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PROSPECTS

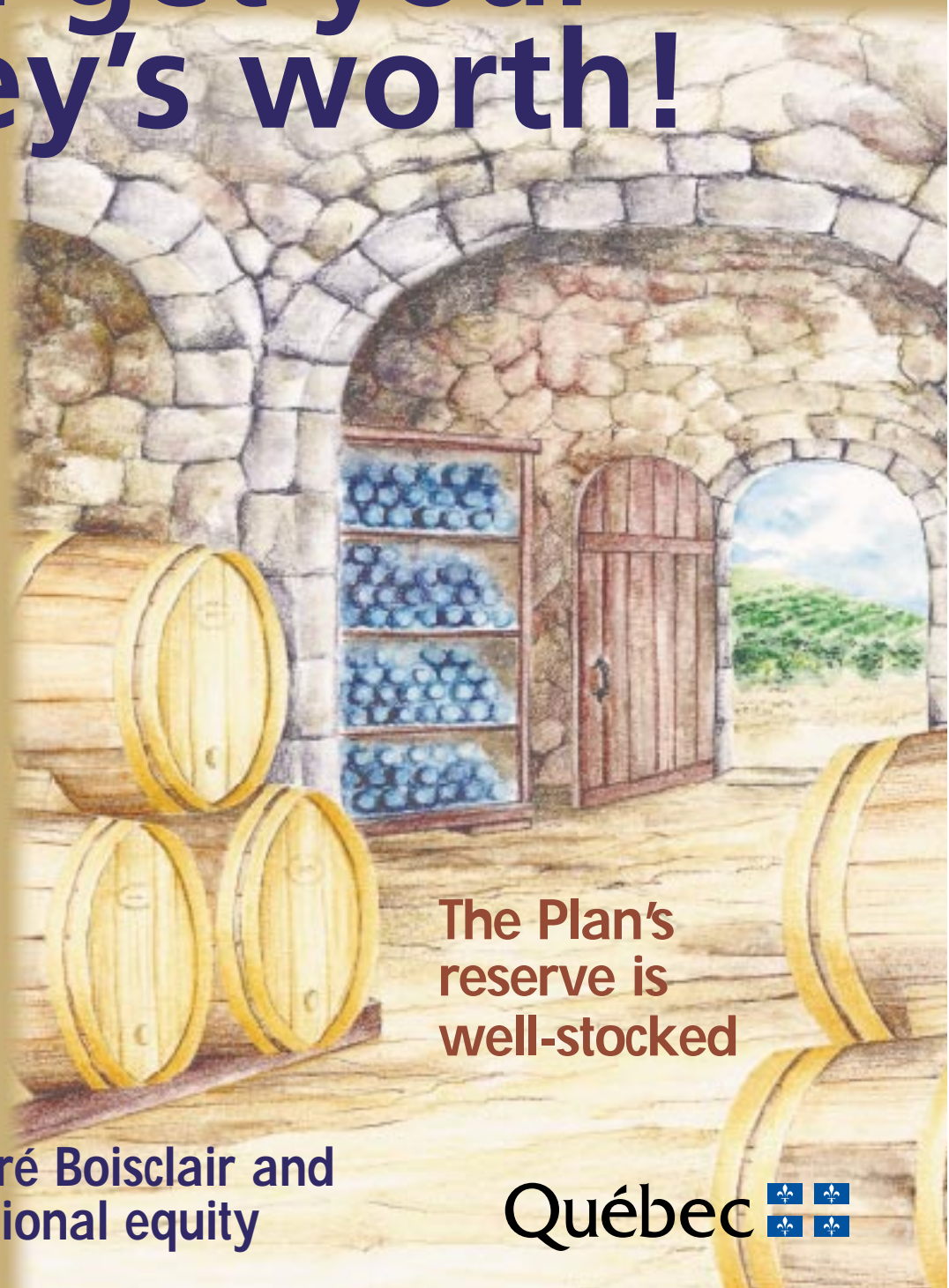
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Québec Pension Plan

You'll get your money's worth!



Interview
Minister André Boisclair and
inter-generational equity



The Plan's
reserve is
well-stocked

Québec 



Reaping the harvest of the reform

There is no longer any reason to doubt the financial soundness of the Québec Pension Plan.

The 1998 reform had 2 objectives: guaranteeing that benefits could be paid to future generations, and ensuring greater fairness between generations of contributors. We are well on the way to reaching those objectives. During 1999, the Régie did not have to dip into the Plan's reserves to pay pensions and benefits to its beneficiaries. For the first time since 1994, there was enough income from contributions and investments to make all those payments.

The increase in the Plan's contribution rate, which was the most important aspect of the reform, explains this change in situation. Contribution rates will continue to increase until 2003, mainly in order to compensate for the aging population. Thereafter, the contribution rate will remain at 9,9%. The greater cash inflow and a more aggressive investment policy will ensure that the Plan's fund grows more quickly.

The Plan's reserve is well-stocked

Public retirement savings plans like the Québec Pension Plan are funded by the contributions paid by workers and employers. Each generation of workers pays for the pensions and benefits of the beneficiaries who have stopped working. Thus, the contributions from this year will pay the benefits for the current year and any extra amounts are put into the reserve.

Why do we need a reserve?

Creating a reserve is of utmost importance. To begin with, the reserve produces investment income. Added to workers' contributions (if needed), that income enables the Régie to meet its current obligations, that is, paying administrative costs and the various benefits owing to beneficiaries. Furthermore, the reserve makes it possible to maintain a constant contribution rate when the economy is not as good or population growth slows down. For example, poor economic conditions result in a decrease in contribution income because of the increase in the number of unemployed workers. Having a sufficient reserve means that workers still on the job do not have to pay more in contributions.

Likewise, the Plan will be able to meet its financial obligations even if investment yields are lower than expected. The measures put in place by the 1998 reform will ensure that the reserve continues to grow over the next 20 years. After that period, investment income alone will be sufficient to avoid a new increase in contribution rates.

Who manages the reserve?

The Québec Pension Plan fund is currently 18,3 billion \$. The Caisse de dépôt et placement du Québec manages it. Approximately 3 600 000 workers contributed nearly 5 billion dollars to the Plan between 1 April 1999 and 31 March 2000. That is an increase of 14,4% compared with the same period in 1998-1999. The current reserve could therefore pay all the benefits owing for 3 years, even if no further contributions were made. The objective is to extend that period to 5 years.

A N A G I

It is expected that within the next 30 years there will be only 2 workers for 1 person age 65 or over. In order to prepare for that reality, it is important to rapidly accumulate a large reserve.

What makes that possible is the number of baby-boomers (persons born between 1945 and 1965) in the labour market. By 2003, the investment income accumulated because of the large reserve will make it possible to maintain the same contribution rate over a long time period.

Fewer births and more retirees

A situation that gives pause for reflection

There were 2 important elements that led to the 1998 reform. On the one hand, the birth rate has been declining over the past 30 years. On the other hand, within the next 20 years, the majority of baby-boomers will be retired. Like most industrialized countries, Québec has an aging population. That trend will intensify over the next few decades. Within 15 years, the number of new retirees will be greater than the number of new workers. In Québec, in 2050, there will be only 2 workers for 1 person age 65 or over. Today there are 5 workers per retiree. When the Plan was created, 30 years ago, there were 8 workers for each retiree.

It became imperative to adapt the Plan's funding to this new reality, particularly since the Québec population is aging more and at a faster rate than anywhere else in North America. That is mostly because Québec's birth rate is lower than the average in Canada and most industrialized countries, while immigration has remained fairly stable.

And elsewhere...

The Québec Pension Plan is **not** the only one to be concerned with ensuring the continuity of its public pension plan. Over the past few years, many countries have also made changes to their plans for the same reason. Like Québec, those countries have an aging population. Their reforms were also intended to avoid rising costs. However, certain countries chose instead to motivate workers to remain in the job market longer. To do so, they reduced retirement benefits. They also made early retirement (before 65) less advantageous and encouraged part-time work. Québec preferred to maintain the advantages of the Plan without changing the normal retirement age from 65.



N G P O P U L A T I O N

- 1966: 8 working-age persons for each person age 65 or over.



- 1996: 5 working-age persons for each person age 65 or over.



- 2030: 2 working-age persons for each person age 65 or over.



Equity: one of Minister André Boisclair's main concerns

By Claude Grégoire

Prospects: Mr. Boisclair, you are the minister responsible for the Régie des rentes du Québec. The whole issue of retirement is part of your mandate. Do you feel that you are in an odd situation, being the youngest cabinet minister?

— Mr. Boisclair: On the contrary! Retirement planning should begin as soon as you start working. You shouldn't wait until you're 50 years old. As a young minister, I understand how critical it is for people of my generation to prepare for this important stage in their lives. Retirement always seems far off, but it comes faster than you think. For me, the whole issue of retirement will only gain in importance!

Prospects: Yes, but we have public programs like the Québec Pension Plan and the Old Age Security pension from the federal government. Some people might wonder whether they really need to prepare for retirement.

— Mr. Boisclair: Public plans cover a minimum, and I emphasize the word "minimum". Pensions from those plans represent approximately 40% of employment income, if you take the example of a worker earning an average of 38 000 \$ in today's dollars. That worker would therefore have 15 000 \$ in retirement income if he or she doesn't have any private retirement savings.

You have to remember that the Old Age Security pension is adjusted to the cost of living and not to wages. The relative value of that source of income therefore decreases over time. Don't forget that public plans exist to prevent poverty among the elderly. However, they are not sufficient to ensure a really comfortable retirement. Workers are therefore responsible for planning their retirement themselves and saving for their old age.



"As a young minister, I understand how critical it is for people of my generation to prepare for this important stage in their lives."

Prospects: The future of the Plan is now secure as a result of the 1998 reform. We also know that young workers pay higher contributions than current beneficiaries did, and will continue to do so. Some view the situation as an injustice. What do you think?

— Mr. Boisclair: When discussing fairness, we have to take more than just the cost of the Plan into consideration. Let's go back a bit. The Plan was created in 1966. One of its objectives was to avoid a situation in which the elderly would become dependent on social assistance, by providing for their needs. Most of them had been through the 2 world wars and the

Great Depression. Families were large and, in most cases, the man was the only bread-winner.

In the 1960s and 1970s, those people paid taxes to set up a modern network of schools, Cegeps, universities, hospitals, etc. The following generations benefited from them and continue to do so.

At the time, contribution rates were very low. For a long time, they were considered sufficient because of high birth rates and economic growth. And we all know the rest of the story...

Prospects: In reality, how is the Plan fair and equitable for all generations?

— Mr. Boisclair: The government is there to protect the interests of all the generations of contributors and groups of citizens. As you will remember, last year, we made changes to several laws. For example, a surviving spouse can now receive a pension even if he or she is the same sex as the deceased. Québec has been a leader for other industrialized countries on that issue.

But to get back to inter-generational equity, it was one of the objectives of the reform. People were predicting that the contribution rate would increase to 13% or even 14% by 2023. Thanks to the reform, it shouldn't go any higher than 9,9% in the next few decades. That way, future workers will not have to pay higher and higher contribution rates.

However, as I said earlier, the equity issue is not just about cost. Our income security system is one of the best in the world. It is not expensive and offers a decent standard of living after retirement.

Forecasts show that the Québec Pension Plan is a cost-effective retirement savings instrument. And that is only one aspect of the Plan. It is true that to be entitled to similar benefits, young workers of today and future workers will pay more contributions than past generations. However, all generations will receive more in benefits than what they paid in contributions to the Plan.

Equity is also the government's guarantee that future generations will be entitled to the same advantages.

So it's important to maintain the quality of our system and make improvements to it.

Prospects: How are you going to do that?

— Mr. Boisclair: The reform has made it possible to supervise changes in the Plan more closely. Actuarial reports will be made more often and public consultations will be held every 6 years. That will allow us to more rapidly adjust the Plan to socio-economic changes and ensure the Plan's continuity.

Moreover, we will continue to encourage private retirement savings. Several years ago, we created a type of supplemental pension plan that is very easy to administer. Our goal in doing so was to encourage small and medium-sized businesses to set up private plans. Not long ago I introduced a bill to modernize the *Supplemental Pension Plans Act* to take into account new employment realities. We want to make private pension plans more accessible to a greater number of workers. They will be able to rely on income from private plans to top up the income ensured by public plans. For example, workers will be entitled to the employer's contributions as soon as they start contributing to the pension plan. That is a concrete way to contribute to the financial security of future generations of retirees.

"Equity is also the government's guarantee that future generations will be entitled to the same advantages."

As you can see, by securing the future of the Québec Pension Plan at a reasonable cost and making private pension plans accessible to the most workers possible, the Québec government is doing all that is needed so that Quebeckers can enjoy a good financial situation after retirement.

The Québec Pension Plan:

Even the younger generations will get their money's worth!

Will today's young people really get their money's worth? Will they receive benefits that are proportionate to what they pay in contributions?

The younger generations will pay more in contributions than the first retirees. However, that does not mean that the new generations will not get their money's worth. On the contrary! Every generation of participants in the Plan gets more back than it puts in. Let's take the example of a young worker who contributes on the maximum pensionable earnings (MPE), that is, the highest earnings on which you can make contributions. That maximum is based on the average industrial wage. In 2000, for example, it is 37 600 \$. The amounts paid will represent a return on investment of nearly 5%, before inflation.



Year of retirement*	Life expectancy of retiree (years)	Number of years to recover all contributions made during work life	Number of remaining years
1970	15.8	1.5	14.3
2000	17.2	3.3	13.9
2030	18.7	8.2	10.5
2050	19.7	8.7	11.0

*Based on the normal retirement age of 65

A person who retires in 2030 at age 65 will receive retirement benefits for an average of 18,7 years. However, in only 8,2 years, that person will have recovered all the contributions made during his or her work life. Any pension benefits received during the remaining 10,5 years will be over and above the original contributions.

Even though they have to pay more than preceding generations, the new generations of contributors to the Québec Pension Plan will get their money's worth. Once they retire, they will receive more in benefits than they paid in contributions during their work life. In fact, the return on investment for the contributions they pay will be nearly 5%, before inflation.

Inter-generational equity

The advantages of the Québec Pension Plan

The Plan was created to give more support to workers in greater need. It gives workers basic income protection, whether they are self-employed or employees. Without the Plan, those workers would have to find other ways to secure a retirement income, which could involve financial risks. For example, a big drop in stock market values could decrease the value of their holdings. Moreover, lower interest rates would make a retirement pension more expensive.

The advantages of the Québec Pension Plan are not affected by economic ups and downs. The Plan shoulders the financial risk, not the workers.

Here are the other advantages of the Québec Pension Plan:

- **pensions are indexed to the cost of living;**
- **workers are immediately entitled to a pension after contributing to the Plan for only 1 year;**
- **benefits are automatically transferred from one employer to another;**
- **administrative fees are very low.**

1966 and the 21st century A very different society

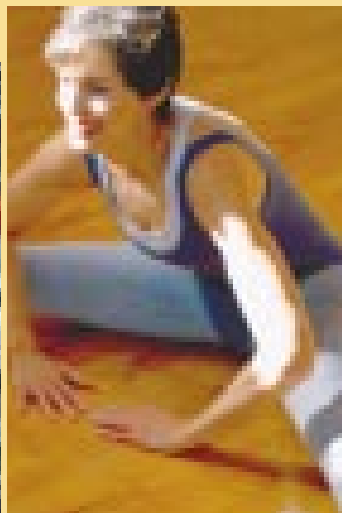
We often forget why certain choices were made and what determined the form they have taken. Such is the case for the Québec Pension Plan. It was set up in 1966. At the time, there were 3 children per woman, on average. In most cases, the woman stayed at home. Only men brought home a salary. In addition, those close to retirement age had been through 2 world wars and the Great Depression. That explains why people had few savings. The Québec Pension Plan was created to guarantee a basic income for workers and their families when they became too old to work.

From the Quiet Revolution...

The Plan was created during the Quiet Revolution. During that period, Quebecers developed a new social and economic structure. For example, the creation of the Caisse de dépôt et placement contributed to Québec's economic development. The public health care system was set up. There was also a large-scale educational reform. Those retiring today made an important contribution to the creation of those institutions and younger generations have benefited, and continue to benefit, from them. That is a reality that must not be forgotten in assessing the fairness of the system!

...to the year 2000

Québec society then underwent several changes that led to the 1998 reform. Birth rates decreased and more women entered the labour force. Various programs encouraged workers to take early retirement. There were fewer and fewer working-age people and life expectancy continued to increase. Several decades from now, new retirees will still be entitled to the same protection as that granted to current retirees. This will also be true for the baby-boomers, who will soon begin to retire.



The income security system: a solid house

In Québec, the retirement income security system can be compared to a 3-storey house.

The third storey

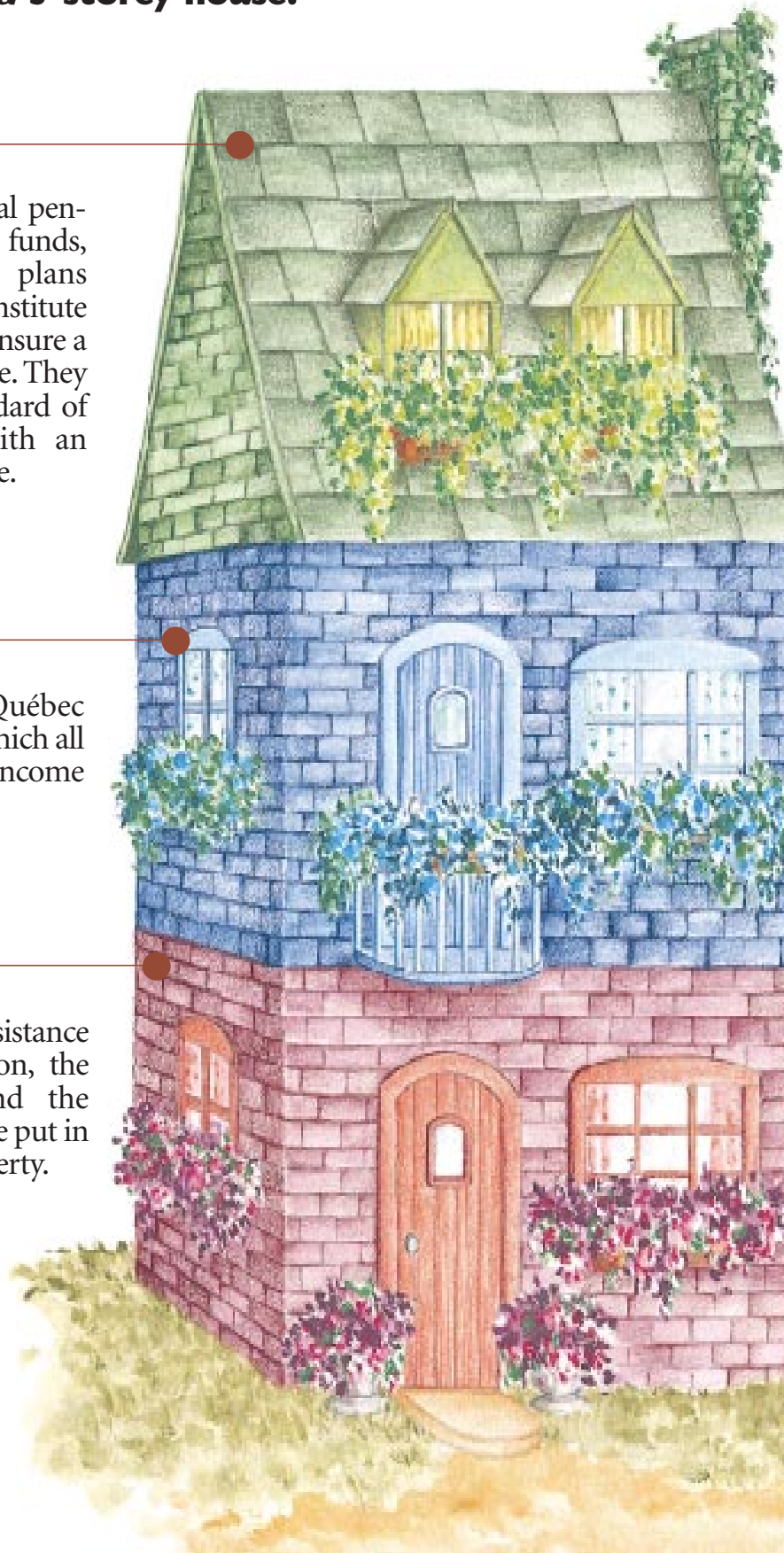
The third storey represents supplemental pension plans, also called employer pension funds, and registered retirement savings plans (RRSPs). Like the second storey, they constitute insurance measures, meaning that they ensure a certain continuity in employment income. They help prevent a drastic drop in the standard of living upon retirement for those with an employment income of 20 000 \$ or more.

The second storey

The second storey represents the Québec Pension Plan, a public pension plan to which all workers age 18 or over with an annual income of 3 500 \$ or more contribute.

The first storey

The first storey represents all federal assistance measures: the Old Age Security pension, the Guaranteed Income Supplement and the Spouse's Allowance. Those measures were put in place to help the elderly and to fight poverty.



A system that serves retirees well

Our income security system is among the world's best

In 1998, a study was carried out for the members of the Organization for Economic Co-operation and Development (OECD) and the International Labour Organization. The study compares poverty among the elderly in different countries and measures their retirement income. It shows that in Québec and Canada, the income security system offers as many advantages as in other large industrialized countries. The study findings rate our income security system among the best in the world.

Fighting poverty

Retirement income security systems must ensure a reasonable standard of living, thus eliminating poverty among the elderly. In addition, they help reduce the gap between the rich and the poor. The study demonstrates that in Canada, as in Germany and the Netherlands, less than 20% of retirees have either exceptionally low or exceptionally high incomes. Less than 8% of retirees live under the poverty line. In Canada, income security programs for the elderly are effective enough to keep them from living in poverty.

The study compares the financial situation of retirees and non-retirees. It concludes that in Canada, retirees have a standard of living that is comparable to that of non-retirees.

And today?

The incomes included in the study go back to the beginning of the 1990s. In the past few years, certain changes in population growth and the economy have altered the situation. However, it is quite clear that, overall, the situation of retirees is fairly good. And even marginal situations are under control. This good performance is due to the fact that our retirement income security system guarantees a sufficient basic income, while avoiding excessive dependence on public plans.

The income of the elderly is on the rise

In 1998, the Régie des rentes du Québec carried out a study comparing the average income of the elderly in 1981 and in 1995, which provides us with some more information on their sources of income. The findings indicate that during that period, persons 65 and over experienced a 21% increase in their real income, from 14 300 \$ to 17 300 \$. It is interesting to note that only the elderly experienced such a large increase in their income. Nonetheless, they remain the group with the lowest income.

The sources of income for retirees have changed during those 15 years.

- In 1981, 49% of retirees had only the Old Age Security pension (OAS) and the Guaranteed Income Supplement (GIS) as income.
- In 1995, only 20% of retirees had only those 2 sources of income.

Furthermore:

- In 1981, 47% of retirees were receiving a pension under the Québec Pension Plan.
- In 1995, the proportion was 76%.

During the period under study, the portion of the income provided by the Québec Pension Plan increased among both men and women.

Nonetheless, the Old Age Security pension and the Guaranteed Income Supplement remain the main sources of income for low-income seniors, especially women. Since those federal assistance programs increase more slowly than do salaries, they constitute a decreasing proportion of the income of elderly persons. That decrease could make the situation of low-income seniors more precarious still.

Retirement planning: Never too soon!

Assistance programs are the main financial resource for older persons with low incomes. Their average net income is 17 300 \$. They remain the age group with the most limited financial resources. That is why it is important for all workers to take responsibility for planning their retirement carefully.

Life expectancy has increased in Canada. Today, a 40-year-old man has a life expectancy of 77 years, and for a woman the same age it is 82. That means that generally, they will have about 20 years of living after they retire. That's worth thinking about... What kind of life do you want to have for all those years?

Specialists agree on how to make sure you will have a comfortable retirement. You have to plan for about 70% of your pre-retirement employment earnings.

If you earn less than 20 000 \$

Studies carried out on the Québec Pension Plan show that low-income workers (20 000 \$ a year or less) are unlikely to be able to save for retirement. Daily expenses take up most of their budget. But with such incomes, it is easier to reach the 70% objective. Benefits under public plans will be sufficient.

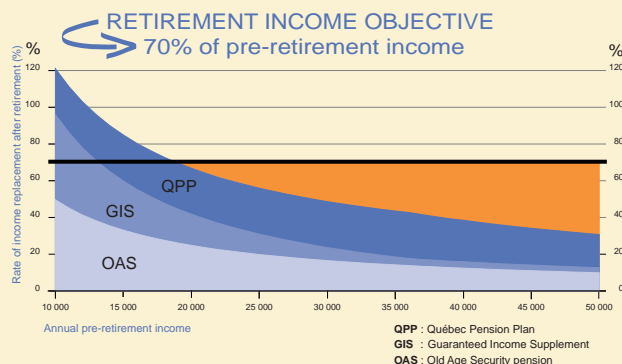
If you earn more than 20 000 \$

The situation is different for workers whose pre-retirement income is over 20 000 \$. If they do not have investment income, the difference with annual pre-retirement income will be even greater.

Currently, 620 000 Quebecers participate in a supplemental pension plan. The others will have to rely on public plans (like the Québec Pension Plan) and their personal savings. They will also be able to resort to assistance programs.

The Québec Pension Plan: a basic income

Don't forget that if your income is average, the retirement pension payable to you under the Québec Pension Plan will be about 25% of your pre-retirement income. In 2000, the maximum annual retirement pension is 9 155 \$. Therefore, it constitutes a basic income to which you have to add your savings. Many workers believe that the benefits under the Québec Pension Plan and the Old Age Security pension will be sufficient to ensure a comfortable retirement. They are mistaken. A quick look at the graph below shows the contrary. Upon retirement, a worker with an annual income of about 38 000 \$ will receive only 40% of that amount in benefits, that is, 15 000 \$ a year.



Why aim for 70% of your income after retirement and not 100%?

Calculations show that after you retire, at age 65, you will need about 70% to 75% of your average annual gross income of the last 3 years of employment to maintain your standard of living. Why 70% and not 100%?

The answer is that when you stop working, certain expenses disappear. You no longer pay contributions to the Québec Pension Plan, to your employer's private plan (pension fund) or union dues. Usually your mortgage is paid off. You often buy fewer clothes. You may keep your car longer. On the other hand, you should allocate a larger portion of your budget to health care, medication, insurance premiums, travel and social and recreational activities.

Resources to help you plan your retirement

If you want your future to live up to your expectations, you have to start saving now. A good way to start is to write down what you want to do when you stop working.

My retirement plans... I want to:

- travel
- renovate my house
- do sports
- go back to school
- participate in a community group
- take care of my family

The best way to be able to fulfill your retirement plans is to know how much they will cost. With that information in hand, draw up a realistic and accurate budget that reflects your cost of living today. If you want to save enough money for your retirement, you have to take control of your expenses today.

Helpful hints

In collaboration with *Protégez-vous* magazine and the Institut québécois de planification financière, the Régie des rentes du Québec has produced a guide to financial planning for retirement entitled *Retirement: Think about it Now!* (See back page.)



Your financial institution (bank or caisse) offers the services of advisers, financial planners and other specialists. They can help you plan for retirement and guide you along the way. They can suggest the best ways to save so that you get good yields without taking too many risks. They can also help you take advantage of the tax measures that exist to motivate you to prepare for retirement.

HOW TO REACH THE RÉGIE

For questions concerning the Québec Pension Plan you can telephone the Régie des rentes du Québec at one of the following numbers:

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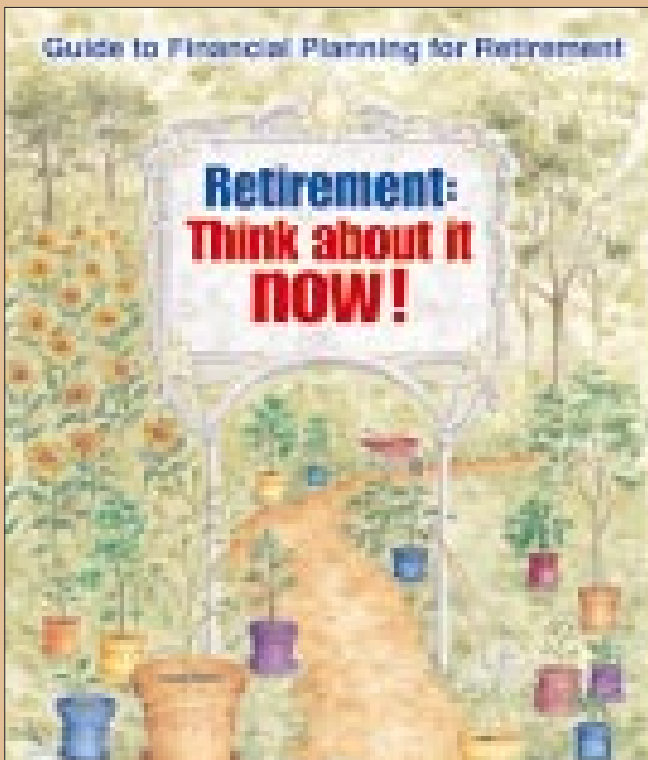
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about retirement?

It's never too soon to start

thinking about it!

But there are so many issues

to consider, you may say.

Where should I start?

How much retirement income will

the Québec Pension Plan give me?

Should I invest more in RRSPs?

You will find the answers to these

questions and more in a guide called

Retirement: Think about it Now!

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