age 65 with 25 years of service and various salary levels

OPTrust Select contribution rates: 3% + 3%

Current Salary	\$40,000	\$50,000	\$60,000	\$70,000
Projected Salary at Age 65*	\$67,400	\$84,300	\$101,200	\$118,000
Enhanced CPP** & OAS	33,100	38,500	43,800	46,600
OPTrust Select Plan*	9,900	12,400	14,800	17,300
Total retirement income	43,000	50,900	58,600	63,900
Income replacement ratio	64%	60%	58%	54%

* Assumes earnings increase by 2.2% each year and benefit reflects earnings upgrades of 2.0% each year

** Assumes member contributes to CPP for full career at level consistent with average salary

As the chart illustrates, OPTrust Select has been designed to provide a “core” benefit plus an “intended” inflation related benefit. It may be helpful to think (as OPTrust does) of the plan as a combination of defined benefit and target benefit with the core benefit being “guaranteed” like a defined benefit while the enhancements, which are conditional are in the nature of a target benefit. The core benefit provides lifetime retirement income equal to 0.6 percent of career average earnings times pensionable service. The intended benefit includes wage upgrades and post-retirement cost-of-living allowance equal to 100 percent of inflation (Consumer Price Index) increases depending on the funded status of the OPSEU Pension Plan and annual Board approval.

The 3 + 3 percent contribution and the projected earnings on pension assets over the long term are expected to be sufficient to generate funds to pay the core benefit as well as the conditional benefit enhancements. OPTrust has done projections that suggest the chances of contribution increases are small.

consistency with the CAAT DBplus examples provided on p. 24 of this report. In addition, the CPP has been projected assuming an increase in the Annual Industrial Wage (AIW) of 2.2%, and the OAS has been projected assuming annual inflation of 2.0%.

¹¹ Note that the fully enhanced CPP applies to future generations (starting with those who turn 18 in 2025) so the CPP benefit is overstated by approximately one-third for a worker who is 40 years old in 2018.

Our understanding is that a reserve builds up over time that permits the granting of the enhancements, which are meant to be annual. However, that is not automatic and will depend on the funding of the plan. If there are significant funding problems (that come from, for example, poor stock market returns), the plan may not grant the enhancements. However, the contributions continue to be the same and since they have built into them the cost of enhancements, those contributions should remain more than enough to at a minimum pay the core benefit without a contribution increase.

What are the risks that benefits will not be paid without increasing contributions?

The OPTrust funding policy states that its goal “is to pay the accrued benefits; for OPTrust Select this includes the accrued core benefits and benefit enhancements granted to date with a *high degree of certainty* and to pay the intended benefit enhancements of OPTrust Select with a *reasonable degree of certainty*” [emphasis added].

The funding valuation takes into account benefits already earned (both core benefits and enhancements already granted) as well as those that are expected to be earned in the future.

The funding policy summary points out that if a funding deficit arises, the deficit will be allocated between the two schedules of benefits based on the total liabilities of the two schedules. (See the discussion below of the actuarial opinion ONN obtained for the appropriateness of this approach).

In the case of OPTrust Select, the deficit would be addressed by reducing *future* benefit enhancements. That could include both the cost-of-living adjustments after retirement and benefit upgrades before retirement. In other words, the core benefit and enhancements already granted would not be affected. And reducing future benefit enhancements does not necessarily mean eliminating them.

OPTrust reviewed potential scenarios in which funding deficits could arise, such as a prolonged period of low returns or a sudden short-term negative return on investments. In all the examples, future enhancements were modified to less than the full inflation increases but none to zero (although in a more extreme example a reduction to zero would be possible). The funding policy anticipates that as the plan’s funding status improves over time, benefits would be restored to the intended levels through a catch-up provision.

These enhancements are conditional, and will depend on the funding of the plan at the time and require Trustee approval. We have spent some time analyzing the somewhat dry and complicated funding process as the OPTrust Select, as a DB plan, carries with it DB risks which were outlined in the PTF 1.0 report. We are satisfied that OPTrust has designed the Select plan to minimize the risks to the point where we believe the sector could participate in the Select plan without unduly jeopardizing employers or employees.

Employer liability

For over two years, ONN and its two (sequential) pensions task forces have been in discussion with OPTrust about the possibility of nonprofit workplaces having access to a low-cost variant of OPTrust’s established public sector plan. These ongoing conversations have concretely influenced the design

considerations for OPTrust’s “Plan Select” design proposal. ONN’s staff and volunteers and OPTrust staff have spent hours discussing plan design, governance, and costs/risks and benefits for nonprofit workers and employers. All the way through this process, OPTrust has been responsive to ONN’s recommendations and adapted its offering considerably to respond to what the ONN task force thought best suited the needs and priorities of employers and workers in the sector.

In summer 2017, when OPTrust shared preliminary details of the proposed Select plan design, the ONN task force was pleased to see a lower-cost pension plan option that would be open to Ontario nonprofit workplaces (pending approval of the OPTrust board and sponsors, which came in 2018). The task force had two concerns, however, about the plan design and governance with respect to employer liability:

- The extent to which the (DB) plan limited employer liability to making *predictable monthly contributions* (and eliminate the risk of future organizational deficits caused by plan shortfalls) in the way that PTF 2.0 wanted it to for the sake of nonprofit employers’ peace of mind
- The possibility of developing opportunities for the nonprofit sector to participate in plan governance, including influencing the decisions around any adjustments to contribution and benefit rates in response to changes in the plan’s funded status

Knowing that employers are rightfully concerned about taking on unpredictable future cost increases, the ONN pensions task forces asked OPTrust to find a way to further limit employer liability or find a way for nonprofit workers and workplaces that joined OPTrust Select to participate in the governance of the plan so that they could have a say on the funding policy (including how to manage any funding liability).

Following discussions with the plan sponsors, OPTrust found a way to address these concerns to our satisfaction. Through conditional indexing of both the working-life “earnings upgrades” and the post-retirement cost-of-living enhancements, OPTrust has reduced the likelihood of additional liability of participating Select employers in the way that the ONN task force had recommended.

OPTrust has done scenario planning and, even with another 2008-like economic downturn, the plan would still be able to maintain the long-term funded status required to protect the basic benefits without having to increase contribution levels. Furthermore, any organization can exit the plan with one year’s notice if the organizational funding situation changes. If a participating nonprofit closes, its employees’ accumulated pension entitlements remain protected. And -- critically important from a nonprofit employer’s perspective -- participation in the plan creates a *cash-based pension expense*; in other words, the organization does not carry the accounting aspects of the pension plan on its own books.

The ONN pensions task force was pleased to learn of these design and governance features. They were satisfied that the liability of nonprofit employers would be sufficiently limited by the plan’s design and that the sector would be adequately served in terms of participation in governance of the plan. The actuarial review of OPTrust Select commissioned by ONN (see p. 20) confirmed that OPTrust Select had reasonably limited employer liability.

Adequacy vs. affordability

OPTrust conducted market research to confirm whether the 3 percent contribution level was appealing to people working in the sector.¹² Its research focused on nonprofit workers in Ontario earning less than \$80,000. Their survey found that 3 percent contribution levels were perceived to be “about right” for the greatest proportion of workers in this demographic. That said, there was a significant portion of workers who would be open to contributing 4 percent or even 5 percent to achieve a greater monthly benefit in retirement. PTF 1.0 had recommended a 3 to 5 percent contribution rate (each for employers and employees), recognizing that this range in the context of a DB plan would help a worker at the average industrial wage for Canada to reach the adequacy threshold of 70 percent of pre-retirement income (including an enhanced CPP and other public programs).¹³ The task force recognized, however, that a higher rate than 3 percent would be needed to get workers at the \$70,000 to \$80,000 salary range to the adequacy threshold (because public programs would replace income at a lower rate for these workers in retirement).

PTF 2.0 has expressed concerns to OPTrust about the limitations of offering only one benefit schedule with a set (3 + 3 percent) contribution rate which would provide less flexibility than some other plans examined by the task force.

OPTrust has indicated that a higher contribution level may be possible in future if demand warrants it. OPTrust’s new Select Advisory Committee (see “Governance” section on p. 19) would provide a mechanism for input on this issue.

Past service buyback provisions

There are two different scenarios for “past service buyback”, i.e., for an employee to acquire credit in OPTrust Select for periods prior to becoming a member: one where the employer has an existing pension plan and one where it does not.

If the employer has an existing plan, that plan can be wound up and the members can buy back past service in OPTrust Select. It is relatively straightforward for an existing DC plan. If the existing plan is a defined benefit plan, the process is more complicated and may not always be possible depending on existing regulatory constraints.

If there is no existing pension plan (which is the case with the vast majority of nonprofit employers), employees can buy back service on an actuarial equivalent basis. The member can transfer money from an RRSP, Locked in Retirement Account (LIRA), or simply pay cash.

Current employers would *not* contribute toward the cost of past service purchases.

¹² OPTrust. OPTrust Select Market Analysis: Quantitative Research Study. Slide deck dated April 26, 2018. This analysis was shared with the ONN Pensions Task Force 2.0.

¹³ OPTrust has modelled its 3 + 3 percent rate plan and determined that a worker earning \$40,000 would achieve a 65 percent income replacement rate at this level (using similar assumptions, including enhanced CPP).

Employer eligibility to participate

OPTrust Select reserves the right to approve, by its Board of trustees, any new prospective employer that wishes to participate in the Select plan. We asked OPTrust to outline the criteria and process for that in order to determine whether most, if not all, employers in the nonprofit sector would be eligible to participate. Their eligibility criteria for employers are:

- Sustainable sources of funding
- Ability to communicate electronically with OPTrust
- Does not impede materially the sustainability of the plan

This would entail the prospective employer providing employee data, financial statements and the like to allow OPTrust to do an analysis. OPTrust appears to understand the nature of the nonprofit sector and its sources of funding and has endeavoured to design a plan that takes these considerations into account.

The “impeding sustainability” criterion is a broad category that OPTrust would use to protect the plan from admitting a disproportionate number of new employers with unfavourable membership attributes.

Both unionized and non-unionized workplaces may participate.

Participation agreement

Once an employer has been accepted for participation in Select, it will be required to enter into a participation agreement with OPTrust. We were provided with a sample.

This is an agreement between a participating employer and the Board of Trustees which is the contract between them, establishing the terms on which the employer has been accepted for participation. Among other things, it sets out:

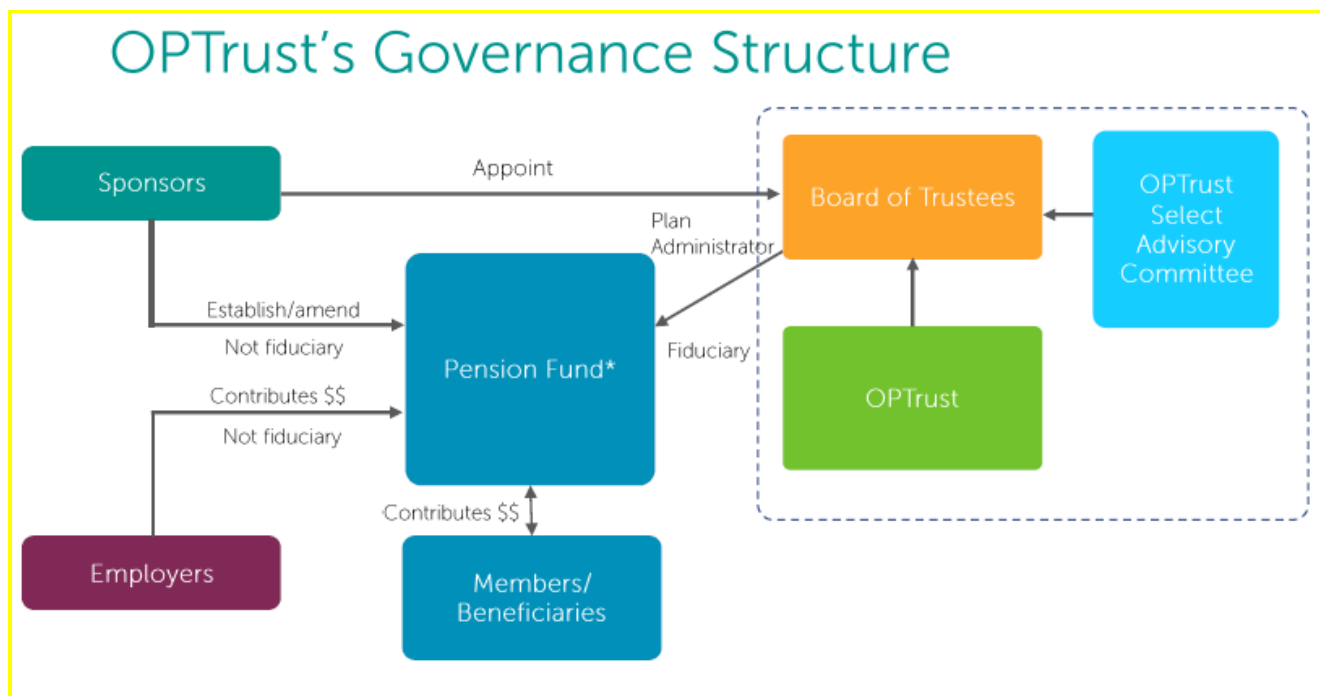
- That the employer agrees to be bound by the plan documents
- Classes of employees employed by that employer for whom contributions are to be made [The plan rules require that all permanent, full-time employees of specific classes must become members and while it would not be mandatory for contract and part-time employees, they would be eligible to participate if so provided in the Participation Agreement]
- Obligation of the employer to provide employee data necessary for enrolment and plan administration and to record contributions
- Employer obligation to remit contributions and the rights of the Trustees to pursue delinquencies;
- Privacy provisions imposed on the board and employer in relation to collection of data
- That the employer may terminate the agreement on one year’s notice to the board
- That the board may terminate the agreement on one year’s notice or if the employer is in default of its obligations under the plan; e.g., failure to remit contributions or provide data
- The obligation of the employer to remit contributions owed in the event of termination of the agreement, including potential withdrawal liability

Member services

The large size of the main plan means there is a significant capacity to provide good service to members. We have looked at the annual reports, websites, annual member statements, and similar information and are satisfied that OPTrust provides very good service to its members and that this would be extended to Select members as well. OPTrust has measured its member satisfaction rating which now stands at 9.0 on a 10-point scale and is ranked at 6 out of 50 global peers.

A role in governance for the nonprofit sector

As a JSPP, OPTrust has a structure that creates roles and responsibilities for employers, sponsors, and trustees. The addition of the Select plan means new participants for whom there currently is no formal role. OPTrust proposes to alleviate this by creating an advisory committee for Select. The governance structure would look like this:¹⁴



With the official launch of Select in 2018, OPTrust along with the plan sponsors are committed to establishing an Advisory Committee once Select has 1000 new members (employees). The advisory committee would be given the opportunity to give input to the OPTrust Board on issues affecting the Select members, e.g., whether to grant earnings upgrades or inflationary increases, changes to the funding policy, etc. An advisory committee of course is limited to making recommendations and does not have the authority to make binding decisions.

If the Select membership becomes significant relative to the main plan (20 percent of the membership or 5 percent of the total liabilities, i.e., planned pension payments), OPTrust has indicated it will consider trustees who represent Select participants.

¹⁴ OPTrust. "OPTrust Select." Slide presentation prepared for the ONN Pensions Task Force 2.0. June 20, 2018. Slide 12.

Actuarial review

“The [actuarial] review reassured the task force that the risk of having to increase employer contributions to meet the benefits schedule had been minimized. . . . OPTrust is currently fully funded (with healthy funding margins as of December 31, 2017) and its investment managers prioritize maintaining the funding status of the plan in their investment approach, so it is extremely unlikely that contribution increases would be triggered.”

ONN engaged Eckler Consultants + Actuaries to review OPTrust Select from the perspective of Ontario nonprofits who might need additional assurance about the risks of joining the plan. Eckler based their review on documents including the OPTrust funding policy, the OPTrust Select sensitivity analysis (prepared by OPTrust), an OPTrust slide presentation, and the ONN PTF 1.0's *Roadmap for a Nonprofit Sector Pension Plan*, as well as conversations with ONN and OPTrust staff. As Eckler's letter to ONN notes, “in summary, it is our opinion that the OPTrust Select pension schedule within the OPTrust main pension plan reasonably, and adequately, addresses the risks and fairness between both schedules. We also believe that the modification to the governance structure is appropriate and should allow ONN (or its participating member employers) to participate in OPTrust governance.”

Furthermore, the review reassured the task force that the risk of having to increase employer contributions to meet the benefits schedule had been minimized. “There is the risk of contribution rate increases, however, OPTrust has conducted detailed actuarial analysis which indicates that there are extremely high levels of confidence of no or low contribution rate variability. This is due to two key features of the financial management model used – funded non-contractual indexing of benefits both before and after retirement and a relatively conservative actuarial funding approach.” Like a target benefit plan, OPTrust Select provides significant flexibility to adjust benefits via a conditional indexing mechanism. According to Eckler, “this approach places contribution stability at the forefront of financial priorities.” OPTrust would have to generate investment returns of less than 3.85 percent over the long term to trigger contribution increases for workplaces participating in Select. OPTrust is currently fully funded (with healthy funding margins as of December 31, 2017) and its investment managers prioritize maintaining the funding status of the plan in their investment approach, so it is extremely unlikely that contribution increases would be triggered.

The Eckler review concludes that “OPTrust has created a less costly defined benefit pension plan structure that addresses key risks for participating employees and employers. Although participants must acknowledge that participating in a defined benefit pension plan exposes each to risk, OPTrust has taken reasonable steps to address the key risks including investment risk, contribution variability (and its counterpart, benefit variability) and governance.”

Based on this review, PTF 2.0 is confident that nonprofit workplaces that join OPTrust Select are exposed to very little risk in terms of the prospect of future contribution increases.

The Colleges of Applied Arts and Technologies Pension Plan (CAAT Pension Plan)

The Main Plan

The Colleges of Applied Arts and Technologies Pension Plan, generally known as the CAAT Pension Plan was started in 1967 as the pension plan for the Ontario college system. It became a JSPP in 1995, the plan sponsors being a council of college employers, the Ontario Public Service Employees Union (OPSEU) and the Ontario College Administrative Staff Association.

As of this year, the CAAT Pension Plan has roughly 47,000 members, of whom 30,000 are active and 17,000 retired and deferred members. Plan assets are approximately \$10.8 billion. It has 41 participating employers, primarily but not exclusively colleges.

The plan has a sponsors committee appointed by the Sponsors with equal numbers of employee and employer appointees. This committee establishes the contribution rates and sets the plan design.

There is a Board of Trustees consisting of 12 appointees. The board determines the investment strategy and funding risks that are appropriate for the plan's long-term obligations and establishes policies for administering benefits.

Through this joint governance, in which representatives of members and employers have an equal say in and share the risks of plan decisions, the CAAT Pension Plan states that it has a model for keeping DB pension plans sustainable.

Contributions by employees to the main plan for 2018 are fixed at 11.2 percent of wages up to the YMPE (\$55,900 in 2018) and 14.2 percent for amounts in excess of that. The employer matches employee contributions. A lifetime pension is calculated using a formula that's based on the employee's highest average pensionable earnings, pensionable service, and age.

The CAAT Plan has adopted a funding policy which sets out the criteria for granting conditional benefits. Conditional benefits are meant to be given if that particular funding level is met. If the level is only partially met, there is discretion given to the plan sponsors who base their decision on the recommendation of the board and an analysis by pension plan staff. We understand that this arrangement is intended to pre-define to the extent possible the conditions under which the inflation-based increases will be made.

The CAAT Plan is a signatory to the United Nations-supported PRI Initiative and their investment managers are encouraged to incorporate ESG factors in their investment management processes, where appropriate to the mandate.

CAAT DBplus

The CAAT Plan has recently established an additional and more flexible plan (really a new schedule of benefits within the main plan). It was designed in part to meet the unique needs of “other than regular full-time” (OTRFT) employees. All OTRFT employees who are CAAT Pension Plan members will begin earning a pension under DBplus on January 1, 2019. It is also open to new public, nonprofit, and private sector employers across Canada (unlike OPTrust Select, which is available to the nonprofit sector and the broader public sector in Ontario only).

DBplus permits lower and more flexible contributions than the main plan and is meant to be more attractive to employers and employees for whom the main plan may be too costly. Minimum DBplus employee contributions are 5 + 5 percent of wages but may be as high as 9 + 9 percent. The CAAT Plan has informed the task force that there could be a short transition period in which the minimum 5 percent is phased in but the long-term minimum is 5 percent.

DBplus basic provisions

The CAAT Plan describes the DBplus benefit calculation to its members as follows:

The pension formula is divided into two components.

- Guaranteed annual base pension (payable from age 65)

The promised pension earned in the current year, calculated at the end of each year you contribute, using your total contributions, and your employer’s matching contributions. The formula uses a pension factor as a multiplier to calculate your pension. It is set based on the plan’s funding policy and is currently 8.5 percent. $8.5 \text{ percent} \times \text{year's total contributions}^{15} = \text{your guaranteed base pension}$.

- Annual Industrial Wage (AIW) enhancement¹⁶

This is the amount added to the previous year’s total promised pension. It is applied at the start of each year in which you are a contributing member, subject to the plan’s Funding Policy and is based on the [Government of Canada’s] announced increase to the Average Industrial Wage (AIW) index. AIW Enhancements start to be applied in 2020. The AIW index represents wage inflation in Canada, which has averaged about 2.2 percent over the past 20 years. AIW enhancements, once added, become a permanent part of your promised pension. That means that the AIW enhancements are cumulative – each year’s enhancement is paid on top of the previous year’s total pension, plus enhancements. $\text{DBplus past promised benefits}^{17} \times \text{AIW enhancement rate}$.

¹⁵ The year’s total contributions are the member’s plus your employer’s matching contributions, doubling the value of your pension.

¹⁶ This is similar to OPTrust’s “earnings upgrades” but we present each plan using its own terminology.

¹⁷ Past promised benefits accrued to the end of the previous year, including any past AIW enhancements.

In addition to the benefits as described above, DBplus has the following features:

- Conditional indexing of benefits post retirement at 75 percent of the Consumer Price Index [This is in addition to annual increases prior to retirement based on the increases in the AIW]
- Ability to buy back past service¹⁸
- A subsidized early retirement provision (which can vary depending on plan funding. The current reduction¹⁹ for each year of service that retirement takes place prior to age 65 is 3 percent. Contrast this with CPP which uses a 7.2 percent reduction.)
- Survivor benefits for spouses married after retirement (As a statutory requirement, all pension plans already provide a survivor benefit of 60 percent to the spouse you have at retirement)²⁰
- Participation is mandatory for all full-time employees, both existing and new hires and this applies both to management and others. It is voluntary for part-time and contract employees who can join at any time. (CAAT states that the plan is particularly attractive to part-time and casual staff since benefits are based on contributions, not service²¹). It can be made mandatory for other employees at the workplace level
- Different classes of employees could contribute at different rates, e.g., management employees at 7 percent, others at 5 percent
- Unless contribution rates change without the consent of the employer, there is no established mechanism for employers to exit the plan

¹⁸ See “past service buyback” in the Glossary, Appendix D.

¹⁹ “Reduction” in this context means a pension benefit that is reduced by a factor related to how early you retire relative to the standard age of 65. The smaller the factor, the more generous the provision. E.g., if you retire at 60 (five years early), a 3 percent factor would mean a 15 percent reduction in monthly benefits whereas a 7.2 percent factor would mean a 36 percent reduction.

²⁰ See the Ontario Pension Benefits Act for details. <https://www.ontario.ca/laws/statute/90p08#BK66>

²¹ The CAAT Plan’s DBplus, like OPTrust Select, is a career average plan since the contributions are based on wages through an individual’s work-life. The main advantage of a plan based on contributions is that it is easy to calculate; since part-time and casual staff often work fractions of weeks, months, or years, any service-based calculation becomes complex.

What does this mean for a benefit at retirement?^{22 23}

CAAT DBplus				
Contribution rates: 5% + 5%				
Current salary	\$40,000	\$50,000	\$60,000	\$70,000
Projected salary at age 65	\$67,400	\$84,300	\$101,200	\$118,000
Total annual DBplus pension at retirement	\$14,300	\$17,900	\$21,500	\$25,100
Enhanced CPP and OAS	\$33,100	\$38,500	\$43,800	\$46,600
Total income in retirement	\$47,400	\$56,400	\$65,300	\$71,700
Income replacement rate	70%	67%	65%	61%

What are the risks that benefits will not be paid without increasing contributions?

Since the CAAT Plan is a JSPP, CAAT DBplus benefits once granted cannot be reduced, even if there is a plan deficit. Thus on an annual basis, the core benefit is guaranteed. The inflation enhancements are conditional on Sponsor/Trustee approval which in turn is based on the funding level of the plan. The CAAT Plan’s position is that there is a high probability of the enhancements being granted. Once granted, they too are guaranteed and cannot be reduced or eliminated. They note the difference between this and a target benefit plan in which any benefit can be reduced.

In the event of a plan deficit, the plan would not grant future conditional enhancements. In the case of a larger deficit it could also reduce the accrual rate of 8.5 percent while keeping contributions the same. The effect of these options means the core benefit and previously granted inflation increases are protected.

The plan points to a history of paying these conditional increases in the main plan, even during the financial crisis of 2008/2009.

Past service buyback provisions

²² Estimated benefits (Guaranteed base, Annual Industrial Wage enhancement, and Total annual DBplus pension) generated via the CAAT Plan’s DBplus Value Tool. <https://www.dbplus.ca/dbplus-value-tool/> Assumptions: Date of birth: Dec. 31, 1977 (40 years old). Employee and employer contribute at 5 percent each for 25 years; employee retires at age 65. Earnings increase 2.2 percent annually. Plan forecast parameters (value calculator defaults) were used EXCEPT we used a 5 percent contribution rate (the minimum permitted in this plan): AIW enhancement rate of 2.2 percent. Annual pension factor 8.5 percent. Post-retirement inflation protection 2 percent annually. Enhanced CPP assumes member contributed to CPP for full career at level consistent with average salary. Note that the fully enhanced CPP applies to future generations (starting with those who turn 18 in 2025) so the CPP benefit is overstated by approximately one-third for a worker who is 40 years old in 2018.

²³ Note that these figures are *not* necessarily an “apples to apples” comparison with OPTrust Select benefit calculations as they are based on some different assumptions. CPP and OAS figures have been transferred from the OPTrust chart on p. 14

DBplus allows individuals to transfer amounts from both RRSPs and Locked In Retirement Accounts (LIRAs) for the purpose of purchasing past service in DBplus. It is also possible that an employer with an existing plan would be permitted to merge it with DBplus but rules regarding this are complex, especially for DB plans.

Employer eligibility to participate

The CAAT Plan uses a test of whether a prospective employer will “do no harm” to the existing plan if it is allowed to join DBplus. They will look at factors such as employer financial ability to match the employee contributions, demographics, turnover, and funding sources. The CAAT Plan has stated that it expects most nonprofit employers will be eligible to join DBplus. They have confirmed that workplaces not subject to a collective agreement are eligible.

Participation agreement

CAAT will require participating employers to enter into a participation agreement with its Board of Trustees. We have been provided with a sample participation agreement. Among other things it requires that the employer:

- Agrees to be bound by the plan documents and recognizes the authority of the Sponsors committee and the Board
- Makes employer contributions and deducts and remits employee contributions
- Provides employee information necessary for administration of the plan
- Agrees that the board may terminate participation if the employer is in breach of the Agreement and that the employer may terminate participation if contributions are increased without their consent. There is no other mechanism for employer withdrawal laid out in the participation agreement

Member services

The CAAT Plan prides itself on providing good member services and testimonials from plan members suggest they have been successful at that. The size of the main plan means there is a significant capacity to provide good service to members, both in terms of technology as well as personnel. We expect that will be extended to DBplus members as well.

A role in governance for the nonprofit sector

The CAAT Plan is not proposing that contributing employers or members of DBplus have any formal role in governance and it does not propose to change the governance structure. The CAAT Plan has stated that it has always consulted widely on an informal basis with its members and would do so with DBplus members as well.

4. Other pension plan options

The Multi-Sector Pension Plan

The Multi-Sector Pension Plan (MSPP) was developed as a pension for unionized workplaces. This plan was looked at by PTF 1.0 and suggested as a possible pension plan for PTF 2.0 to consider for the sector. It is a MEPP established by collective agreement and has target benefits.

A plan with target benefits (TB plan) is a way to eliminate the risks to employers of a traditional single-employer defined benefit pension plan. Like a DB plan, a TB plan pools assets (and therefore longevity risk) but market risk is borne to some degree by individual plan members. Accrued benefits are subject to reduction if the funding level falls below a given threshold. In some ways, a TB plan is like a DB plan with conditional indexation except both the base benefit and the cost-of-living increases are subject to the funding status of the plan.

PTF 1.0 recognized that a traditional single employer DB plan could create an unacceptable level of risk to an employer since, in such a plan, the employer has an obligation to fund the benefits. PTF 1.0 noted that the employer risks associated with a traditional DB plan are eliminated in a target benefit (TB) plan. Employer contributions are fixed. Underfunding can be resolved by reduction of benefits, even accrued benefits. That creates some uncertainty for plan members. But PTF 1.0 concluded that a large well managed multi-employer TB plan could provide a reasonable predictability of benefits for employees (as in a DB plan) while at the same time limiting employer liability to ongoing fixed contributions.

PTF 1.0 recommended exploring a TB plan for the nonprofit sector. The regulatory regime in Ontario has changed, however, since the release of the PTF 1.0 report. Pending changes to pension legislation in Ontario have proposed a formal category of target benefit (TB) plans that have set out criteria for eligibility for that status, a significant one of which is that contributions are to be made pursuant to a collective agreement.

The nonprofit sector is not highly unionized.²⁴ Thus if our task force recommended the MSPP, a large number of non-union employers might then look to participate in the MSPP. We discussed with MSPP what that might mean for their target benefit regulatory status. We understand they are seeking guidance from their advisors and pension regulators on that question but it had not been resolved at the time of writing. The timing of the PTF 2.0 mandate is such that we are not able to defer a decision regarding the MSPP pending some resolution of that issue. Accordingly, we have not done an analysis of the MSPP and do not make any recommendation concerning it.

MSPP has a minimum contribution requirement of 3 + 3 percent (employer plus employee contributions) and employers have the flexibility to choose contribution rates above that minimum. That may be attractive to some prospective employers. PTF 1.0 noted that the MSPP, with its modest contribution minimum, still generates a decent pension. This stems in part from the fact that MSPP is a TB plan. In simple terms, different funding rules and the ability to reduce accrued benefits means a TB plan can give more generous benefits and reduce them if the plan's funding status subsequently requires it. DB plans

²⁴ According to the ONN's payroll survey (2018), 85 percent of nonprofit workplaces are not subject to a collective agreement.

such as OPTrust Select and the CAAT Plan's DBplus which cannot reduce accrued benefits take a different route, which is to provide a very modest basic benefit but have built in a mechanism for increasing that benefit if plan funding permits.

We do note that there are several unionized workplaces in the nonprofit sector that already participate in the MSPP and this plan may be an option for other unionized workplaces to consider where the impact on the plan's TB status would not be an issue.

Defined Contribution (DC) Plans in general

PTF 1.0 rejected a DC plan structure because it does not provide a reasonably predictable monthly income to retired workers for life. Under DC plans, a worker makes financial plans on the assumption that they will live to be 90 or older because they bear the entire investment and longevity risk, while these risks are pooled across a workforce in a multi-employer DB plan. Workers also have to make their own investment decisions instead of having a professionally managed fund. In addition, DC plans are less efficient: they have higher investment and administrative costs and therefore require higher contribution levels to get people to the same benefit level as they would have in a DB plan.²⁵

The same disadvantages apply to all capital accumulation plans, a category which includes RRSP and TFSA products offered to individuals and employers through banks and insurance companies. None of these can achieve the efficiencies, low costs, and reasonably predictable monthly benefits for life that DB pension plans provide. To illustrate the difference, OPTrust has prepared a chart comparing annual retirement income in their Select plan versus capital accumulation plans (both DC/Group RRSP and TFSA arrangements):²⁶

²⁵ Reasons for DC plans requiring a higher rate than DB 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 percent 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." (Alicia H. Munnell, Jean-Pierre Aubry, and Caroline V. Crawford, "[Investment Returns: Defined Benefit versus Defined Contribution Plans](#)." Center for Retirement Research, Boston College. December 2015. Number 15-21. p. 5.). 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 plans for actuarial services (not required in DC plans).

²⁶ Assumptions: Worker joins at age 40 and earns \$40,000 throughout career. Worker and employer each contribute 3 percent of of annual income towards retirement savings. TFSA contributions reduced for income taxes. Worker retires at age 65. OPTrust Selection pension reflects benefit upgrades and cost-of-living allowance of 2 percent a year. Worker purchases a life annuity (10-year guarantee) with account balance. Current tax rate of 20.05 percent applies for all years. Source: OPTrust. "OPTrust Select." Slide presentation prepared for PTF 2.0. June 20, 2018. Slides 20-21.

After-Tax Lifetime Pension Comparison

OPTrust Select vs. Capital Accumulation Plans

Annual Investment Return:	OPTrust Select	DC / Group RRSP			IFSA		
	N/A	3%	6%	9%	3%	6%	9%
Annual Pension Income**							
- at age 65	6,100	4,000	6,100	9,700	3,700	5,800	9,300
- at age 90***	10,100	4,000	6,100	9,700	3,700	5,800	9,300

* Net of all expenses

** Annuity amounts based on Sun Life annuity calculator results from June 18, 2018

*** Average life expectancy of a 65 year old female today according to Sun Life website

PTF 2.0 supports PTF 1.0’s recommendation that a DC plan or other capital accumulation plan arrangement is not the best option for the sector.

5. Group TFSAs

PTF 1.0 thoroughly examined individual RRSPs and concluded that these savings vehicles did not meet the needs of the sector. PTF 2.0 did not return to this question but did, however, look at Group Tax Free Savings Accounts as a relatively new retirement savings vehicle.

As the task force's report stated, "There is ample research that shows 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 through economies of scale, and collectively purchase professional investment expertise."²⁷ PTF 2.0 agrees with that assessment and did not give RRSPs serious consideration for those reasons.

Group Tax Free Savings Accounts (TFSAs)

The Group TFSA model is said to be attractive for two main reasons. First, it allows lower-income retirees to avoid the Guaranteed Income Supplement (GIS) "clawback" that would result from having an actual pension income in retirement.²⁸ Second, a group plan creates an economy of scale, reducing the administrative fees that often take a significant amount away from the income produced in an individual (RRSP or TFSA) plan.

A consulting firm called Common Wealth approached PTF 2.0 in the summer of 2017 after they had assisted the Service Employees International Union to set up My65+, a Group TFSA arrangement. Subsequently Common Wealth launched a broader initiative in June 2018 called The Common Good Retirement Plan which is intended to offer a combined Group TFSA/Group RRSP to the Canadian nonprofit sector. Common Wealth sought feedback from the sector and elsewhere on a possible national retirement savings plan.

For reasons outlined below, we decided against recommending a Group TFSA arrangement for the Ontario nonprofit sector.

TFSAs and the Guaranteed Income Supplement (GIS)

GIS is an income top-up for low-income seniors--essentially a basic income measure. Whether you qualify (and how much you receive) is based on your taxable income, including pension income and income from an RRSP. Unlike with an RRSP, however, you deposit after-tax dollars into a TFSA; the withdrawals are not subject to tax and they don't count as income for the purposes of calculating GIS.

²⁷ ONN Pensions Task Force 1.0: *A roadmap for a pension plan for Ontario's nonprofit sector* (2017). Technical report.

²⁸ GIS amounts are based on taxable income, so payment amounts are reduced or "clawed back" in proportion to taxable income.

Some proponents of TFSA highlight the opportunity to create a retirement vehicle from which funds are withdrawn on a tax-free basis and which do not impact on an individual's entitlement to the GIS.

After much analysis and discussion, PTF 2.0 concluded that a) it was too difficult to determine who would be eligible for the GIS decades in the future, b) the tax treatment of pension contributions and benefits is not as straightforward as some would suggest, and c) there was too much potential for early withdrawals in a TFSA arrangement (as there already is in RRSPs), jeopardizing lower-income workers' retirement income security if their retirement income were not provided through a locked-in mechanism. The task force therefore determined that it was preferable to ensure lower-income workers were enrolled in a pension plan rather than a Group TFSA or similar arrangement.

Throughout its mandate, PTF 2.0 considered how lower-income retirees would be affected by having a modest pension plan--and more specifically how pension income could affect their eligibility for the GIS (i.e., whether the GIS "clawback" would offset the benefits of having participated in a pension plan). It is not clear to us that a TFSA necessarily leaves a lower-income retired worker better off than they would be if they had participated in a pension plan. Changes in jobs, income levels, family status (GIS is based on family income), combined with potential future changes in GIS and TFSA rules,²⁹ make it difficult to predict with much certainty that the TFSA will have the desired effect of avoiding the GIS "clawback" for any particular individual. In our view the speculative benefit of having a TFSA to avoid the GIS "clawback" does not outweigh the demonstrable benefits of a pension plan.

There is the general advantage of tax-free withdrawal from a TFSA. But there are also significant tax advantages for pension plan members, including deductibility of pension contributions from income, which do not apply to TFSA deposits. If one factors in the year-over-year tax benefit from the employee pension contributions in drawing a comparison between TFSA and pension as we are doing, the tax benefit of the TFSA becomes less and less advantageous (see table on p. 29).

After much analysis and discussion, PTF 2.0 concluded that a) it was too difficult to determine who would be eligible for the GIS decades in the future, b) the tax treatment of pension contributions and benefits is not as straightforward as some would suggest, and c) there was too much potential for early withdrawals in a TFSA arrangement (as there already is in RRSPs), jeopardizing lower-income workers' retirement income security if their retirement income were not provided through a locked-in mechanism.

Group TFSA's and management and investment fees

It is likely true that investment costs for a Group TFSA would be lower than what an individual would pay in having his or her self-managed TFSA account. However, that is not the measure we think is relevant.

²⁹ Since wealthy individuals are now being counselled (see an example in the [Financial Post](#)) to use TFSA's as a tax shelter -- to the point of qualifying for the GIS -- there is a risk that the tax treatment of TFSA's, or at least the exclusion of TFSA income from calculations relating to GIS eligibility, could change.

The correct test is whether the TFSA *measured against a DB pension plan* would have lower costs. The pension plans we consider, because of their economies of scale and experience and expertise, have extremely low investment and administration costs. It is very unlikely the fees for a Group TFSA would be lower than the cost of investment and administration of the major pension plans.

At the same time, a Group TFSA is essentially a capital accumulation plan in that an individual has an amount in their account when they retire, and they may outlive their TFSA income because longevity risk is not pooled. By contrast a DB plan provides a monthly income for the rest of your life because the risk is pooled across a group of people. It is this risk pooling that led PTF 1.0 to recommend a pension plan.

Other disadvantages of Group TFSAs:

- Not a pension plan: A TFSA is ultimately a savings plan, not a pension plan, so there is no predictability of benefits (in total, or on a month-to-month basis)
- No universal coverage at a workplace: It will be difficult to make the plan mandatory for all workers at any workplace where it is available. Research shows that voluntary savings measures have low take-up³⁰ and ONN's pensions report recommends a mandatory plan
- Employers may choose to not contribute: The PTF 1.0 report recommended compulsory contributions from both workers and employers to ensure sufficient contribution levels and to reflect the shared responsibility for retirement income
- Not locked in until retirement: The Group TFSA savings may be locked in while a person is employed by the contributing employer but once they leave that job they will be able to access to funds prior to retirement. The PTF 1.0 report noted that too many people are accessing their RRSP savings prior to retirement³¹ (in effect using them as an emergency fund) and that this was expected to have a significant negative impact on their well-being in retirement
- Potential policy changes that could negate the purported advantages: GIS rules could be changed so that TFSA income would count as income and thus a major benefit of the TFSA would be lost

As we discuss elsewhere, a significant advantage of a DB plan is the reasonable predictability of a lifetime retirement benefit. In other words, in a DB pension plan, members do not have to worry about outliving their savings. Members of capital accumulation plans like TFSAs must continue to invest even following their retirements. Even if one were to incorporate some kind of group annuity purchase feature into a group TFSA, it is still impossible to predict a retirement benefit since it depends on the amount accumulated up to retirement (especially one that would be adequate given the cost of purchasing annuities). That combined with the other advantages of a real pension plan over a TFSA, namely, 1) that employers must contribute to a pension plan and 2) that pension contributions cannot be withdrawn prior to retirement whereas TFSAs can be, have convinced us that we should not sell the sector short with a TFSA if a pension option is available.

³⁰ For example, the median value of RRSP assets for Canadians aged 55 to 64 with no pension plan is about \$3,000. For those with annual incomes between \$25,000 and \$50,000, the median value of their RRSP assets is about \$250 (in total). [Source: Shillington, Richard. An Analysis of the Economic Circumstances of Canadian Seniors. Broadbent Institute. February 2016. p. 7.](#)

³¹ A [2018 survey](#) found that 40 per cent of Canadians have made a withdrawal from their RRSP. Those who have done so have withdrawn an average of \$20,952, an increase of \$3,739 compared to an average of \$17,213, last year.

Pension plans require that members be employees. There are self-employed workers who may not be employees and for them some sort of Group TFSA, possibly coupled with a Group RRSP, would be valuable. PTF 1.0 had itself already identified the high fees associated with individual RRSP and TFSA accounts and welcomes an alternative to that for this group.

But both individual and Group TFSA and RRSP arrangements have significant shortcomings compared to pension plans. And while we appreciate efforts are being made to shore them up (for example, by creating an “opt out” rather than “opt in” feature), for employees who are eligible to participate, we believe that there is no better alternative than a DB pension plan.

Building for retirement means mandatory, consistent contributions. Employers as well as employees should contribute. There should be no withdrawals prior to retirement. Investment and longevity risks should be pooled so individuals need not be concerned with choosing the right funds or outliving their savings. These are the ingredients necessary to create a reasonably predictable lifetime retirement benefit.

As part of building a decent work movement in the nonprofit sector, PTF 2.0 urges ONN to promote the best terms of employment for the sector that are feasible. For the reasons elaborated on in this report, we have concluded that pension plans are realistic for the sector and the sector should not settle for less.

Conclusions and Recommendations

Our Recommendation: OPTrust Select

The ONN Pensions Implementation Task Force recommends OPTrust Select as the option that best achieves the goal of a sector-wide pension plan for Ontario nonprofits.

What criteria helped PTF 2.0 to decide in favour of OPTrust Select?

- **Track record and scale:** As a plan for the Ontario nonprofit sector, OPTrust Select builds on an established \$20 billion pension plan with excellent track records in investment and member services as well as environmental, social, and governance (ESG) standards. OPTrust has very low administrative costs and achieves the best possible economy of scale, all while maintaining internationally benchmarked member services
- **Tailor-made for the nonprofit sector:** OPTrust Select was designed for the Ontario nonprofit sector and broader public sector with direct input at multiple points over two years from the ONN pensions task forces (1.0 and 2.0). OPTrust has characterized Select as a joint effort with ONN. Their staff have indicated that they have created and modified the plan as a result of our questions and insights over time
- **Affordable for nonprofit employers and workers:** Our two pensions surveys of the sector (2016, 2018) as well as OPTrust's own market research confirm that 3 + 3 percent contributions (employer plus employee) are affordable for many in our sector. This plan was designed for modest-income earners and a higher contribution rate might not be realistic for many.
- **Predictable monthly benefit with conditional indexing that provides a low-risk plan for employers:** PTF 1.0 emphasized the need to balance the needs of employers for predictable costs and the needs of workers for a predictable monthly benefit that lasts for the rest of their life. OPTrust Select has found this balance and offers employers a very low likelihood of contribution adjustments while offering retired workers real (if modest) retirement income security. Pension contributions are on a cash basis, meaning employers do not carry any pension liabilities on their balance sheets
- **Option to transfer in existing assets:** OPTrust Select allows workplaces to merge their single-employer pension plans (DC or DB) or transfer Group RRSPs. Employees can "buy back" past service with individual assets (e.g., RRSPs)
- **Broadly available to the Ontario nonprofit sector:** Unlike some plans we examined, OPTrust Select has no limitations on non-union workplace participation. Small workplaces (one employee and up) are welcome. Membership criteria pose only minimal barriers to entry for Ontario nonprofits
- **Sector participation in decision-making:** OPTrust will establish a Select advisory committee and, if numbers warrant, a pathway to nonprofit sector participation in governance. (see p.20 for more details) Our task force has been pleased with the engagement of OPTrust to date and we believe that its attentiveness to our relationship with them as a sector bodes well for the advisory committee

Why a DB plan instead of a target benefit plan?

PTF 1.0 recognized that a traditional single employer DB plan could create an unacceptable level of risk to an employer since, in such a plan, the employer has an obligation to fund the benefits. PTF 1.0 noted that the employer risks associated with a traditional DB plan are eliminated in a target benefit (TB) plan. Employer contributions are fixed. Underfunding can be resolved by reduction of benefits, even accrued benefits. That creates some uncertainty for plan members. But PTF 1.0 concluded that a large well managed multi-employer TB plan could provide a reasonable predictability of benefits for employees (as in a DB plan) while at the same time limiting employer liability to ongoing fixed contributions.

As we have noted above, the regulatory regime in Ontario changed since the release of the PTF 1.0 report with the result that TB plans are likely unavailable to the vast majority of nonprofit sector employers. As a result, we are not recommending a TB plan.

Fortunately, the plan design of OPTrust Select provides considerable certainty to the benefits without the risk of increases in employer contributions. PTF 1.0 assumed that could be achieved through a multi-employer target benefit plan. Since that no longer appears to be an option, PTF2.0 has concluded that OPTrust Select is an appropriate choice for the sector. OPTrust Select involves much less risk to employers compared to a single-employer pension plan and is far superior to a DC plan, TFSA or RRSP in terms of benefits.

What distinguishes OPTrust Select from the next-best option?

In many respects, OPTrust Select and the CAAT Plan's DBplus are quite similar:

- They both offer a modest monthly benefit to retired workers that is very likely to be enhanced over time to keep up with inflation, depending on the funding status of the plan. Both use a career average formula to calculate benefits
- They have both significantly reduced the risk for employers to participate, compared to traditional single-employer DB pension plans, while offering the predictability of a defined benefit to retired workers (a far superior option to an RRSP or other capital accumulation plan where an individual has to make investment decisions and bears the risk of outliving their savings)
- They both build on an established Jointly Sponsored Pension Plan that shares costs and risks between employers and workers. Both have very low administrative costs, even for Canadian pension plans (which are internationally renowned for their efficiency)
- They are both open to Ontario nonprofits of all sizes (one employee and up), whether unionized or not
- Part-time and contract employees can be included in both plans
- Both are immediately available for virtually any Ontario nonprofit that wants to join. Unlike starting a new plan, there is no need to wait to enjoy the benefits of their economies of scale

PTF 2.0 was left to weigh the balance of advantages in each plan, which led to them to recommend OPTrust Select, even though there are three advantages to the CAAT Plan's DBplus:

- It offers flexible contribution rates from 5 to 9 percent (each for the employer and employee). Within this range, the employer sets the contribution rate

- The minimum contribution rate of 5 + 5 percent provides a more robust benefit to retired workers than the 3 + 3 percent contribution rate found in OPTrust Select
- The plan is available across Canada

With a mandate to provide an entry point into a pension plan for Ontario nonprofits, the task force was less concerned with the third advantage. And knowing from ONN's pension survey that most workplaces could not afford a contribution rate higher than 5 percent, we considered the rate flexibility a somewhat moot point, even though flexibility *below* this 5 percent would have been more significant (and we do note that the CAAT Plan may, at its discretion, allow workplaces to work up to a 5 + 5 percent contribution rate over a few years).

While the CAAT Plan's DBplus provides a more robust pension benefit, this primarily has to do with the higher contribution rate (5 percent versus OPTrust Select's 3 percent). We do not want to encourage workplaces making a decision to join one plan or the other based solely on numerical calculations when there are many other factors to consider. That said, the contribution range permitted by DBplus is closer to that of a number of public sector (and some private sector) plans that have contribution rates of 10 + 10 percent, and even higher.³² (The main OPTrust and CAAT pension plans in fact fall into that category.) Employers in the nonprofit sector who are willing and able to come closer to offering pension benefits comparable to these public service plans can look at CAAT DBplus as an alternative.

With a mandate to facilitate the entry of as many Ontario nonprofits as possible into a pension plan, we wanted to recommend a plan that workers and employers would consider affordable even as it provided some predictability for retirement income security. And with a mandate to build a plan for the sector, we wanted to recommend a plan that would give the nonprofit sector a voice and a pathway to participation in governance.

Ultimately, after much discussion and analysis, the PTF 2.0 decision to recommend OPTrust Select came down to the factors listed above, with an emphasis on affordability and governance. With a mandate to facilitate the entry of as many Ontario nonprofits as possible into a pension plan, we wanted to recommend a plan that workers and employers would consider affordable even as it provided some predictability for retirement income security. And with a mandate to build a plan for the sector, we wanted to recommend a plan that would give the nonprofit sector a voice and a pathway to participation in governance. With the CAAT Plan's DBplus open to virtually all sectors, the voice of the nonprofit sector would be diluted even if the CAAT Plan did determine at a future date that our sector's participation had reached a level that was worth considering in terms of plan governance.

One final consideration is worth highlighting at this stage and that is the ability of nonprofits to leave a plan under exceptional circumstances. It was not a factor when the task force developed criteria but it has emerged as an important issue for nonprofit employers considering the risks of joining a pension

³² Contribution rates are often higher above the year's maximum pensionable earnings (see glossary in Appendix D).

plan. Even though we hope that nonprofit workplaces will remain in a pension plan once they join it, we recognize that prudent nonprofit boards and managers will want to know what the exit strategy is in a worst case scenario. In this respect, the two plans have a major difference: The OPTrust Select participation agreement specifies one year's notice for an employer to withdraw from the plan. DBplus, by contrast, does not lay out an exit strategy except in the case where contributions have been modified without the consent of the employer.

Why not recommend multiple plans?

The task force considered whether it should recommend multiple plans for Ontario nonprofits. After all, one size may not fit all and there are already a number of multi-employer plans in existence in the sector. We decided for four reasons that, with limited exceptions, we wanted to recommend one plan:

- **Portability:** Our primary consideration in recommending one plan was to support portability, i.e., the ability of nonprofit workers to move around in the sector and remain in the pension plan. The more nonprofits that are in one pension plan, the greater the mobility nonprofit workers can enjoy while remaining in our sector and the plan
- **Simplicity:** The topic of pensions is unquestionably difficult to master and there are many competing priorities to which nonprofit boards, managers, and workers must devote their attention. We know that ONN hears often from its members that they appreciate ONN “doing its homework so they don't have to.” In the spirit of making the choice easier for busy nonprofits, it makes sense for the task force to recommend one option that ONN will hopefully adopt and champion
- **Sector voice in a pension plan:** Numbers will matter. More nonprofit workplaces in a single plan will give the sector greater clout in governance
- **Sector identity:** Finally, ONN set out to build a pension plan for the sector as a decent work initiative, knowing that a sector-wide plan would also help to crystallize and consolidate the identity of our somewhat ill-defined sector. OPTrust Select was designed with the unique needs of our sector in mind. If enough workplaces join, it will become increasingly known over time that the nonprofit sector is composed of “decent work” workplaces and a pension plan that ensures a decent level of income security in retirement. Having one well-known pension plan as a sector would help address the known challenges of recruitment and retention in our sector

There are, as we have noted elsewhere, reasons why some in the Ontario nonprofit sector may want to consider other options if they are seeking to join a multi-employer plan. To summarize, we would suggest that nonprofit employers already contributing 5 percent or more to an RRSP or pension plan should consider DBplus as they should be able to afford this more generous plan (assuming their workers are prepared to match these 5 percent contributions). Second, nonprofits that are subject to a collective agreement (approximately 15 percent of the sector, according to ONN's survey) may want to consider OPTrust Select and DBplus alongside the Multi-Sector Pension Plan (MSPP), which already covers some workplaces in the sector. And third, self-employed workers in or serving the sector (including, for example, many bookkeepers, consultants, and performance artists) will not likely be able to access a genuine pension plan and may want to explore a Group TFSA/RRSP arrangement to help reduce the fees they pay for these savings plans. But for the rest of the Ontario nonprofit sector, we believe that OPTrust Select is the best option available.

Pensions Implementation Task Force final recommendations

PTF 2.0 recommends the ONN board of directors:

1. Recommend OPTrust Select for the Ontario nonprofit sector
2. Forge a strong and long lasting partnership with OPTrust to facilitate the nonprofit sector joining the plan
3. Encourage Ontario nonprofits with paid staff to give serious consideration to joining OPTrust Select as part of their journey towards becoming “decent work” employers and to complement their other recruitment and retention strategies
4. Work with OPTrust to deliver pensions literacy training that is useful, accessible, and tailored to the needs of nonprofit staff and boards of directors
5. Ask that the OPTrust Select advisory committee, when established, monitors demand and capacity among participating nonprofits for higher contribution and benefit rates.
6. Continue to advocate for funders and donors to support decent work in the Ontario nonprofit sector, namely by funding decent wages, benefits, and access to a pension plan

ONN’s pensions work emerged from a desire to build a decent work movement in the nonprofit sector. Like ONN, our task force believes strongly in decent work and in nonprofit employers (and their funders) being leaders in building this movement. OPTrust Select gives the sector a way to actualize those beliefs. We are pleased to have brought our work to a close at this moment of opportunity for the sector.

APPENDIX A: RESOURCES FOR FURTHER READING

ONN Resources

Mowat NFP, ONN and Toronto Neighbourhood Centres. [ChangeWork: Decent work in the nonprofit sector](#) (2015)

ONN. Highlights: Payroll survey of potential “early adopters” (2018).

ONN Pensions Task Force 1.0: A Roadmap for a Pension Plan for Ontario’s Nonprofit Sector (2017)

- [Summary Report](#)
- [Technical Report](#)

ONN. [Pensions Survey Highlights](#) (2016)

ONN and Mowat NFP. [Shaping the Future: Leadership in the Nonprofit Sector](#) (2013)

Defined benefit pension plans (including target benefit pension plans)

[CAAT Plan DBplus](#) (Colleges of Applied Arts and Technology Pension Plan)

[Christian Schools International - Canada Pension](#)

[HOOPP](#) (Healthcare of Ontario Pension Plan)

[MSPP](#) (Multi-Sector Pension Plan)

[NHRIPP](#) (Nursing Homes and Related Industries Pension Plan)

[OPTrust Select](#)

[Régime de retraite des groupes communautaires et de femmes](#) (Quebec nonprofit sector pension plan)

[United Church of Canada Pension Plan](#)

Defined contribution plans

[Canadian YMCA Retirement Fund](#)

[CSS Pension Plan](#) (Cooperative Superannuation Society)

[Registered Pension Plans and Retirement Supports for Manitoba’s Early Learning and Child Care Workforce](#) (*DB plans are also eligible for provincial support*)

[Saskatchewan Pension Plan](#)

Group TFSA/RRSPs

[ACTRA Fraternal Benefit Society](#)

[Common Good initiative](#) (proposed)

[My65+](#)

Other resources

MacDonald, David. [The Feeling’s Not Mutual: The High Cost of Canada’s Mutual Fund Based Retirement System](#). Canadian Centre for Policy Alternatives. (2015)

Munnell, Alicia H., Jean-Pierre Aubry, and Caroline V. Crawford, “[Investment Returns: Defined Benefit versus Defined Contribution Plans](#).” Center for Retirement Research, Boston College. (2015)

Government of Canada. [The CPP Enhancement](#). (2017)

Ontario Expert Commission on Pensions. [A Fine Balance](#) (“The Arthurs Report”) (2008)

Shillington, Richard. [An Analysis of the Economic Circumstances of Canadian Seniors](#). Broadbent Institute. (2016)

Stapleton, John, Open Policy Ontario - [Planning for Retirement on a Low Income](#) (2014)

APPENDIX B: PTF 2.0 BIOGRAPHICAL NOTES

Michael Kainer (Chair)

Documentary film-maker and retired lawyer (Independent)

Prior to his second career as a documentary film-maker, Michael Kainer worked as a lawyer for 30 years, specializing in pension and benefit law and nonprofit organizations. Early in his career, he was a co-founder of the Toronto Community Law School (now Community Legal Education Ontario, CLEO). Michael assisted in the establishment of the Multi-Sector Pension Plan which serves nonprofit workers organized by CUPE/SEIU. More broadly, he has acted as counsel to a number of MEPPs, advising on all aspects of the establishment and maintenance of pension plan governance structures and plan rules and regulations. Outside his law practice, Michael has volunteered with his local residents' association and various nonprofit boards. He has a BA from McGill University and an LLB from Osgoode Hall.

Alyssa Young

DeafBlind Ontario Services

As Director of Human Resources, Alyssa leads strategic human resources initiatives related to recruitment, retention, payroll, benefits, employee relations and other human resources functions of DeafBlind Ontario Services. Prior to joining DBOS in 2013, Alyssa worked in the HR field in the public relations and financial industries. She holds a post-graduate certificate in Human Resources Management from Seneca College and two designations: Certified Human Resources Leader (CHRL) and Payroll Compliance Practitioner (PCP). She is involved with the Human Resources Professional Association (HRPA) and is a member of the exam validation committee. Alyssa also sits on the Best Practices in Human Resources Sub-Committee of the Intervenor Services Human Resource Strategy (ISHRS).

LoriAnn Girvan

Chief Operating Officer, Artscape

LoriAnn Girvan is currently the Chief Operating Officer of Toronto Artscape Inc. where she leads all areas of Artscape's operations to realize the organization's financial and social impact goals. She is an entrepreneurial leader with over 25 years of experience in urban revitalization, affordable housing, community planning and non-profit management in Canada, the United States and Africa. Her social purpose real estate achievements include the development of over \$300 million of affordable housing and community hubs.

Winnie Fung

Director of Finance and Operations, Planned Parenthood Toronto

Winnie Fung joined Planned Parenthood Toronto and the healthcare sector in 2016. Previously, Winnie has held senior positions in the nonprofit contemporary arts sector in Canada and in the US, including Performance Space 122, a NY-based nonprofit organization dedicated to presenting contemporary performance arts, and Eyebeam, a Center of Art and Technology. She is also a founding member of Not An Alternative, a collective that works at the intersection of art, activism and pedagogy.

Rich Bailey**Retired nonprofit CEO (Independent)**

From his start as a youth member of the Toronto Central YMCA, Rich Bailey has held progressively senior positions in the Y organization, culminating in his tenure as CEO of YMCA Canada, CEO of the YMCA of Greater Toronto in the 1990s and CEO of the YMCA World Urban Network in the 2000s. His accomplishments include employment programs, international programs, and creating new YMCAs in smaller cities. Rich served as Trustee of the YMCA Retirement Fund for 17 years prior to his retirement in 2003.

Peter Frampton**Executive Director, Learning Enrichment Foundation**

Peter Frampton joined LEF in 1993 and has had a long history with LEF, integrating enterprises, programs and initiatives that support the needs of the community and leverage the expertise of the organization. Peter has been a member of the Board of Directors of The Canadian Community Economic Development Network (Chair of Membership Committee), and Telecommunities Canada. He has participated on various task forces, including the Federal Social Economy Advisory Task Force. Peter is recipient of the Queen's Golden Jubilee Award.

Cathy Hennessey**Chair of the Board of Directors, St. Stephen's Community House**

Cathy Hennessey is the current President of the St. Stephen's Community Centre (Toronto) Board of Directors. Prior to her recent retirement, she served for more than 30 years in the Federal Government of Canada in a range of senior positions, including Senior Director General at Service Canada and Director General and Director, Human Resources, at Employment and Social Development Canada. She has also volunteered in private and not-for-profit organizations, leading quality and healthy workplace assessments.

ONN staff:**Cathy Taylor****Executive Director, ONN**

Cathy has been the Executive Director of ONN since June 2012. Throughout her 20 years working in the nonprofit sector, including as the founding Executive Director of the Volunteer Centre of Guelph/Wellington, she has been passionate about collaboration and leadership in the sector. Cathy works with sector colleagues from across Ontario and Canada, as well as private sector and government officials, to create an enabling policy environment for nonprofit organizations. Cathy's roots are in the environmental movement and she has been active in municipal politics. She holds a degree in political studies and history from Queen's University, and attended the Maytree-York University Executive Directors Leadership program. Outside of work, she enjoys time with her family and her garden in Erin, Ontario.

Liz Sutherland
Policy Advisor, ONN

Liz is a policy advisor at ONN, where she has worked on the pensions file since 2015. She has a background in public policy and advocacy, including 15 years in the nonprofit sector and five years in the federal government. At the time of writing, Liz is on a five-month leave from her role at ONN while filling in for the Executive Director of Cycle Toronto who is on parental leave. During this time, she has continued to work with PTF 2.0 as a volunteer.

Monina Febria
Decent Work Project Lead (2017-2018)

Monina served the task force for a year as ONN's Decent Work Project Lead after spending five years at the Toronto Region Immigrant Employment Council (TRIEC). She now works in knowledge management for Global Talent Bridge at World Education Services. Her previous experience includes research, policy, and member services work for the federal government, the Ontario Council of Agencies Serving Immigrants and Amnlae La Casa de la Mujer (Nicaragua).

APPENDIX C: PENSIONS IMPLEMENTATION TASK FORCE TERMS OF REFERENCE

<p>Overall Mandate</p>	<p>The Task Force will oversee the implementation of the recommendations in ONN’s <u>Pensions Task Force Report</u>, including:</p> <ul style="list-style-type: none"> ● Provide insight and recommendations on the detailed design and vetting of a sector-wide pension plan for the Ontario nonprofit sector, including the sequencing of any expert advice sought. ● Recommend whether to create a new plan or create an avenue for nonprofits to join an existing plan. ● Develop recommendations to ONN on how to finance, implement and transition into the pension plan
<p>Context</p>	<p>The retirement income security of Ontario nonprofit sector workers is an important priority for the Government of Ontario and the nonprofit sector [note: the Ontario Government at the time had just spent two years developing the Ontario Retirement Pension Plan (ORPP), which was subsequently rolled into the Canada Pension Plan enhancement initiative. ONN had participated on the Ontario Government’s ORPP Business Advisory Group]. The nonprofit sector employs approximately one million people, with about half the workers on short-term, casual or part-time contracts. The sector includes many small organizations that generally do not offer workplace pension plans.</p> <p>Nonprofit organizations have expressed interest in a sector-wide pension plan that would go further towards providing adequate retirement income. Even with other public pension programs, a significant income gap for modest-income workers could remain. A sector pension plan could help to close this gap.</p> <p>In 2015, ONN developed a Pensions Taskforce that explored the possibility for a sector wide pension plan and concluded that a MEPP with target benefits would be the best approach for nonprofits. ONN has accepted this recommendation and is proceeding with next steps.</p>
<p>Purpose</p>	<p>The Task Force would offer advice on two main areas:</p> <ul style="list-style-type: none"> ● Explore pension plan options (buy into versus build, and detailed design issues if we opt to build) to pursue for a nonprofit sector MEPP. This would include providing some organization-level data (e.g., age and salary data, aggregated) to help develop pension plan cost estimates with actuarial support (Note: this does not commit task force members’ organizations to joining the plan at this stage) ● Oversight for the implementation process for preferred pension plan and issues for roll out in the sector, including: <ul style="list-style-type: none"> ○ identifying and addressing challenges in implementing the plan ○ developing the conversation around financing pension premiums to funders

	<ul style="list-style-type: none"> o developing messaging around financial literacy on pensions in and through the sector, including boards of directors and staff, in partnership with financial literacy organizations in the sector
Responsibilities	<ul style="list-style-type: none"> ● Identify and discuss policy and practical design issues, challenges, opportunities, and solutions ● Provide non-binding advice to the ONN ● Communicate with external bodies (existing pension plans, government ministries, legal and actuarial consultants, etc.) as needed for advice and liaison, with support from ONN staff ● Commit to an “open book process” that uses collaboration, transparency, and meaningful dialogue at all stages of the process (subject to important privacy/confidentiality considerations in terms of data, strategic decision-making, and any competitive processes)
Membership and Term Length	<ul style="list-style-type: none"> ● Six to seven members with representation from the Ontario nonprofit sector and independent pension experts (with no conflicts of interest) ● Term is approximately ten months [later extended to December 2018] ● Representation is based on individual knowledge and skills ● Guests with specific expertise may be invited to meetings as appropriate
Chair	<p>The Taskforce chair(s) will be supported by ONN staff and will:</p> <ul style="list-style-type: none"> ● Set agendas in consultation with staff and Task Force members ● Facilitate meetings ● Liaise with staff and Task Force members as needed between meetings ● Ensure documentation of Task Force meetings and decisions ● Ensure appropriate follow-up to actions identified by the Task Force ● Submit progress reports to the nonprofit sector via ONN staff
Meetings and Work Teams	<ul style="list-style-type: none"> ● Four to five in-person meetings from May 2017 to January 2018 [extended to December 2018] in Toronto; teleconferences if necessary ● Emails to address logistics and emerging issues between meetings
Quorum	<ul style="list-style-type: none"> ● 50 percent + 1 of Task Force membership
Resources	<ul style="list-style-type: none"> ● Travel costs paid by ONN for nonprofit members outside the GTA ● Policy, research, and administrative support provided by ONN staff ● On the advice of the implementation task force, ONN may seek a limited amount of funding for any consultant services required (e.g., legal) via additional project grants
Reporting	<ul style="list-style-type: none"> ● Chair(s) to report to the ONN Board of Directors. ● Recommendations are made by consensus; where consensus is not possible, the diversity of perspectives will be recorded. ● ONN to communicate issues and results to Ontario’s nonprofit sector and the government.

APPENDIX D: GLOSSARY

Accrual rate	The rate at which pension benefit is built up as pensionable service in a defined benefit scheme. Often expressed as a fraction or percentage of pensionable salary, e.g., 1/60th (or 1.67 percent) for each year of service. Over 36 years, a 1.33 percent formula produces a pension of 48 percent of final average earnings. The lower the bottom number (or the bigger the percentage), the better the pension benefit you will have received for an equivalent amount of pensionable service. An accrual rate will usually be part of the formula used in a final salary scheme or a career average earnings scheme (both are types of defined benefit scheme).
Annuity	A contract purchased from an insurance company to provide periodic (usually monthly) payments to a person for their lifetime.
Bridge benefit	A bridge benefit usually provides income from the date a pension plan member takes early retirement to the date when the member is entitled to receive Canada Pension Plan (CPP) or Quebec Pension Plan (QPP) retirement benefits and/or Old Age Security benefits.
Canada Pension Plan (CPP)	The CPP is a publicly run defined benefit pension plan (mirrored by the Quebec Pension Plan) that provides a monthly benefit to retired workers (there are also death and disability provisions), based on how much the worker and their employer(s) have contributed during their working life, with provisions for employment gaps/reductions caused by disability and for parents who take time out of the workforce for child-rearing. The CPP underwent funding changes in the 1990s and is now projected by the CPP Investment Board to be <u>sustainable</u> for at least the next 75 years.
CPP <u>Enhancement</u>	Starting in 2019, the CPP will be gradually enhanced, meaning employees (and their employers) from that point on will make higher contributions and can expect higher benefits when they retire. Over time, the CPP will grow to replace about one third of a worker's average earnings. The maximum limit used to determine pensionable earnings will also gradually increase by 14 percent by 2025. A worker's pension will increase based on how much and for how long they contribute to the enhanced CPP. A person will get the full increase if they contribute to the enhanced CPP for 40 years -- in other words, the enhanced CPP will make the most difference to those entering the workforce in 2019 or later.
Capital accumulation plan (CAP)	A tax-assisted investment or savings plan that permits members to make investment decisions among two or more options offered within a plan. A CAP may include a defined contribution registered pension plan; a group registered retirement savings plan or registered education savings plan; or a deferred profit-sharing plan.
Career Average Scheme	This benefit formula is usually based on your average annual earnings over the entire period of time you have been a member of your employer's pension plan,

(Benefit Formula)	multiplied by the number of years you have been a plan member. (For contrast, see “final average earnings” and “flat rate” formulas below.)
Conditional indexing	Indexation (or protection against inflation) is applied to benefits only when the pension fund’s assets are over a given threshold.
Decumulation	Decumulation is the process of converting an accumulated pot of savings (e.g., in a defined contribution plan, RRSP, or TFSA) into a stream of income that will last for a retiree’s lifetime. Factors to consider include lifestyle, health, longevity, access to lump sums, inflation protection, and of course how much accumulated savings you begin with. (Decumulation is not an issue for defined benefit pension plans, as these plans are professionally managed to produce a lifelong monthly income for retirees.) Options include annuities (an insurance product), life income funds (LIFs), and registered retirement income funds (RRIFs). In some countries, such as Australia, UK, and the USA, more options are available to help retirees with group options, lower-cost options, and more straightforward decision-making.
Defined benefit pension plan	A defined benefit (DB) pension 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 have been contributing and how much you earned over the years. Employers and workers contribute a set percentage of salary. Funds are invested by a professional. The risk of unfunded liabilities is shared across a group of members (or even multiple workplaces) so that no one runs the risk of outliving their savings. In a traditional DB plan, an employer (or group of employers) bears the risk of unfunded liabilities, while the workers’ contributions are fixed.
Defined contribution pension plan	A defined contribution (DC) pension plan helps individuals accumulate retirement savings during their career. Employers and workers contribute a set percentage of their salaries. Funds are put in a personal account for each worker. The benefit the worker will receive on retirement is determined at the date of retirement and is based on accumulated contributions and investment income, as well as annuity rates. The cost of a DC plan to employers and workers can be known in advance, and risks are borne by individual workers instead of employers -- there is no guaranteed benefit, so there is no unfunded liability. (Also called a money purchase plan.)
Environmental, Social & Governance factors/ Responsible Investment	Responsible investment is an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and generate sustainable, long-term returns.
Final Average Earnings	The pension paid to members is based on their salary at the point of retirement, the number of years they have belonged to the scheme, and the accrual rate. It

(Benefit Formula)	particularly benefits employees who salaries rise steeply towards the end of their careers.
Flat Rate (Benefit Formula)	This benefit formula is normally based on a set or "flat" dollar amount for each year (or month or number of hours) of employment or service. Your individual earnings are not taken into account.
Guaranteed Income Supplement	Guaranteed Income Supplement provides a monthly non-taxable benefit to Old Age Security (OAS) pension recipients who have a low income and are living in Canada.
Jointly Sponsored Pension Plan (JSPP)	A JSPP is a contributory defined benefit pension plan in which the employer(s) and the members share responsibility for the plan's governance and funding. A JSPP can be sponsored in a multi-employer arrangement or a single employer arrangement. If there is a funding shortfall, both the employer(s) and members are responsible for funding up to half the shortfall. The employer(s) and the members are jointly responsible for the governance of the pension plan, including all decisions about the terms and conditions of the plan, any amendments to the plan, and the appointment of the administrator of the plan.
Locking in	A legislative requirement whereby pension benefits cannot be used for any purpose other than to provide a retirement pension. This means the funds will be there for you when you retire and creditors cannot access them. Only under exceptional circumstances (e.g., a medical condition expected to shorten your life, or severe financial hardship) can you access these funds early. Most RRSPs are not locked-in so you can cash them out (usually paying tax on them) if you need the funds -- but then they're not there when you retire.
Longevity risk	The risk that a person's life will extend beyond average life expectancy. The length of a person's life will have a significant influence on how long they can potentially sustain income. In a DC plan or RRSP arrangement, longevity risk is borne by an individual, whereas in a DB pension plan, it is pooled (shared) across a workplace or workforce so that any particular individual need not be concerned about outliving their savings.
Management Expense Ratio (MER)	Expressed as a percentage of the fund's total assets. MER includes the management fee plus the fund's day-to-day operating expenses, such as record keeping, fund valuation costs, audit and legal fees, costs for sending out prospectuses and annual reports, and HST. (MER does not include a commission -- known as a "front-end load" or "back-end load" -- paid to the advisor's firm for selling a mutual fund.)
Old Age Security <u>OAS</u>	OAS is the Government of Canada's largest pension program. It is funded out of the general revenues, which means that you do not pay into it directly. OAS is a monthly payment available to seniors aged 65 and older who meet the Canadian legal status and residence requirements.

Past service buyback	Pension buyback or past service buyback is a provision allowed in some pension plans whereby an individual can “purchase” additional years’ service (equivalent to retroactive pension contributions). For instance, a public service worker who had spent two four-month periods as a student employee at that workplace can “purchase” pension credits for those summers with a cash payment into the plan when they began a full-time job after graduating. That would allow the employee to retire eight months earlier than otherwise with full pension.
Portability/ Transfer Options	The options available on cessation of membership, death, marriage breakdown, or plan termination. Members can transfer the commuted value of accumulated pension benefits to a locked-in RRSP, a LIF, a RLIF, another pension plan (if agreed to by the new plan), or the commuted value can be used to purchase an immediate or deferred annuity. A member can forego these options and instead receive a deferred pension from the plan at retirement.
Registered Retirement Savings Plans (RRSPs)	A personal retirement savings account offered by financial institutions. RRSPs are governed by the Income Tax Act which sets the maximum amount of RRSP contributions that can be deducted from an individual's taxable income.
Replacement Rate	The ratio of an individual’s (or a given population’s) (average) pension in a given time period and the (average) income in a given time period.
Target Benefit (TB) Pension Plan	A TB plan pools assets (and therefore longevity risk) but market risk is borne to some degree by individual plan members. Accrued benefits are subject to reduction if the funding level falls below a given threshold. To avoid a reduction, TB plans are governed by more formal funding and benefit policies than one typically finds in defined benefit plans. In addition, conservative 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.
Tax-Free Savings Account	The Government of Canada’s Tax-Free Savings Account (TFSA) program offers Canadians a way to save tax-free throughout their lifetime. Contributions to a TFSA are not deductible for income tax purposes, i.e., contributions are made with after-tax income (unlike with RRSPs). Any amount contributed as well as any income earned in the account (for example, investment income and capital gains) is generally tax-free, even when it is withdrawn.
Year’s Maximum Pensionable Earnings (YMPE)	The earnings (\$55,900 in 2018) on which Canada Pension Plan/Quebec Pension Plan contributions and benefits are calculated. The YMPE changes each year according to a formula using average wage levels. The YMPE is set annually by the Canada Revenue Agency.