



Executive Summary

A Roadmap for a Nonprofit Sector Pension Plan



**A Decent Work
Movement**

**1 million
workers**

March 2017

About the Ontario Nonprofit Network (ONN)

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

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Executive Summary

ONN's Pensions Task Force was mandated to develop recommendations on the design of a sector-wide pension plan for Ontario's nonprofits and charities. We 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 Task Force met regularly between October 2015 and December 2016. We commissioned pension plan modelling and analysis, a survey, focus groups, and a legal opinion to inform our work. With support from ONN staff, the Task Force analyzed existing pension plans, deliberated on plan design and contribution/benefit levels, and received advice via the ONN's annual conference and meetings with key stakeholders (including existing pension plans and labour organizations).

The Task Force began with the knowledge that Ontario's nonprofit workers were having a difficult time saving enough for retirement in the context of an increasingly precarious labour market and the disappearance of workplace pension plans. We examined the impact of the proposed Ontario Retirement Pension Plan (ORPP) and then the Canada Pension Plan (CPP) enhancement when the ORPP was shelved.

In keeping with a widely accepted assumption, the Task Force worked with a post-retirement income adequacy threshold of 70 per cent of pre-retirement earnings (taking into account the CPP and public programs). By international standards, Canada has low contribution and benefit rates for public pension plans.¹ The average worker will receive only 44 per cent of pre-retirement earnings from public programs even *after* the CPP enhancement takes full effect. The modest nature of the CPP enhancement means that many nonprofit workers without a workplace pension could still experience a significant drop in their standard of living when they retire.

Our survey showed overwhelming support for the idea of a nonprofit sector pension plan. The Task Force did, however, hear from a few people who preferred Registered Retirement Savings Plan (RRSP) arrangements to a pension plan. Having reviewed the evidence, the Task Force concluded that RRSPs are an expensive and inefficient alternative and many people are unaware of their true costs and benefits. To start with, RRSPs are a voluntary measure and take-up is low. The median value of RRSP assets for Canadians aged 55 to 64 with annual incomes between \$25,000 and \$50,000, is about \$250 in total – hardly enough to

¹ Shillington, Richard and Baldwin, Bob (Forthcoming) Publication based on OECD, Pensions at a Glance 2015; OECD and G20 Indicators. <https://data.oecd.org/pension/gross-pension-replacement-rates.htm>

retire on.²

Even if take-up were higher, typical RRSP investments are underperformers on the investment front and, furthermore, mutual funds in RRSPs have management fees that average *five times as much* as those for pension plans.³

It was clear to the Task Force 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 for comparable contribution rates – and offering employers a powerful recruitment and retention tool. Knowing that managing a workplace plan is more than most nonprofits can do on their own, the Task Force determined that a multi-employer pension plan was a good vehicle to take advantage of our sector’s scale while keeping the administrative burden low.

Summary of recommendations:

1. Does the sector need a pension plan?

The Task Force recommends that Ontario nonprofit workers should have access to a sector-wide pension plan. We recommend that ONN proceed with the next phase of this initiative.

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

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

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

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

We recommend that participation in a sector-wide plan should be mandatory for all employees

² Shillington, Richard (2016) *An Analysis of the Economic Circumstances of Canadian Seniors*. Broadbent Institute, p. 7. Available at:

http://www.broadbentinstitute.ca/an_analysis_of_the_economic_circumstances_of_canadian_seniors

³ Macdonald, David (2015) *The Feeling’s Not Mutual: The High Cost of Canada’s Mutual Fund Based Retirement System*. Canadian Centre for Policy Alternatives, p. 5. The high cost of mutual funds means that “the average mutual fund investor will have to work until age 72 to accumulate the same amount as the pension plan holder had by age 65.” Available at: <https://www.policyalternatives.ca/publications/reports/feeling%E2%80%99s-not-mutual>

(including management and contract/part-time workers above a threshold) where the plan is to be available in a workplace. Our recommendation is not intended to preclude the plan establishing a reasonable waiting period as permitted by legislation.

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

To meet the aim of seeing the average worker reach the 70 per cent adequacy threshold, the Task Force recommends that employers and employees should each contribute 3 to 5 per cent of salary/wages per year. The plan type should be structured if at all possible to allow for 1) contributions rates that are set at the individual workplace level, and 2) contributions being adjusted over time as budgets allow. According to our consultation with the sector, this level should be considered reasonably affordable among the majority of nonprofits and their employees.

5. Is a sector-wide plan a good option?

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

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

It is our recommendation that ONN choose a plan type that balances the needs of employers and workers. Employees as a group are best served by a plan that is affordable in terms of contribution rates and adequate in terms of retirement benefits, and that provides a predictable retirement income until death. Employers as a group are primarily concerned about affordability and predictability of costs, and avoiding future liability.

A pension plan suitable for the nonprofit sector must offer a way to limit employers' obligation to making fixed contributions, while giving some level of predictability to employees as to their pension amount. We therefore recommend that the nonprofit sector-wide plan be designed as a target-benefit multi-employer pension plan. Such a plan would resolve the employer liability concerns and still provide a reasonable level of retirement income security to employees.

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

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

of reliability and permanence for everyone from contract and part-time employees to large, established nonprofits.

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

The Task Force recommends choosing a plan design that allows for ancillary benefits such as past service credit. These should be considered carefully as they could require higher contribution rates and have implications for intergenerational equity. The task force also recommends a simple career-average benefit formula.

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

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

Nonprofit employers and workers that join a pension plan must make ongoing pension contributions, regardless of plan structure. Liability for funding any future plan shortfall depends on the plan structure. The Task force recommends that the nonprofit sector-wide plan should be a multi-employer pension plan with target benefits. According to a legal opinion commissioned by ONN for this project, this would be a satisfactory plan structure to limit the future liability of nonprofit employers, including boards of directors, such that ongoing and predictable contributions are their **only** liability.

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

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

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

Based on our preliminary research and outreach, it may be that some but not all of these would be satisfied through an existing plan. If ONN were to decide that no current plan meets enough of these criteria, or if there is no suitable plan willing to take on the sector's workforce,

ONN should consider establishing its own plan.

11. What other models are worth considering?

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

12. How should the plan be governed?

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

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

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

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

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

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

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

We also recommend that ONN work with partners to catalyze efforts to improve pensions literacy in the nonprofit sector and that government and non-government funders support ONN to do so.

ONN Pensions Task Force members:

- **Michael Kainer** (co-chair), retired lawyer & documentary filmmaker, who assisted in the establishment of the Multi-Sector Pension Plan terms for CUPE/SEIU
- **Jennifer Closs** (co-chair), Team Leader, DeafBlind Ontario Services
- **Rich Bailey**, Retired CEO of YMCA Canada
- **Dr. Isla Carmichael**, PhD, retired pensions consultant, current member of Canada Post Pension Plan Investment Advisory Committee (union-appointed)
- **Iris Fabbro**, Executive Director, North York Women's Centre
- **Howard Green**, retired senior public servant; President, Board of Directors of St. Stephen's Community House
- **Richard Shillington**, social policy consultant, Tristat Resources

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