BUDGET 2012-2013

QUEBECERS AND THEIR RETIREMENT

Accessible Plans for All

Finances Québec

Paper inside pages

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Budget 2012-2013

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INTRODUCTION

Quebecers enjoy one of the world's most effective retirement income systems. Its diversified structure, often cited as an example, provides most retired Quebecers with a standard of living similar to what they enjoyed before leaving the labour market.

Despite its strengths, Québec's retirement income system faces two challenges:

— first, offset the savings insufficiency of certain workers who have no personal savings and do not have access to an employer pension plan;

— second, monitor the financial solvency of private pension plans that must deal with an aging population, fewer new contributors and a new international financial situation characterized by low interest rates, generating significant financial pressure.

In response to these challenges, the government has already taken a series of concrete steps to stabilize the financial situation of the Québec Pension Plan, encourage people to retire later and offer temporary funding relief for private pension plans.

With respect to savings insufficiency, the Québec government is acting on its commitment of the last budget and is announcing that it will table, in the spring of 2012, the legislative provisions necessary for the implementation of the new voluntary retirement savings plans (VRSP) as of January 1, 2013.

Implementation of VRSPs goes hand in hand with the ongoing review of Québec's retirement income system that must result in solutions that protect our pension plans and, thus, produce stable and predictable income for all workers.

1. ENSURE ACCESS TO PENSION PLANS FOR ALL QUEBECERS

1.1 A retirement income system that has proven itself

❑ A system on a sound footing

Québec's retirement income system has three components:

— a universal component: the Old Age Security Pension (OASP) and the Guaranteed Income Supplement (GIS);

— a compulsory component: the Québec Pension Plan (QPP);

— a voluntary component: personal savings, group pension plans and registered retirement savings plans (RRSP).

The combination of these three components produces a system on a solid footing that, on the one hand, is flexible enough to meet the needs of Québec's workers and, on the other, is diversified, allowing genuine risk sharing among the government, employers and workers.

The quality of our retirement system has been recognized internationally many times. For instance, Mercer, a consulting firm that has compared the performance of retirement income systems throughout the world for many years, ranks Canada among the leading countries year after year.

CHART 1

Representation of the components of the retirement income system

Level 3 VOLUNTARY

Private initiatives

- Group pension plans (2 million workers)
- RRSP (1.5 million workers)

Level 2 COMPULSORY

Québec Pension Plan
(4 million workers)

Level 1 UNIVERSAL

Old Age Security (federal)

- Old Age Security Pension
- Guaranteed Income Supplement

(99% of seniors receive them)

Description of the Main Types of Group Pension Plans

Defined-benefit pension plans

In a defined-benefit plan, the pension calculation formula is set in advance. This formula generally corresponds to a percentage of salary multiplied by the years of service recognized under the plan.

- For instance, a defined-benefit plan may provide 2% of annual salary per year of service. After 35 years of service, a worker would obtain a pension equivalent to 70% of his end-of-career salary.

The risk associated with funding the plan is borne mainly by the employer. If the plan's assets are insufficient to pay the benefits stipulated under the plan, the employer must make up the shortfall. There are roughly 1.3 million participants in this type of pension plan in Québec.

Defined-contribution pension plan

In this type of pension plan, employer and employee contributions are fixed. A defined-contribution plan works in a way similar to an RRSP.

- Income at retirement depends on the amounts accumulated in the participant's retirement account.
- The return on investments is directly reflected in the value of the participants' accounts.
- The risk relating to return is thus borne exclusively by the participants.

There are roughly 200 000 participants in this type of pension plan in Québec.

1.2 A system facing two major challenges

Despite its strengths, Québec's retirement system faces two major challenges, namely:

- insufficient savings for some workers;
- additional financial pressure on pension plans.

❑ Insufficient savings for some workers

Most Québec workers will receive an adequate income when they retire.

— Workers whose income is less than $25 000 have a replacement rate[1] that exceeds 70% thanks to the level of coverage offered by public plans.

— In addition, most workers save enough to achieve an income replacement rate at retirement varying between 60% and 70%, i.e. the level generally targeted.

However, for a large number of workers in the middle class, the level of retirement savings is not enough.

— Roughly 50% of workers do not have access to a pension plan set up by their employer, making it more difficult to accumulate enough savings for retirement.

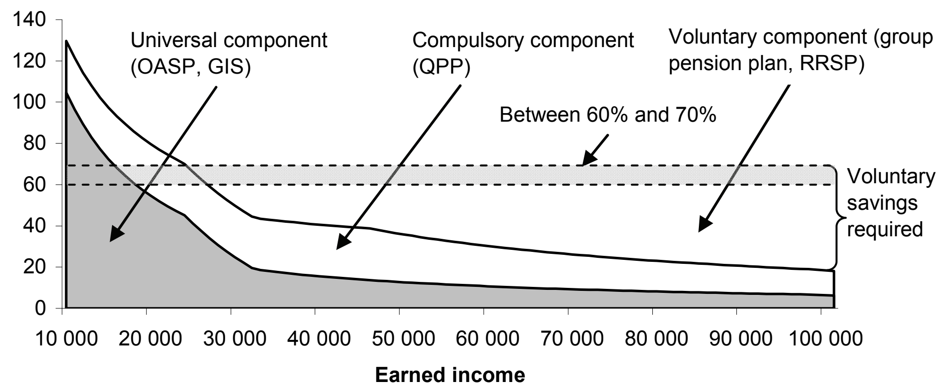
— In addition, 30% of workers have no personal savings.

To deal with this situation, the government undertook, in Budget 2011-2012, to set up the new voluntary retirement savings plans (VRSP).

These new plans will offer coverage for workers not currently covered by a group pension plan.

CHART 2

Allocation of income sources to obtain a replacement income between 60% and 70% at age 65
(per cent)



Source: Régie des rentes du Québec.

1 The replacement rate represents the proportion of end-of-career earned income that is replaced by retirement income.

❑ Additional pressure on pension plans

Québec's retirement income system also faces another challenge. The aging of the population together with a new international financial situation is currently placing significant financial pressure on the cost of pension plans, especially defined-benefit plans.

On the one hand, pension plans have to pay a pension to a larger number of retirees over a longer period.

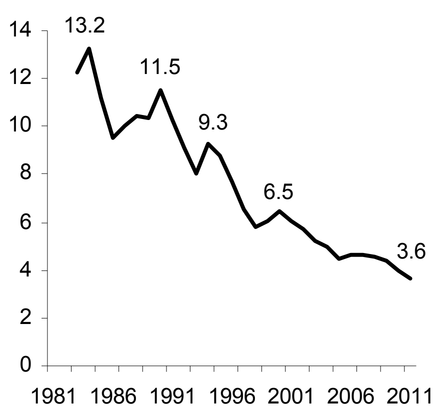
On the other, the decline in interest rates increases the value of the benefits to be paid to workers. As a result, pension plans are less solvent and without higher contributions by workers, the burden of pension plan solvency will be borne exclusively by employers.

- Currently, in Québec, 72% of defined-benefit pension plans have a solvency rate below 80%.[2]
- Employer contributions to these plans will therefore have to rise, which will put substantial pressure on companies that must bear this additional burden.

However, to keep our retirement income system sound, a review of the issues relating to its funding was undertaken. This review must lead to a consideration of new formulas for ensuring sufficient income for current and future retirees.

CHART 3

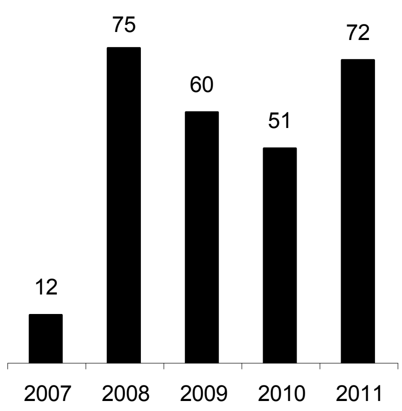
Yield on 10-year bonds
(Québec, per cent)



Source: Ministère des Finances du Québec.

CHART 4

Proportion of defined-benefit plans with solvency below 80%
(Québec, per cent)



Source: Régie des rentes du Québec.

2 An 80% solvency rate means that a pension plan has assets equal to 80% of its existing liabilities.

2. ACT TO MAINTAIN OUR PENSION PLANS

2.1 Concrete actions already taken

In response to the challenges facing pension plans, the government has already taken a series of concrete steps to:

- stabilize the financial situation of the Québec Pension Plan;
- encourage later retirement;
- foster retirement savings;
- provide temporary funding relief for private pension plans.

❑ Stabilize the financial situation of the Québec Pension Plan

In Budget 2011-2012, the government announced two measures to stabilize the financial situation of the QPP,[3] namely:

- a gradual rise over six years, i.e. from 2012 to 2017, of the contribution rate from 9.9% to 10.8% in increments of 0.15 percentage point per year;
- an adjustment to the pension amount paid before and after age 65.

In addition, an automatic mechanism adjusting the contribution rate was announced to secure the plan's long-term financial stability.

❑ Encourage later retirement

In addition to stabilizing the QPP's financial situation, adjusting the amount of the pension paid by the plan will encourage experienced workers to remain on the labour market longer.

- As of January 1, 2013, the increase in the pension will rise from 0.5% to 0.7% per month if it is applied for after age 65.
- As of January 1, 2014, the maximum pension reduction will gradually move, over three years, from 0.5% to 0.6% per month if the pension is applied for before age 65.

Accordingly, a worker who decides to delay his retirement will receive a pension that may reach almost one and a half times the pension he would have received had he retired at age 65.

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3 Details of these adjustments are given in the document *A Stronger Retirement Income System: Meeting the Expectations of Quebecers of Every Generation* in Budget 2011-2012.

❑ Foster retirement savings

To improve retirement coverage, the Québec government announced, in Budget 2011-2012, a commitment to set up the new voluntary retirement savings plans (VRSP).

Every employer with a minimum number of employees that does not offer a group retirement savings vehicle will have to enrol its employees who qualify in the plan. Enrolment will be automatic for such employees. Employees who do not want to participate in a VRSP will have to advise their employer accordingly.

The main parameters of the plan will be harmonized with the new Canadian plan, the pooled registered pension plan (PRPP), regarding which the federal government tabled a bill in November 2011.

Accordingly, workers who currently do not have access to a pension plan with their employer will have the option of participating in a low-cost group savings vehicle.

❑ Temporary funding relief for private pension plans

In 2008, the global financial crisis led to a dramatic fall in equity returns, thereby reducing pension plans' funding.

To deal with this difficult financial situation, the government announced, in its January 14, 2009 economic statement, five temporary relief measures lasting three years, with retroactive effect to December 31, 2008.

At the time, these measures sought to prevent a temporary deterioration in the financial situation of these plans from permanently affecting companies, workers and ultimately pensioners.

While the situation gradually improved in 2009 and 2010, recent trends in interest rates and equity returns require further intervention.

To that end, the government announced that it was extending the funding relief measures for these plans, as well as the government guarantees for pensioners, for two years. Bill 42, passed in November 2011, stipulates for private-sector plans, in particular:

— a ten-year amortization period, rather than the usual five years, for solvency deficiencies reported as at December 31, 2011 and December 31, 2012.

By allowing the solvency deficiency to be repaid over a longer period, this measure will help mitigate and average out the contributions payable by employers to restore plan solvency.

Retirement Plans of Public and Parapublic Sector Employees

As an employer, the Québec government participates financially in the retirement plans of its employees. These are defined-benefit plans and their costs are shared with participants.

As with supplemental pension plans, the government recently made changes to the retirement plans of public and parapublic sector employees. These changes were agreed as part of the renewal of the collective agreements with public and parapublic sector employees. The chief goals are to:

- encourage later retirement;
- improve the financial situation of the retirement plans concerned.

To encourage later retirement and facilitate the transfer of expertise, the Government and Public Employees Retirement Plan (RREGOP) and the Pension Plan of Management Personnel (PPMP) now allow employees to accumulate up to 38 years of service[1] rather than 35 years.

Furthermore, the employee contribution rate is now adjusted annually.

On February 22, 2012, the government tabled Bill 58 in the National Assembly following consultation with management personnel representatives. This bill, called the *An Act to amend the Act respecting the Pension Plan of Management Personnel and other legislative provisions*, puts forward a number of changes to improve the financial situation of the PPMP:

- tighter retirement pension eligibility criteria;
- five extra years of participation in the plan to fully benefit from its provisions;
- a greater reduction in the event of early retirement.

Lastly, employee contribution rates have risen a number of times in recent years. The contribution rate for RREGOP participants has risen from 5.35% in 2004 to 8.94% in 2012. For participants in the PPMP, the contribution rate has risen from 4.50% in 2004 to 12.30% in 2012.

Section D of the Budget Plan provides more details on the retirement plans of public and parapublic sector employees.

1 Measure introduced gradually until January 1, 2014.

2.2 A review that must be continued

In addition to currently ongoing actions, a review has been undertaken to more clearly define the problems affecting the financial situation of pension plans and their long-term commitments. In view of population aging and the international financial situation, this review must explore new possibilities for securing the long-term viability of pension plans.

Accordingly, the government has set up three committees:

— an expert panel to study Québec's retirement system;

— a technical committee on target benefit pension plans;

— a committee on municipal retirement plans.

These committees will provide the government with the recommendations of experts and concerned partners in the field of retirement plans in particular with a view to:

— improving our retirement system to ensure its viability and performance, while giving consideration to the new demographic and economic realities;

— assessing the possibility of introducing new types of pension plans, such as target benefit pension plans;

— assessing the possibility of making changes to the defined-benefit pension plans of municipalities to stabilize their funding and make it more predictable.

The main observations, possible solutions and recommendations of these committees are expected during 2012. Their deliberations will provide a basis for proposing sustainable and realistic solutions to the challenges pension plans face.

Accordingly, like the steps the government has already taken to stabilize the financial situation of the QPP, the recommendations must give rise to responsible decisions to ensure the viability of these plans.

Review of Pension Plans

Expert panel studying Québec's retirement system

This committee, mandated by the Minister of Employment and Social Solidarity and Minister responsible for the Régie des rentes du Québec, is chaired by Alban d'Amours. It started work in November 2011 with the following objectives:

- examine the overall situation of private pension plans, in particular defined-benefit plans;
- submit a report with recommendations to improve our retirement system to ensure its viability and performance, while giving consideration to the new demographic and economic realities.

Technical committee on target benefit pension plans

This committee, consisting of pensioners and worker representatives, began working in July 2011.

Its mandate is to submit opinions and recommendations to the Régie des rentes du Québec to enhance its proposals on the introduction of target benefit pension plans and their oversight by the Supplemental Pension Plans Act.

Committee on municipal retirement plans

This committee, under the authority of the Ministère des Affaires municipales, des Régions et de l'Occupation du territoire, started working in July 2011. It consists of partners concerned by municipal sector retirement plans and is mandated to:

- examine the changes likely to be made to the defined-benefit pension plans of municipalities to stabilize the tax load they give rise to and make it more predictable.
- examine possible amendments to the Supplemental Pension Plans Act and its regulations to provide a legal framework for the changes that the municipalities and their employees may agree to make to their pension plans.

Commission nationale sur la participation au marché du travail des travailleuses et travailleurs expérimentés de 55 ans ou plus

The Commission nationale sur la participation au marché du travail des travailleuses et travailleurs expérimentés de 55 ans ou plus was formed July 7, 2010. It was mandated in particular to examine ways to increase labour market participation among experienced workers and improve the financial situation of retirees. With respect to the financial situation of retirees, the Commission made the following recommendations in its report:

- implement a voluntary retirement savings plan at all employers that do not already offer a pension plan;
- require, as soon as possible, that employers and employees pay a minimum contribution to the plan;
- ensure that this new savings plan is flexible enough to meet the needs of workers and employers without adding to the administrative burden of businesses.

3. IMPLEMENTATION OF VOLUNTARY RETIREMENT SAVINGS PLANS: THE GOVERNMENT IS ACTING ON ITS COMMITMENT

A large number of Québec workers are not covered by an employer-sponsored pension plan. Consequently, they find it more difficult to save enough to maintain their standard of living when they leave the labour market.

These people must therefore rely solely on their personal savings to prepare for retirement. They must also make use of complex products with high management fees that correspondingly reduce the income available at retirement.

In this context, the Québec government announced, in Budget 2011-2012, its commitment to implement new voluntary retirement savings plans (VRSP) in cooperation with the federal government and the other provinces.

VRSPs will provide all workers with access to a group pension plan. They will specifically target the 2 million workers who currently are unable to participate in an employer pension plan. VRSPs will be:

— **easy for workers to access** – businesses that currently do not offer a pension plan will be required to offer a VRSP to their employees, thus limiting the formalities workers must undertake;

— **simple** – workers will be enrolled automatically by their employer. In addition, a set of default parameters will be stipulated to limit the number of decisions the participant has to make;

— **easy for employers to administer** – employers will not be required to contribute to VRSPs. Since they will be administered by third parties, the administrative burden will be substantially limited;

— **flexible** – they will enable workers to change their contribution rate and continue contributing to the same plan after changing employer. In addition to having access, if need be, to the amounts they have accumulated, participants will be able to withdraw at any time;

— **low-cost for the participant** – by fostering the accumulation of a critical mass of assets, VRSPs will help reduce management costs for participants, resulting in better returns and higher retirement income;

— **tax deductible** – contributions to a VRSP may be deducted from taxable income for Québec and federal income tax purposes. The amounts accumulated in the plan will not be taxed as long as they are not withdrawn;

— **advantageous for all** – all participants will enjoy the same benefits, whether they are employees, self-employed workers, business owners or individual savers.

❑ Implementation of VRSPs as of January 1, 2013

Acting on its commitment in the last budget, the Québec government is announcing that, in the spring of 2012, it will table the legislative provisions necessary to implement VRSPs as of January 1, 2013.

Companies covered by the obligation to offer VRSPs will have two years to comply, i.e. until January 1, 2015.

To ensure that VRSPs meet the needs of Quebecers, the Québec government sought the expertise of a number of stakeholders during:

- consultations held by the federal government in cooperation with the provinces;
- meetings of a task force on VRSPs, in which employer associations and representatives of financial institutions doing business in Québec participated;
- focus meetings with pension plan experts;
- pre-budget consultations.

In light of these consultations, the government is presenting, in Budget 2012-2013, the chief characteristics of these new pension plans.

Pension Plans Comparable with VRSPs Elsewhere in the World

There are pension plans comparable with VRSPs elsewhere in the world, in particular in New Zealand (KiwiSaver), the United States (401(k) plan) and, soon, in the United Kingdom (NEST).

New Zealand – KiwiSaver

New Zealand's KiwiSaver plan is available to all and must be offered by the employer. Unless the employee elects to opt out, he is automatically enrolled in the plan. Early withdrawal of amounts accumulated is generally not allowed, other than in the specific cases stipulated by the legislation. Like the VRSPs, the plan offers a degree of flexibility. Savers can opt for a contribution holiday lasting five years at most.

United States – 401(k) Plan

In the United States, the 401(k) plan is optional for employers. Those that decide to offer it can opt for automatic enrolment. While there is no rule concerning the default option, the "life cycle" approach is used in more than 60% of plans. Early withdrawal of amounts is not allowed, other than for exceptional cases such as grave illness.

United Kingdom – NEST

Beginning in October 2012, all eligible employees will have to be automatically enrolled in one of the authorized plans, including the new National Employment Saving Trust (NEST). The default employee contribution rate will ultimately be 8%. The new plan administered by the NEST will incorporate the main characteristics of VRSPs.

TABLE 1

Summary of the main characteristics of VRSPs

Main characteristics targeting employers	
Obligation to offer a VRSP	– Companies with five or more employees with at least one year of uninterrupted service and that do not already offer all their employees the possibility of contributing to a retirement savings plan through payroll deductions will be required: ▪ to choose a VRSP to offer to their employees; ▪ to enrol all their employees with at least one year of uninterrupted service in a VRSP; ▪ make source withholdings of employee contributions and remit them to the VRSP administrator.
Exemption for small businesses	– Employers with fewer than five employees with at least one year of uninterrupted service will not be required to offer a VRSP. – However, they may offer it voluntarily.
Automatic enrolment of workers	– If the employer is required to offer a VRSP, employees with at least one year of uninterrupted service will have to be enrolled automatically.
Employer contribution	– The employer will not be required to contribute. – As with registered pension plans, if the employer decides to contribute, the contributions he pays will not be subject to payroll taxes. – The employer's contributions will be deductible from its taxable income for Québec and federal tax purposes.
Employer compliance period	– Employers will have until January 1, 2015 to comply with the obligation to offer a VRSP. – After the initial compliance period, an employer that is covered by the obligation to offer a VRSP will have one year to comply with it.
Employer oversight	– The Commission des normes du travail will be responsible for overseeing employers. It will intervene, in particular regarding complaints, to enforce the provisions of the law.

TABLE 1 (continued)

Summary of the main characteristics of VRSPs (continued)

Main characteristics targeting workers	
Contribution rate	– The default employee contribution rate will be: ▪ 2% from January 1, 2013 to December 31, 2015; ▪ 3% from January 1, 2016 to December 31, 2016; ▪ 4% as of January 1, 2017. – The participant will always be authorized to change his contribution rate and will have the option of ceasing to contribute for a certain time.
Tax treatment of contributions	– The participant's contributions will be deductible for taxable income. Contributions to a VRSP, which will be in addition to those made to an RRSP, will be subject to the same annual cap as RRSPs, i.e. a maximum of 18% of earned annual income. – The amounts accumulated will not be taxed unless they are withdrawn.
Withdrawal of accumulated amounts	– Like RRSPs, an employee's contributions may be withdrawn before retirement. – Amounts withdrawn before retirement will be subject to Québec and federal tax. – Employer contributions may only be withdrawn as of age 55.
Withdrawing from a VRSP	– Employees who have been automatically enrolled will have 60 days after enrolment to withdraw failing which contributions will start being deducted from their pay.
Investment choices	– The default option will be based on a "life cycle" approach in which the risk level is adjusted based on the participant's age. – There will be a maximum of five other investment options.
Possibility of optional enrolment	– Those not automatically enrolled, such as self-employed workers or individual savers, may enrol in a VRSP by contacting a plan administrator directly.
Main characteristics targeting VRSP administrators	
Management fees	– Management fees of plan administrators will be the same for all participants (self-employed workers, employees, etc.). – The administrator will have to show the Régie des rentes du Québec that the management fees are comparable with those of institutional pension plans of similar size.
VRSP oversight	– The Régie des rentes du Québec will be tasked with oversight and ensure compliance with the legislation on VRSPs.
Eligible administrators	– VRSPs will be completely administered by the third parties, such as financial institutions or investment fund managers.
Administrator oversight	– Administrators will have to hold a permit issued by the Autorité des marchés financiers to administer a VRSP.

3.1 Offer coverage to 2 million workers without a group pension plan

According to estimates by the Régie des rentes du Québec, roughly 50% of Québec workers are currently covered either by a pension plan established by their employer or by a group RRSP.

That means that half of Québec workers, roughly 2 million people, are not covered. VRSPs primarily target this group.

❑ The obligation to offer a VRSP to employees

Employers will be required to offer the new VRSPs to their employees. Accordingly, all workers will have access to retirement saving at work.

Employers that do not already offer all their employees the possibility of contributing to a retirement savings plan through payroll deductions and that have at least five employees with at least one year of uninterrupted service will be required:

- to choose a VRSP that they will have to offer to their employees;
- to enrol all their employees with more than one year of uninterrupted service in the plan;
- to withhold their employees' contributions at source.

Employers will have until January 1, 2015 to comply with this obligation.

❑ Automatic enrolment of employees by employers

To ensure broad participation, VRSPs will stipulate an automatic enrolment mechanism for employees along with the right to withdraw from the plan.

- This type of mechanism, which is used in many pension plans throughout the world, has resulted in participation rates of up to 90%, particularly in the United States in the case of 401(k) plans.

The introduction of an automatic enrolment mechanism with right of withdrawal is a first in Québec. Over the coming years, it should help enrol almost 1 million workers in VRSPs.

Moreover, the remaining roughly 1 million workers not covered by a group pension plan will be able to enrol on a voluntary basis (self-employed workers, business owners, individual savers, etc.).

Impact of Automatic Enrolment

Automatic enrolment is designed to encourage workers to save for retirement by simplifying access to a retirement plan.

Plans that stipulate this type of enrolment allow participants to withdraw from the plan, change the amount of their contribution and choose from among certain investment options. Automatic enrolment is currently used in a number of countries, in particular the United States, New Zealand and the United Kingdom.

A number of studies have highlighted the success of automatic enrolment. The results show that automatic enrolment has a positive impact on plan participation.

Impact of automatic enrolment on 401(k) plans in the United States
(per cent)

	Total participation rate	
Authors (year of the study)	**Without automatic enrolment**	**With automatic enrolment**
Madrian and Shea (2001)	37	86
Choi et al. (2001)	26-43	85 or less
Swanson and Farnen (2008)	77	95
Beshears et al. (2008)	60	95
Fidelity Investments (2007)	53	81
Vanguard Center for Retirement Research (2007)	45	86

Source: U.S. Government Accountability Office.

❑ Exemption for small businesses with fewer than five employees

To limit the administrative impact, some businesses will be exempt from the obligation to offer a VRSP, namely:

— small businesses with fewer than five employees with at least one year of uninterrupted service.

For instance, an employer with three employees with more than one year of service that hires two temporary employees will not be required to offer a VRSP.

— This means that businesses with a very high turnover rate will not be forced to offer a VRSP.

— However, they may still offer one on a voluntary basis.

The uninterrupted service criterion will be based on the definition in the *Act respecting labour standards*. This criterion is already used by employers to determine, among other things, vacation eligibility.

❑ Employer compliance period

Once VRSPs are introduced, as of January 1, 2013, employers will have two years to comply, i.e. until January 1, 2015.

After the initial compliance period, an employer covered by the obligation to offer a VRSP will have one year to comply.

Employers that had to comply with an initial obligation will have to continue offering a VRSP as long as they have employees enrolled in the plan, even if the number of employees falls below the exemption threshold.

❑ Employers will not be required to contribute

Employers will not be required to contribute to a VRSP.

However, as in the case of registered pension plans, those that contribute for their employees will be exempt from payroll taxes on such contributions.

❑ Possibility of optional enrolment

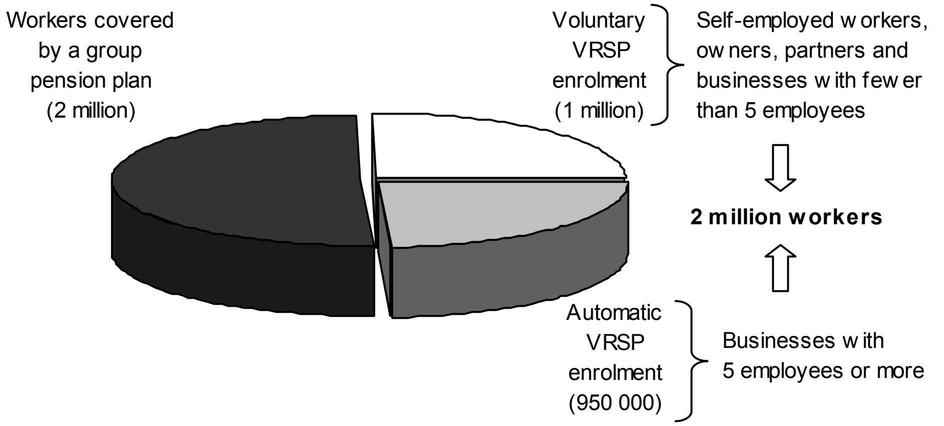
Those not automatically enrolled, such as self-employed workers or individual savers, may enrol in a VRSP by contacting a plan administrator directly.

— Workers may enrol in the VRSP of their choice at any time. Plan administrators may not turn down an enrolment application.

Roughly 1 million workers, including almost 600 000 self-employed workers, business owners or partners, will be able to enrol voluntarily in a VRSP. They will enjoy the same benefits, in particular the same low management fees, as workers automatically enrolled by their employer.

CHART 5

Coverage of 2 million more workers in Québec
(number of workers)



Sources: Régie des rentes du Québec, Statistics Canada, Labour Force Survey (LFS) and Survey of Employment, Payrolls and Hours (SEPH), 2011.

3.2 A flexible pension plan that adapts to the situation of each worker

VRSPs will enable Québec workers not currently covered to have access to a private pension plan offering the benefits of a group plan, namely:

— professional management of savings by administrators that must satisfy the rigorous requirements of the Autorité des marchés financiers (AMF) and the Régie des rentes du Québec;

— low management fees resulting from the accumulation of a large volume of savings.

In addition, VRSPs will be flexible. They will adapt to the situation of workers, in particular their financial capacity to contribute and the type of investment depending on age. They will also enable continuous participation, even when a worker changes employer.

❑ The same tax benefits as those of RRSPs: contributions fully deductible

It should be repeated that VRSPs will provide contributors with the same tax benefits as RRSPs. VRSP contributions may be deducted from income, reducing tax payable. In addition, the amounts accumulated will not be taxed as long as they are not withdrawn.[4]

❑ A suggested contribution rate of 4%

The VRSP contribution rate will always be decided by the worker. For participants who, initially, do not want to make a choice, a default rate will apply.

To create a savings habit while minimizing the impact on workers' income, the default contribution rate will initially be set at:

— 2% from January 1, 2013 to December 31, 2015;

— 3% from January 1, 2016 to December 31, 2016;

— 4% as of January 1, 2017.

Ultimately, a 4% contribution rate, for the average worker, will enable him to receive a retirement income equivalent to more than 60% of his end-of-career income.

TABLE 2

Income replacement rate at retirement depending on the contribution rate
(per cent)

End-of-career earned income	Existing situation	Contribution rate		
		2%	3%	4%
$20 000	87	93	96	100
$30 000	61	67	71	74
$40 000	48	54	59	66
$50 000	39	47	54	60
$60 000	33	42	45	55

Note: The replacement rate includes the Old Age Security Pension, the Guaranteed Income Supplement, the QPP pension and the VRSP. The following assumptions are used: retirement at age 65, life expectancy to age 82, saving starts at age 25, rate of return net of management fees 5.75%

4 To that effect, Québec's position regarding the tax rules put forward by the federal government is given in the *Additional Information on the Measures of Budget 2012-2013*.

In addition to achieving the replacement rate objectives, workers who maintain the 4% contribution rate will not experience an excessive decline in disposable income.

TABLE 3

Contribution per pay[1] according to contribution rate and earned income
(dollars per pay)

	2%		3%		4%	
Earned income	**Contribution per pay**	**Impact on income after deductions[2]**	**Contribution per pay**	**Impact on income after deductions[2]**	**Contribution per pay**	**Impact on income after deductions[2]**
$30 000	23.08	16.49	34.62	24.74	46.15	32.98
$40 000	30.77	21.07	46.15	31.60	61.54	42.14
$50 000	38.46	23.70	57.69	35.56	76.92	47.41
$60 000	46.15	28.44	69.23	42.67	92.31	56.89

(1) Based on 26 pay periods per year.
(2) Contributions net of tax deductions.

❑ Withdrawing from a VRSP

Employees who have been automatically enrolled will have 60 days after enrolment to withdraw completely from the plan, failing which contributions will start being deducted from their pay.

Moreover, VRSP participants may voluntarily decide to cease to contribute for a certain time. Since these workers will still be enrolled in the plan, it will be easy for them to resume contributing to add to their retirement savings.

❑ Possibility of withdrawing savings

The experience of simplified pension plans in Québec shows that greater flexibility with respect to the withdrawal of savings could foster VRSP participation.

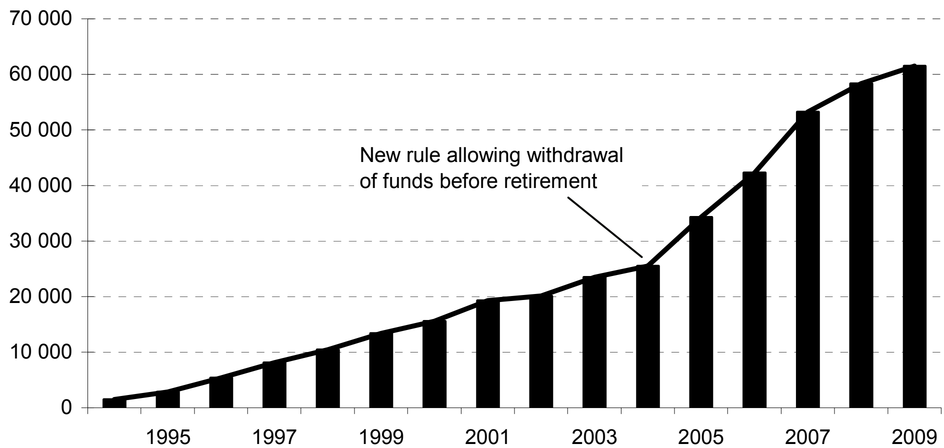
In this context, to enable workers to deal with exceptional situations, the amounts they pay into their VRSP will not be locked in.

— Like RRSPs, the amounts paid into a VRSP may be withdrawn before retirement. They will then be subject to both Québec and federal income tax.

Direct contributions by the employer in a VRSP will be locked in and may not be withdrawn before age 55.

CHART 6

Impact of streamlined retirement rules on participation in simplified pension plans in Québec(1)
(number of participants)



(1) Simplified pension plans are defined-contribution plans offered in Québec since 1994. In 2004, the locking-in rules were streamlined to enable workers to more easily access accumulated funds.
Source: Régie des rentes du Québec.

❑ Investment choices for participants

To simplify worker participation, VRSPs will feature default provisions concerning investment choices.

Each VRSP administrator will have to offer a default investment option that aims to meet the needs of a large number of participants.

In this context, the default option will be based on a “life cycle” approach in which the risk level is adjusted based on the participant’s age.

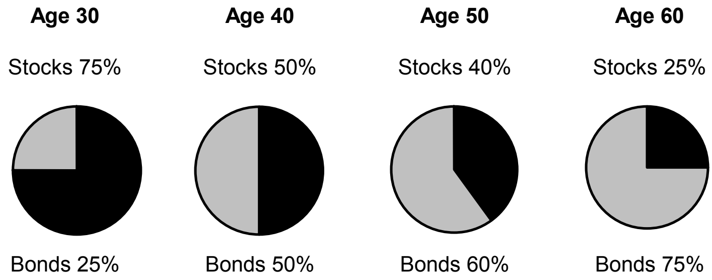
— The investment option will thus consist of a weighting of various funds that will adjust as the participant approaches retirement age.

— This will help limit risk for workers who are a few years from retirement, while offering greater potential growth for younger participants.

To limit the complexity of VRSPs, administrators may also offer a maximum of five other investment options. These options may reflect various risk levels and feature a prudent allocation of asset categories.

CHART 7

Illustration of a “life cycle” investment option according to the participant’s age



Source: Ministère des Finances du Québec.

TABLE 4

Illustration of the obligations, choices and advantages for the employer and the employee related to the implementation of a VRSP

	Employer required to offer a VRSP	Eligible employee
Responsibilities	– Choose a VRSP for its employees. – Present the VRSP to its employees and describe the provisions of the plan. – Automatically enrol eligible employees. – Make source withholdings of employee contributions and remit them to the administrator.	– Provide the necessary personal information for enrolment in the VRSP. – Exercise his right to withdraw if he does not want to participate.
Options	– If it wishes, contribute to the VRSP on behalf of its employees.	– If need be, change the default provisions (choice of investment, contribution rate, etc.). – Make additional voluntary contributions.
Advantages	– Exemption from the bulk of the administrative operations tied to management of a pension plan. – Makes employment more attractive and fosters employee retention. – Employer contributions are deductible from taxable income and are not subject to payroll taxes.	– Low-cost pension plan. – Easily accessible and available to all (employees, self-employed workers, business owners, individual savers). – Simplifies the decision-making process. – Contributions are deducted from pay net of tax. In addition, accumulated amounts are only taxed upon withdrawal. – Participation in the plan can continue even if the relation with the employer is broken. – Possibility of transferring assets from one plan to another.

3.3 Implementation of oversight to ensure the success of VRSPs

❑ Oversight of management fees

A basic feature of VRSPs is that they are low-cost. On the basis of the consultations held, achieving this objective depends mainly on accumulating a large volume of assets to obtain economies of scale. By stipulating an automatic enrolment mechanism and features fostering the participation of a large number of workers, VRSPs will help reduce costs for participants, resulting in better returns and the accumulation of larger amounts available at retirement.

For instance, a worker earning $50 000 per year who saves 4% of his income annually and must pay management fees of 2% could save, after 40 years:

- $59 150 if management fees were reduced to 1%;
- $95 463 if management fees were reduced to 0.5%;

TABLE 5

Retirement savings gains arising from lower management fees(1)
(dollars)

	Gross value of the investment	Management fees	Net value of the investment	Gain for the saver ($)	Gain for the saver (%)
Base situation	351 264	–137 203	214 061		
Gain stemming from lower management fees					
Management fees of 1.0% (reduction of 1.0 p.p.)	351 264	–78 053	273 211	**+59 150**	**27.6%**
Management fees of 0.5% (reduction of 1.5 p.p.)	351 264	–41 740	309 524	**+95 463**	**44.6%**

(1) It is assumed that investments earn a long-term return of 6.5% per year, reduced by management fees of 2%. The net rate of return is 4.5%.

To that effect, the administrator will have to show, on a regular basis, that the management fees it charges, in particular those associated with the default investment option, are comparable with those of institutional pension plans of similar size.

All workers will benefit from the same low management fees. However, in some situations, fees, charged to the participant, may be added, such as fees associated with:

— the withdrawal of amounts before retirement;

— the transfer of amounts from one VRSP to another;

— personalized consulting services, etc.

❑ Oversight of VRSP administrators

VRSPs will be completely administered by the third parties, such as financial institutions or investment fund managers.

To that end, VRSP administrators will have to hold a permit issued by the AMF.

In addition, each VRSP will have to be registered with the Régie des rentes du Québec. It will be responsible for overseeing these plans and ensuring compliance with the legislation on VRSPs, in particular regarding the low costs associated with these plans.

The Commission des normes du travail will be responsible for overseeing employers as far as the obligation to offer VRSPs is concerned. It will intervene, in particular regarding complaints, to enforce the provisions of the law.

To enable, on the one hand, implementation of the infrastructures necessary for the oversight of these new plans and, on the other, broad distribution of information on VRSPs, funding of $2 million per year from 2012-2013 to 2014-2015 will be allocated to the Ministère de l'Emploi et de la Solidarité sociale. For 2012-2013, the funding will be taken from the Contingency Fund.

TABLE 6

Financial impact of measures to ensure an adequate retirement income for all
(millions of dollars)

	2012-2013	2013-2014	2014-2015	Total
Implementation of voluntary retirement savings plans for 2 million workers	–2.0	–2.0	–2.0	–6.0
Elimination of the payroll tax on contributions paid by the employer to tax-advantaged funds(1)	–0.5	–2.0	–2.0	–4.5
TOTAL	**–2.5**	**–4.0**	**–4.0**	**–10.5**

(1) Measure designed to ensure neutrality of tax treatment for contributions to a VRSP and to a tax-advantaged fund considering that in both cases employer contributions are locked in. This measure is described in detail in the Additional Information on the Measures of Budget 2012-2013.