HOOPP
Healthcare of Ontario
Pension Plan

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Innovation, Science and Economic Development Canada
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Dear Minister Bains,

Subject: Consultations on enhancing retirement security

On behalf of the Healthcare of Ontario Pension Plan (HOOPP), please find below our comments re: *consultations on enhancing retirement security*. As evident in the 2018 Federal Budget, we are pleased that improving retirement security continues to be a priority issue for the federal government. We also agree that further work is needed to protect pensioner and employee interests and support sustainable pension plan options.

To this end, below is our feedback regarding governance, pension funding, and insolvency. We have also attached HOOPP's recently commissioned research on efficient retirement savings and how it relates to pension governance, scale, design and funding. We believe that this research provides a roadmap to enhancing retirement security across Canada.

About HOOPP
Founded in 1960, HOOPP helps build a financially secure retirement for Ontario's healthcare workers. HOOPP currently has over 339,000 active, deferred and retired members, 540 participating employers and approximately $78 billion in net assets. In 2017, our funded status was 122%, meaning for every dollar owed in pensions, the Plan has $1.22 in assets.

In 1993, HOOPP was established as an independent private trust by the Ontario Hospital Association (OHA), the Canadian Union of Public Employees (CUPE), the Ontario Nurses' Association (ONA), the Ontario Public Sector Employees' Union (OPSEU) and the Service Employees International Union (SEIU) under an Agreement and Declaration of Trust for the benefit of eligible employees of participating employers.

HOOPP is a contributory, jointly sponsored, multi-employer, defined benefit pension plan, where factors such as earnings and years of service define members' benefits. HOOPP independently manages all aspects of the pension provision, not only administering the plan, but also investing member and employer contributions to ensure that pensions can be paid now and in the future.

Governance and Scale
Over the past three decades, Canadian public pension plans have demonstrated they are among the best in the world. These plans have a unique profile when compared to traditional pension plans, as they have characteristics such as independent governance and scale that have proven effective in mitigating market risk and delivering value. This profile is a model for how we can enhance retirement security in Canada.

Since 1993, HOOPP has been a jointly sponsored pension plan (JSPP). The Plan defines itself as an independent entity with a clear mission: delivering on the pension promise. This has helped focus the board and management team on this single objective. HOOPP's Board of Trustees consists of 16 voting members and governs HOOPP as its decision-making body. Five settlor organizations have the right to appoint and remove Board trustees. The OHA, representing employers, appoints eight trustees, while the four unions - ONA, CUPE, OPSEU and SEIU - each appoint two trustees. All trustees have a legal obligation to administer the Plan in the best interests of HOOPP members, regardless of their employer or union affiliation.

This governance structure serves as a foundation for a well-funded Plan in the long run by sharing the risk between employers and employees and binding trustees as fiduciaries to plan members. As evidence of their focus on members and members only, the Board has never used its dispute resolution provision in the 25 years since it became a trust. In other words, trustees remain focused on their fiduciary duty to members above all else.

Pension Funding
There are a variety of measures that help ensure plans remain well-funded and reduce overall risk for members. Contribution stability – that is, consistency in the plan's contribution rate - is one key element. As outlined above, HOOPP's structure as an independent private trust requires Board trustees to act as fiduciaries rather than bring a labour or management perspective to their work. The Board is responsible for setting the contribution rate which has remained unchanged since 2004. Keeping rates stable helps make the Plan affordable and predictable for members and employers, thereby providing more workers in Ontario with a secure pension in retirement. The scale of HOOPP as a large multi-employer pension plan also helps keep contribution rates and operating costs among the lowest in Canada. Keeping costs low ensures that more investment income goes toward paying pensions for healthcare worker while lower rates means more money in members' pockets during their working life.

HOOPP's evolution as a plan has also included a shift of its investment strategy toward liability-driven investing (LDI), a move that has ensured that the commitment to pay pensions is first and foremost at the heart of the investment strategy. This has supported a strong funded status through the 2008 financial crisis and in the years since. In addition, HOOPP's Board ensures the sustainability of the plan through various levers which it has at its disposal. For example, the Board may decide in any year not to pay annual indexation in the event it determines, at its discretion, the Plan's funded position does not support such a benefit payment. This flexibility with an ad hoc COLA benefit significantly increases the resiliency and sustainability of the Plan, particularly in the face of a challenging funded position and economic outlook.

We believe that these best practices can help ensure plans are well-funded, reducing the risk of insolvency and related impacts to pensioners. Moreover, by taking steps to ensure existing defined benefit (DB) pension plans remain fully funded, we can reduce reliance on Pillar 1 retirement arrangements such as OAS and GIS. Unfortunately, the trend away from DB plans in the private sector does not only leave employees more exposed to inadequate and inefficient retirement savings. It also represents a transfer of risk from private employers to government, a major public policy issue given Canada's aging population.

Insolvency
The bankruptcy of a company with a single employer pension plan (SEPP) in Canada can precipitate the wind-up of the pension. In these circumstances, pension assets may be sold off at significantly discounted prices which can ultimately reduce the retirement income of plan members. Efforts ensuring plans are not wound up but rather can continue to operate by insulating them from wind-up pressures (as outlined in the consultation document), would help to avoid situations where pensioners' retirement income is put at risk.

A pension plan model that separates the fate of the employer from the fate of the Plan is particularly important for sectors that are more vulnerable to market shocks. In the case of HOOPP, should one of our 400 non-hospital employers choose to cease operations and depart from the Plan, their employees' pensions up until that point, continue to be invested and administered by the Plan. This effectively insulates them from the potential wind-up losses as well as the loss of no longer benefitting from a well-governed, well-designed plan with scale.

While HOOPP does not have specific views at this time on 'transparency and fairness in insolvency proceedings', we do believe that situations where corporate leaders are faced with conflicting options, such as paying dividends versus making pension contributions, can be avoided through good pension governance and design, namely by separating the fate of the plan from the fate of the employer. Avoiding the opportunity for conflicting interests ensures that a plan's board focuses on its members. At the same time, corporate leaders can focus on shareholders, having delegated authority for the pension to fiduciaries that serve member interests alongside a management team that shares the same pension as its members (i.e., have skin in the game).

Regarding super-prioritization, questions remain about the impact this could have on the cost of capital, including how companies currently offering a DB plan might be further disadvantaged when it comes to borrowing. As an advocate for efficient, collective retirement savings, we are mindful of any additional pressure to move away from a sustainable DB model and note the consultation document's thoughtful reference to this concern.

Next Steps
We can improve pensions and other retirement arrangements in Canada in a way that ensures a safe, secure and dignified retirement.

Our recently commissioned research, *The Value of a Good Pension*, further highlights opportunities that exist beyond those captured in our input above. We compare the value for money across different retirement arrangements, as measured by the retirement income received per dollar of contribution. The research then identifies the value drivers that explain the difference in efficiency. These value drivers – saving, cost, investment discipline, fiduciary governance and risk pooling – are critical to enhancing retirement security and are ultimately rooted in the good governance and scale of the Canada model pension plans.

Continued support and access to the efficiency of Canada model pension plans is critical to enhancing retirement security across the country, while also avoiding the current transfer of risk to the public purse. Increased focus on improved governance and scale through efforts such as the further consolidation of SEPPs into JSPPs in Ontario and elsewhere represents a step in the right direction. Beyond this, ensuring regulation is focused on improving plans' governance and scale (and by extension their efficiency), will serve to further ensure pensions remain funded both now and in the future.

Thank you for the opportunity to comment. HOOPP welcomes continued discussion on this important issue.

Sincerely,
HEALTHCARE OF ONTARIO PENSION PLAN

Jim Keohane
President and CEO
Healthcare of Ontario Pension Plan

CC: Minister Morneau
Minister Tassi