Public Consultation on the Québec Pension Plan

Strengthening the Plan

to Promote Greater Intergenerational Fairness

Consultation Document

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Message from the Minister

More than 50 years ago, Quebeckers developed the Québec Pension Plan, which is a form of public and mandatory insurance offering financial security in retirement. The Plan guarantees basic income that is sufficient and realistic for the vast majority of people upon retirement.

The Plan is based on social justice values, stability and equity, as well as the shared responsibility of the government, employers and workers. It has evolved in sync with both Québec's demographic changes and socio-economic transformations.

Thanks to certain stabilization measures taken in recent years, our plan is sound. It is not, however, without its challenges. To take but one example: increasing life expectancy is extending the benefits payment period, which exerts financial pressure on the Plan's growth.

Quebeckers have been called upon to participate in a discussion to ensure that their plan remains reliable, fair and equitable. I hope that our consultation will make it possible to hear the concerns of Quebeckers on the matter and to determine how to better meet their current and future needs.

The objective of the consultation is clear: establish a Plan contribution rate compatible with the workers' and employers' ability to pay, and fund the Plan to ensure its sustainability, which is inseparable from the security that the system must provide.

Out of a concern for intergenerational fairness, the Québec Pension Plan must also adapt to today's realities and tomorrow's needs.

With pragmatism and responsibility, we will face the challenge together.

The Minister of Finance,

CARLOS LEITÃO

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Introduction

With the creation of the Québec Pension Plan (the Plan or the QPP) some 50 years ago came basic financial protection in the event of loss of employment income resulting from retirement, death or disability. The Plan has been evolving since it was implemented and must continue to do so. Since 1998, a public consultation on the QPP has been held before a parliamentary committee every six years and an actuarial valuation is carried out every three years.

The public consultations held in the winter of 2004 and summer of 2009 made it possible to analyse the Plan's situation and to consider important societal issues, such as changes in the labour force and the new realities of families. They also provided opportunities to discuss proposals for adapting the QPP to socio-economic and demographic changes. As such, the Plan was amended to accommodate these changes. During the consultations, the public generally showed its appreciation of the protection offered by the Plan.

Since the early 2010s, retirement issues have regularly been in the headlines all across Canada. They concern the main stakes in the retirement income security system, along with elements that could improve it.

As a component of this system, the Plan is sound, but it must be enhanced for the future. It is influenced by its environment and subject to various forms of pressure, such as increasing life expectancy, persisting low interest rates and economic fluctuations. As such, today's context is favourable for discussions on structural changes that would ensure the Plan's sustainability, while taking into account the buying power of workers and the cost for employers.

This public consultation is based on three main principles. First, it tends to preserve intergenerational fairness. Next, it takes into account the competitiveness of Québec enterprises and the workers' capacity to pay contributions. Lastly, it aims to ensure a stable contribution rate, thus contributing to the sustainability of the Plan.

The consultation document has two chapters.[1] The first proposes improvements to the plan to protect future generations of retirees. The second presents the structural measures designed to ensure the Plan's sustainability.

In order to situate the environment in which the QPP operates, we have provided a companion document entitled *Observations on Retirement in Québec*, which details the main issues at stake with respect to retirement and the conclusions drawn from the elements analysed. These conclusions have been used as the foundations for the measures presented in the consultation document.

1. Note that questions have been added at the end of each chapter in order to promote discussion with the public before the parliamentary committee. A lexicon has also been provided in Appendix 1, and a description of the primary QPP pensions and benefits can be found in Appendix 2.

Axis 1 A Plan respecting intergenerational fairness

In Québec, the financial security system for retirement generally reaches its targets with regard to the income replacement of current retirees. In addition to income received under public plans, the system's good results are made possible thanks to income derived from private pension plans and other income sources, such as employment income or assets.

Nevertheless, given that several factors could have a detrimental effect on the performance of the retirement system, the current situation could change in the future. An increasing life expectancy, a continuing environment of low interest rates and the progressive decrease in the value of the Old Age Security pension (OAS) mean that future generations will have to save more to fund a longer retirement.

Due to various socio-economic phenomena in today's world, workers now have less income for retirement savings. Moreover, many people whose employment income is lower than $50 000 do not save enough for retirement. In 2013, nearly 60% of this segment of the population did not contribute to any form of private retirement savings fund, such as a supplemental pension plan (SPP) or a registered retirement savings plan (RRSP).[2]

Once retired, those individuals must therefore count on, as their main source of retirement income, public plans, which includes the OAS pension, the Guaranteed Income Supplement (GIS) and a retirement pension under the Québec Pension Plan. However, only those whose average earnings were less than $27 500 benefit from a replacement rate of at least 70% under public pension plans when they retire at age 65.

Retirement is a question of shared responsibility between the government, citizens and employers. To improve retirement income, the Québec government has, until now, favoured a voluntary contributions approach based on the progressive implementation of a voluntary retirement savings plans (VRSP). The VRSP provides workers whose employers do not offer a private retirement pension plan with the possibility of benefiting from a new savings vehicle. Employers are required to offer the plan gradually as of 31 December 2016, according to the size of the business.

In December 2015, the federal government, along with the provinces and territories of Canada, continued working on improving the CPP in view of helping to provide future generations of retirees with a sufficient standard of living upon retirement. Québec was an active participant in those efforts.

During the latest meeting of Canada's finance ministers, which was held in June 2016, the federal government proposed a pension enhancement option for the CPP. The Ministers of Finance from nine Canadian provinces signed a tentative agreement on the proposed enhancement option. Furthermore, a bill to implement the enhancement of the CPP was tabled in the House of Commons in October 2016. Québec made a commitment to consult Quebeckers to ensure the Plan is adapted to Québec's needs and reality, particularly regarding its unfavourable demographics and the QPP contribution rate, which is higher than the CPP contribution rate.

Given that enhancement of the QPP would be fully funded, benefits under the enhanced plan would gradually accumulate according to the number of years of contributions. Therefore, individuals

2. For more information on private retirement savings and participation in a pension plan, see *Observations on Retirement in Québec*, 2016. The income amount of $50 000 used for these statistics is close to the maximum pensionable earnings (MPE), which was $51 100 in 2013.

could be receiving maximum benefits within 40 years. Due to the funding method for the enhancement of the CPP, intergenerational transfers would be limited. As a result, an enhancement of the CPP, and eventually the QPP, is intended to increase retirement income for workers currently aged 45 or under, and even more so workers entering the labour market.

1.1 RRQ enhancement scenarios

An enhancement of the QPP must take into account Québec's unique situation. The demographic changes of Québec are different. For example, the population of Québec is aging more quickly than in the rest of Canada and the QPP's financial situation is less favourable. In 2017, the rate of contribution to the QPP will be set at 10.8%, whereas the rate for the CPP will remain at 9.9%. One must also consider the effect of any such enhancement on the economy of Québec, particularly on the ability of businesses to manage increasing payroll levies. In this context, the federal proposal, the Québec proposal as well as the status quo option have been presented.

With regard to the proposed QPP enhancement scenarios, workers would gradually accumulate additional benefits under the enhanced plan. Therefore, individuals could be receiving maximum benefits within 40 years.

– System of financial security at retirement (status quo)

Currently, Québec's retirement system is made up of a public and a private component.[3] The public component includes benefits from the first and second levels, that is, the federal government's public plan (OAS pension) and assistance measures (mainly the GIS) as well as the mandatory basic plans (CPP/QPP). The private component consists of private savings vehicles such as SPPs, RRSPs, VRSPs or TFSAs. These mechanisms are part of the third level of the retirement system.

In Québec, an individual can receive, from the public component, the OAS pension, and a retirement pension under the QPP that replaces 25% of the individual's average career earnings when it is paid as of age 65. If a person's earnings are low when he or she retires, they can be complemented by the GIS. Eligibility for the GIS, as well as the amount of benefits, is established at retirement and on the basis of the total family income.[4] Once a person is eligible for the GIS, the amount he or she can receive varies according to the net income he or she declares each year, not including the OAS pension and any assets. For each dollar of additional income, the GIS is reduced by $0.50 to $0.75.

Both the pension plan and the assistance measures of the OAS program are funded through income tax and the other federal taxes from all Canadian contributors. With regard to the retirement pension under the QPP, contributions from workers and employers are used to fund the retirement pensions paid to beneficiaries.

3. For more information on the income security system, see *Observations on Retirement in Québec*, 2016.
4. A person with low income in a given year will not automatically be eligible for the GIS upon retirement. In addition to whether or not the person has a spouse at that time, the fluctuations in income throughout the person's career can affect his or her eligibility.

Table 1 Rate of contribution to the QPP and the CPP and the gross annual contribution, based on income level

Year	Contribution rate		Gross annual contribution,[1] based on income level			
	QPP	CPP	QPP		CPP	
			50% of MPE	MPE	50% of MPE	MPE
2016	10.65%	9.9%	$2551	$5474	$2371	$5089
2017[2]	10.80%	9.9%	$2635	$5648	$2416	$5178
2018[3]	10.80%	9.9%	$2711	$5800	$2485	$5316

1. Gross annual contribution includes both the employee's and employer's parts.
2. The projected MPE for 2017 is $55 800, according to the *Actuarial Valuation of the Québec Pension Plan as at 31 December 2015*.
3. The projected MPE for 2018 is $57 200, according to the *Actuarial Valuation of the Québec Pension Plan as at 31 December 2015*. Due to the implementation of an automatic adjustment mechanism, the contribution rate could increase on the basis of the results of actuarial valuations of the QPP.

Table 2 Yearly retirement pension in 2016, according to payment starting date and average career earnings

Age at which payment begins	Retirement pension under the QPP	
	50% of MPE	MPE
60	$4392	$8390
65	$6555	$13 110

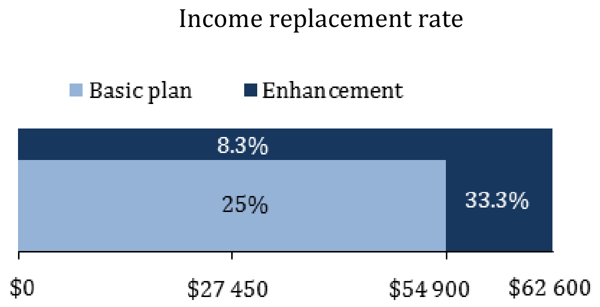
– **Bill to implement the enhancement of the CPP (CPP scenario)**

During the June 2016 meeting with Canada's finance ministers, nine Canadian provinces signed a tentative agreement on the enhancement of the CPP, Québec did not sign. The bill tabled in the House of Commons in October 2016 presents the agreement's characteristics, which include:

- a 14% increase in the MPE and an increase in the replacement rate from 25% to 33.3%;
- a gradual increase in contributions over seven years, as of 1 January 2019;
- a tax deduction, instead of a tax credit, of employer and employee contributions associated with the enhancement of the CPP; and
- an increase in the Working Income Tax Benefit designed to help low-income workers (the specifications of this are still to be defined).[5]

5. With regard to the Working Income Tax Benefit, the Canadian Minister of Finance proposed to increase the benefit in order to limit the effects of the annual contribution that would result from the enhancement of the CPP, thus increasing the profitability of the contribution. The increase in the tax benefit, which is a refundable tax credit, aims to partially compensate the contributions paid by low-income workers (those whose earnings are less than $21 500 a year). As a result, an increase in the amount for the benefit would make it possible to compensate for a part of the increase in workers' contributions resulting from the enhancement of the CPP.

Chart 1 Main characteristics of the CPP scenario, at the end of the transition, applied to the situation in 2016



Total additional contributions:
$3228M, that is:
- $1525 million (employees);
- $1525 million (employers);
- $178 million (self-employed workers).

Increase in maximum yearly contributions (employee/ employer):
$1651

Maximum additional benefits:
$6797

Table 3 Progressive implementation of additional contribution rate and gross annual additional contribution for an enhancement of the QPP, based on the CPP scenario and calculated according to income level

Year	Additional contribution rate			Gross annual additional contribution[1]		
	< 50% of MPE	50% to 100% of MPE	100% to 114% of MPE	50% of MPE	100% of MPE	114% of MPE
2018	0.0%	0.0%	0.0%	$0	$0	$0
2019	0.3%	0.3%	0.0%	$80	$170	$170
2020	0.6%	0.6%	0.0%	$160	$340	$340
2021	1.0%	1.0%	0.0%	$280	$590	$590
2022	1.5%	1.5%	0.0%	$430	$910	$910
2023	2.0%	2.0%	0.0%	$590	$1250	$1250
2024[2]	2.0%	2.0%	8.1%	$610	$1290	$1680
2025	2.0%	2.0%	8.1%	$630	$1330	$2130

1. The gross annual contribution includes both the employer's and employee's part and takes into account the progressive increase in the MPE, according to the *Actuarial Valuation of the Québec Pension Plan as at 31 December 2015*.
2. The upper limit of earnings is progressively increased in 2024 and 2025, reaching 114% of the MPE.

Inset 1 Effects of CPP and QPP enhancement on low-income workers

In addition to the OAS pension, the financial security system for retirement is comprised of a social insurance plan (CPP/QPP) and private retirement savings instruments (SPP, RRSP, VRSP and TFSA). Social assistance measures, such as the GIS, are in place for individuals whose retirement income from the social insurance plan and private retirement savings instruments is low due to insufficient savings.

The social assistance measures provide additional assistance to people with low income and essentially aim to reduce poverty among retirees. The measures are granted in order to maintain a minimum income for all persons at least age 65 at retirement.

As soon as a retiree becomes eligible for the GIS, all of his or her income is taken into account in calculating the amount of his or her benefit. However, the OAS pension, employment earnings up to $3500 and income from a TFSA are excluded.

Since there is a correlation between the amount of the GIS and CPP/QPP benefits, an enhancement of the CPP would affect, among other things, the amount of the GIS that a person could receive. When benefits under the CPP or the QPP increase, the amount of the GIS would be reduced proportionally (from $0.50 to $0.75 for each additional dollar).

Taking into account the reduction of the GIS and the mandatory contributions, a $1000 increase in income for a person with retirement income of $18 000 represents a net increase of $230 in disposable income. For each additional dollar received, this person loses 77.2 cents, which is due mainly to the reduction of the GIS (75.6%).

Effect on additional disposable income of a $1000 increase in retirement income for a single person with retirement income of $18 000

	Change	**Effect**
1. Retirement income increase	$1000	—
2. Income tax	—	—
3. Mandatory contributions[1]	–$16	–1.6%
4. Transfers		
– Basic GIS benefit[2]	–$504	–50.4%
– GIS supplement[2]	–$252	–25.2%
– Other transfers[3]	—	—
Total transfers	**–$756**	**–75.6%**
5. Tax burden increase (2. + 3. + 4.)	**–$772**	**–77.2%**
6. Additional disposable income (1. + 5.)	**$228**	**—**
7. Effective marginal tax rate[4] (5. ÷ 1.)	**77.2%**	**—**

1. Contributions to the Québec Health Insurance Plan and to the Health Services Fund and the health contribution.
2. This change takes into account indexation of the GIS.
3. Other transfers are the shelter allowance, GST credit and solidarity tax credit.
4. The effective marginal tax rate (EMTR) is the combined effect of the decrease in transfers and the increase in income tax on additional income following an increase in taxable income.

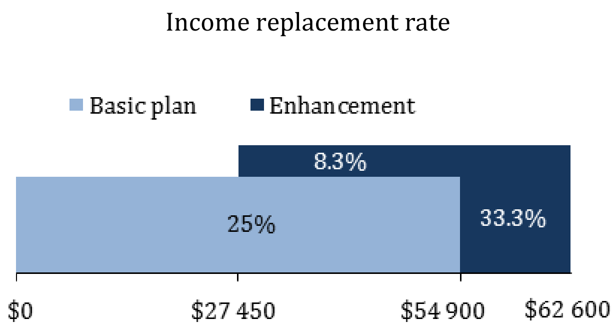
As a result, workers who could be eligible for the GIS would receive a low net return on their contributions because of the reduction of their GIS and other tax measures for which they could be eligible. For workers who will contribute to the CPP, the increase in the Working Income Tax Benefit, included in the bill to enhance the CPP, would help offset the effect.

– ***Enhancement scenario presented by Québec during the June 2016 meeting of ministers of finance***

During the meeting held in June 2016 with Canadian federal, provincial and territorial ministers of finance, Québec presented an enhancement scenario containing the following elements:

- a 14% increase in the MPE and an increase in the income replacement rate from 25% to 33.3%, as of $27 450 (50% of MPE);
- a gradual increase in contributions over seven years, as of 1 January 2019;
- an additional exemption of income for the purpose of calculating the GIS in order to increase the income of the elderly with low income immediately.

Chart 2 *Main characteristics of the enhancement scenario at the end of the transition, to be applied as of 2016, presented by Québec during the meeting of Canada's finances ministers in June 2016*



Total additional contributions:
$1675 million, that is:
- $797 million (employees);
- $797 million (employers);
- $81 million (self-employed workers).

Increase in maximum yearly contributions (employee/ employer):
$1172

Maximum additional benefits:
$4621

Table 4 *Progressive implementation of additional contribution rate and gross annual additional contribution for an enhancement of the QPP, based on the scenario presented by Québec and calculated according to income level*

Year	Additional contribution rate			Gross annual additional contribution[1]		
	< 50% of MPE	50% to 100% of MPE	100% to 114% of MPE	50% of MPE	100% of MPE	114% of MPE
2018	0.0%	0.0%	0.0%	$0	$0	$0
2019	0.0%	0.3%	0.0%	$0	$90	$90
2020	0.0%	0.6%	0.0%	$0	$180	$180
2021	0.0%	1.0%	0.0%	$0	$310	$310
2022	0.0%	1.5%	0.0%	$0	$480	$480
2023	0.0%	2.0%	0.0%	$0	$660	$660
2024[2]	0.0%	2.0%	8.1%	$0	$680	$1070
2025	0.0%	2.0%	8.1%	$0	$700	$1500

1. The gross annual contribution includes both the employer's and employee's part and takes into account the progressive increase in the MPE, according to the *Actuarial Valuation of the Québec Pension Plan as at 31 December 2015*.
2. The upper limit of earnings is progressively increased in 2024 and 2025 to cap 114% of the MPE.

In addition to contributing to the increase in retirement income for persons with insufficient savings, the scenario that Québec proposed during the June 2016 meeting with Canada's finance ministers aims to protect the buying power of low-income workers.

For workers whose earnings are less than 50% of the MPE, income is replaced at a rate of at least 70%. An exemption equivalent to 50% of the MPE would therefore prevent a decrease in the buying power of such individuals during their working lives. This is especially true since the net return on low-income workers' savings is relatively low at retirement, given that the amount of the GIS that they receive will be reduced.

In short, the Québec approach regarding the enhancement of the CPP/QPP targets workers facing real savings difficulties.

Inset 2 Additional exemption of income for the purpose of calculating the GIS in order to increase the retirement income of low-income workers

The CPP/QPP enhancement scenario presented by Québec proposes to exclude low-income workers. In addition to enhancing the QPP, Québec is proposing that the federal government install an additional exemption of income for the purposes of calculating the GIS. The proposal would make it possible to protect the buying power of low-income workers, while having the immediate effect of increasing the income of retiree with modest income.

The implementation of such an exemption would make it possible for individuals who withdraw their retirement income to avoid a reduction of the GIS based on their additional income. The proposal would therefore immediately increase the retirement income of current retirees.

Effect of a new $1000 exemption on the GIS for a single person without retirement income who withdraws $3000 from his or her RRSP (in 2015 dollars)

	Change in disposable income		
	Without exemption	**With $1000 exemption**	**Difference**
1. Retirement income increase	**+$3000**	**+$3000**	—
2. Income tax	—	—	—
3. Mandatory contributions[1]	–$123	–$156	–$33
4. Transfers			
– GIS benefit	–$1740	–$1236	$504
– Other transfers[2]	–$263	–$284	–$21
Total transfers	–$2003	–$1520	$483
5. Tax burden increase (2. + 3. + 4.)	**–$2126**	**–$1676**	**$450**
6. Additional disposable income (1. + 5.)	**$874**	**$1324**	**$450**
7. Effective marginal tax rate[3] (5. ÷ 1.)	**70.9%**	**55.9%**	**–15.0%**

1. Contributions to the Québec Health Insurance Plan and to the Health Services Fund and the health contribution.
2. Other transfers are the shelter allowance, GST/HST credit and solidarity tax credit.
3. The effective marginal tax rate (EMTR) is the combined effect of the decrease in transfers and the increase in income tax on additional income following an increase in taxable income.

1.2 Effects of the QPP enhancement scenarios

Depending on the approach chosen, the effect on workers and on businesses will vary. The QPP enhancement scenarios' global economic effect is also presented.

– Effect on retirement income

Since the QPP enhancement scenarios would be fully funded, workers would receive the totality of their benefits under the enhanced plan within 40 years. In the meantime, additional benefits would accumulate based on the number of years of contribution. In addition, the benefits that retirees could receive from an enhanced QPP would vary according to average career earnings.

Inset 3 Effects of QPP enhancement on retirement income

In each case, it is assumed that the plan enhancement was fully carried out in 2016 and the amount are indicated in 2016 dollars. However, income received under the QPP, from the QPP enhancement, from the OAS pension and from the GIS, if eligible, are presented on the basis of three approaches: the status quo, CPP scenario and the enhancement scenario that Québec presented in 2016 at the meeting of Canada's finance ministers.

YASMINA'S CASE

Yasmina applies for her QPP retirement pension and the OAS pension at age 65. Since she worked 40 hours per week at minimum wage, her average earnings throughout her career were $ 22 360. Yasmina lives alone and has no other source of income at retirement. In this case, she could receive the following amounts:

	QPP enhancement scenario		
	Status quo	**CPP scenario**	**Québec scenario**
Annual contribution (employee part only)			
Current QPP[1]	$1018	$1018	$1018
Additional plan	n/a	$189	n/a
Total contributions	$1018	$1207	$1018
Annual benefit			
QPP	$5590	$5590	$5590
Additional benefit	n/a	$1856	n/a
OAS pension	$6880	$6880	$6880
GIS[2]	$6597	$5205	$6597
Total benefits	$19 068	$19 532	$19 068

1. The contribution rate used is the rate applicable as at 1 January 2017.
2. The GIS amounts include the supplement implemented in July 2016.

BERNARD'S CASE

Bernard applies for his QPP retirement pension and the OAS pension at age 65. Throughout his career, his average earnings were $40 000. His other retirement income along with his spouse's render him ineligible for the GIS. Bernard could be entitled to the following amounts:

	QPP enhancement scenario		
	Status quo	**CPP scenario**	**Québec scenario**
Annual contribution (employee part only)			
Current QPP[1]	$1971	$1971	$1971
Additional plan	n/a	$365	$126
Total contributions	$1971	$2336	$2097
Annual benefit			
QPP	$10 000	$10 000	$10 000
Additional benefit	n/a	$3320	$1144
OAS pension	$6880	$6880	$6880
Total benefits	$16 880	$20 200	$18 024

1. The contribution rate used is the rate applicable as at 1 January 2017.

MELODIE'S CASE

Melodie applies for her QPP retirement pension and the OAS pension at age 65. Throughout her career, her average earnings were $80 000 (the adjusted MPE is $62 600 in 2016 dollars). Due to the other retirement income she receives, she is not eligible for the GIS. She could receive the following amounts:

	QPP enhancement scenario		
	Status quo	**CPP scenario**	**Québec scenario**
Annual contribution (employee part only)			
Current QPP[1]	$2776	$2776	$2776
Additional plan	n/a	$826	$586
Total contributions	$2776	$3602	$3362
Annual benefit			
QPP	$13 110	$13 110	$13 110
Additional benefit	n/a	$6797	$4621
OAS pension	$6880	$6880	$6880
Total benefits	$19 990	$26 788	$24 611

1. The contribution rate used is the rate applicable as at 1 January 2017.

– **Effect on contributions**

Although the Québec scenario includes an income replacement rate lower than the CPP scenario's rate, the cost for workers is considerably less. No deductions would be made from the earnings of workers of less than $27 500 a year. Therefore, as Table 5 illustrates, a person whose average earnings are $80 000 and who contributed to an additional plan for 40 years would pay only $23 454 in additional contributions, whereas the amount according to the CPP scenario would be $33 034, which is $9580 more.

It is important to note that low-income workers benefit from a high income replacement rate under public pension plans (OAS pension, QPP and GIS), whereas high-income workers are generally covered under a private pension plan, which reduces their need for savings.

Table 5 Additional contribution and additional income replacement rate according to average career earnings and the QPP enhancement scenario

Average career earnings	QPP enhancement scenario		
	Status quo	CPP scenario	Québec scenario
Additional contribution[1]			
Minimum wage ($22 360)	n/a	$7544	n/a
$40 000	n/a	$14 600	$5020
$80 000	n/a	$33 034	$23 454
Additional income replacement rate			
Minimum wage ($22 360)	n/a	2.1%	n/a
$40 000	n/a	8.1%	2.7%
$80 000	n/a	9.3%	6.3%

1. Total additional contributions over 40 years.

Furthermore, the rate of contribution to the QPP (5.4% in 2017)[6] for workers is higher than the rate of contribution to the CPP (4.95% in 2017). This is mainly due to unfavourable demographics and lower salaries in Québec (see Inset 7). In light of the CPP's and QPP's current exemption of $3500, the effective contribution rate (the actual contribution in percentage of salary) for an individual with earnings equal to the MPE is 5.06 % for the QPP, which is higher than the 4.63% rate for the CPP.

In the current context, the CPP scenario would require Québec contributors to pay more than contributors elsewhere in Canada. The Québec scenario proposes a focused and more modest enhancement than the CPP scenario and aims to make it possible for individuals with income equal to the MPE to pay contributions comparable to those paid in the rest of Canada. Should the CPP scenario be implemented elsewhere in Canada, and Québec choose to install its proposal, the effective contribution rates would be similar across Canada (5.57% for the CPP and 5.56% for the QPP).

6. The QPP contribution rate will be 10.8% in 2017. Since employees and employers each pay 50% of the contribution, the applicable rate for employees will be 5.4%.

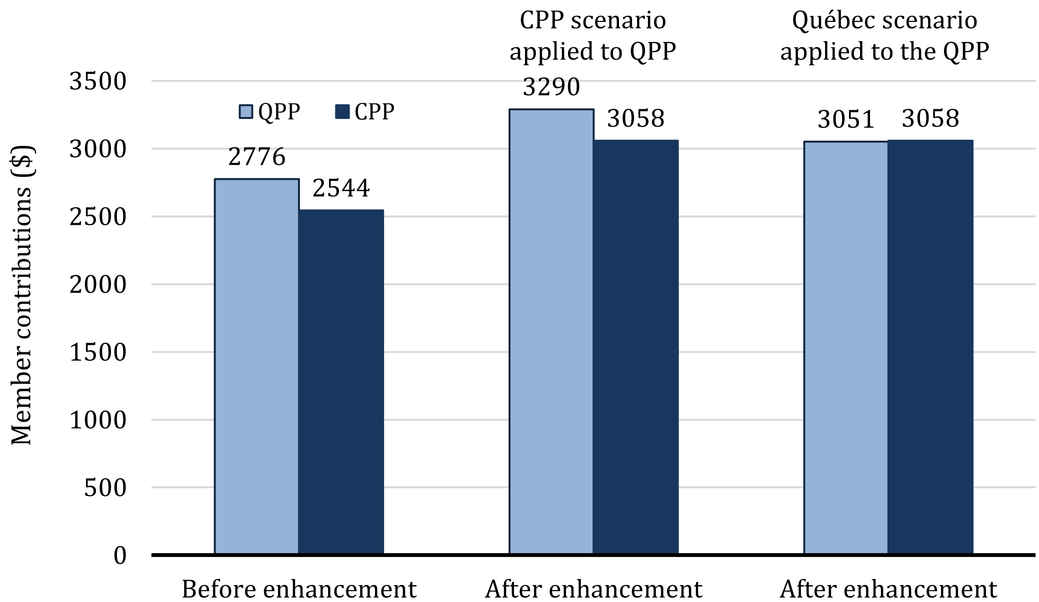
Table 6 Effective contribution rate for individuals with income equal to the MPE, if the CPP scenario were implemented elsewhere in Canada and Québec chose to install its proposal

	CPP		QPP		DIFFERENCE	
	Contribution	Effective rate[1]	Contribution	Effective rate[1]	Contribution	Effective rate[1]
Before enhancement	$2544	4.63%	$2776	5.06%	$232	+ 0.43%
After enhancement[2]	$3058	5.57%	$3051	5.56%	–$7	– 0.01%

1. The effective rate taking into account the $3500 exemption
2. The combined effective rate taking into account the $3500 exemption for the CPP scenario and the exemption of $27 450 for Québec's QPP proposal.

Chart 3 shows the contributions that an individual with earnings equal to the MPE could pay into the QPP, according to the QPP enhancement scenario.

Chart 3 Contributions for workers with earnings equal to the MPE, according to the enhancement scenario applied to the QPP



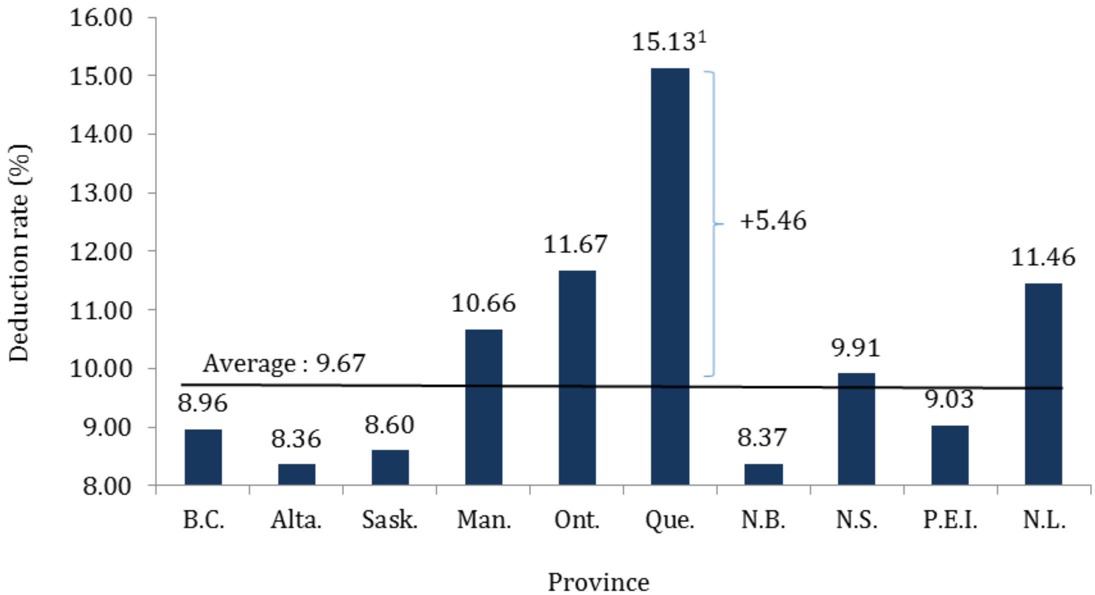
– Effect on businesses

The effects of an enhancement of the QPP on businesses varies according to the size of the business and the average salaries of its employees. In addition, with regard to businesses that offer a group retirement savings plan, it is expected that they will voluntarily decrease employer and employee contributions so as to reduce the net financial impact related to the enhancement of the QPP.[7] Businesses that do not offer a pension plan could have less leeway to reduce the effect. As a result, they may require a salary adjustment.

7. Approximately 50% of workers in Québec are members of group retirement savings plan.

Payroll deductions by Québec employers are already the highest in Canada.[8] At the QPP's effective contribution rate, for a worker whose earnings are equal to the MPE, the deduction rate is 15.13%. The average in Canada (not including Québec) is 9.67%, and 11.67% in Ontario.

Chart 4 Current payroll deduction rate by province, taking into account CPP and QPP contribution rates for a worker whose income equals the MPE in 2016

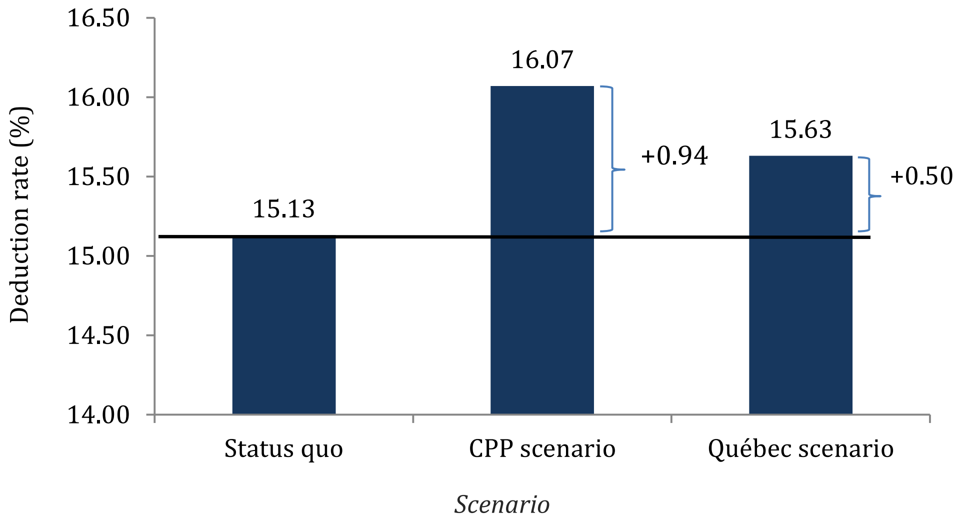


1. This takes into account the 0.15% increase in the QPP contribution rate as at 1 January 2017.

An enhancement of the QPP would result in an increase in payroll deductions for employers in Québec. Under the Québec proposal, the deduction rate, which is currently 15.13% in Québec for a worker whose income is equal to the MPE, would increase by 0.50 percentage points (to 15.63%). This is less than the 0.94 percentage point increase (to 16.07%) that would occur if the CPP scenario were implemented. The CPP scenario would therefore result in a greater increase in payroll deductions.

8. Ministère des Finances du Québec data on payroll deductions.

Chart 5 Payroll deductions rate in Québec, based on the scenario for an individual with earnings equal to the MPE (%) at term



Inset 4 Effects of QPP enhancement on small- and medium-sized businesses

In the following case, it is supposed that the gradual increase in contributions was implemented in 2016.

BUSINESS ABC'S CASE

In 2016, ABC employs 50 workers. The income of 38 of those workers is equal to the MPE ($54 900), whereas the income of the other 12 is $70 500. In addition, the business does not offer its employees a retirement plan. The additional contributions paid by the business for the enhanced part of the QPP are as follows.

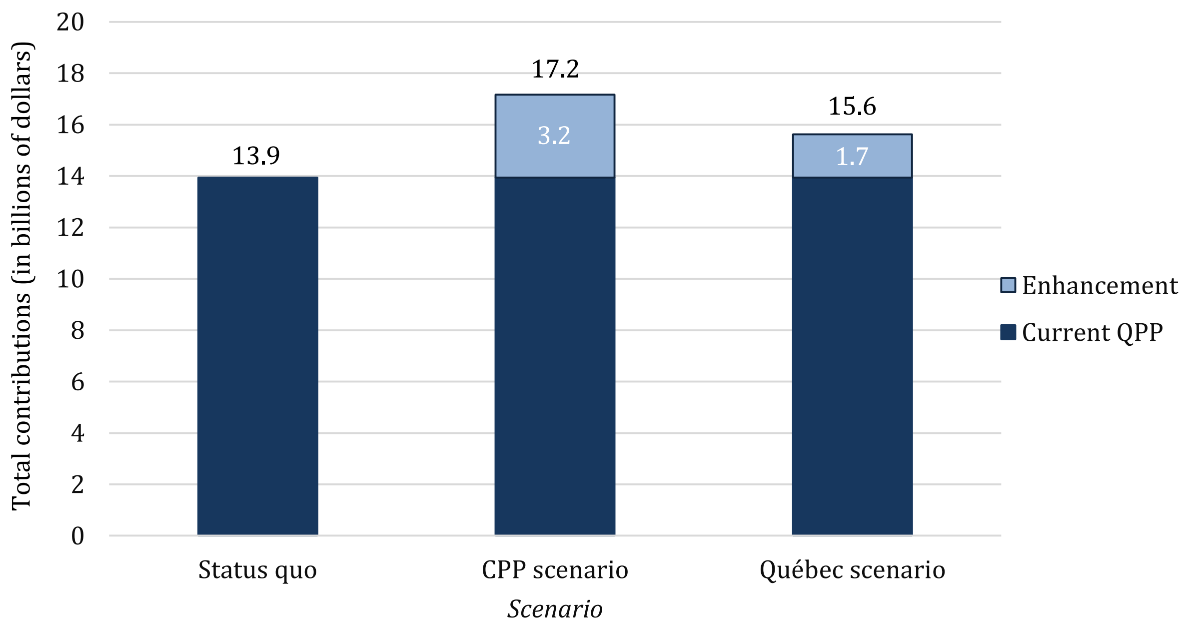
Number of employees by income	Additional contributions for the enhanced QPP	
	CPP scenario	**Québec scenario**
38 who earn $54 900	$19 570	$10 450
12 who earn $70 500	$9900	$6900
Total	**$29 470**	**$17 350**

– **Global effect of the proposed QPP enhancement scenarios**

With the QPP enhancement scenario, the economic implications differ. With regard to the CPP scenario, the total additional contributions would be $3.2 billion (in 2016 dollars). The scenario proposed by Québec during the meeting of Canada's finance ministers in June 2016 would see total additional contributions of $1.7 billion (in 2016 dollars).[9]

The contributions would be added to the QQP's current contributions, which total $13.9B (this estimate for 2016 is adjusted taking into account the 10.8% contribution rate applicable in 2017), as shown in Chart 6.

Chart 6 Total contributions according to the scenario (including current QPP)



Inset 5 Harmonization with private retirement pension plans

When Supplemental pension plans (SPPs) are harmonized with the QPP or CPP, the contributions and benefits take into account the coverage offered under the QPP/CPP.

The harmonization of SPPs will require adjusting upon implementation of the CPP/QPP enhancement. The employers and employees could decide to reduce the cost of contributions and benefits to maintain current levels. Alternately, they decide to absorb, fully or partially, the costs related to additional contributions resulting from CPP/QPP enhancement to increase the global levels of savings offered under the SPP and the CPP/QPP.

However, the continued harmonization of SPPs upon implementation of the CPP/QPP enhancement could be challenging for plans that are currently harmonized with the CPP/QPP. The main challenges concern whether or not an enhancement will be implemented, which is generally tied to work conditions, not to mention the administrative complexity of an additional plan, due to multiple contribution rates.

9. This refers to the maximum overall costs that could result from QPP enhancement.

The additional contributions used to fund the enhancement of the QPP would have a short-term negative effect on the economy, due in particular to an increase in cost of hiring and the decrease in workers' buying power. However, since the implementation of an additional contribution to the QPP would be gradual, the short-term economic effect of the enhancement would be mitigated. Therefore, businesses could take advantage of the delay to adapt to the changes made to the public component system of financial security in retirement.

Summary questions in preparation for the parliamentary committee

Given the current system of financial security in retirement and the changes it will undergo, are you in favour of maintaining the status quo or of improving retirement income for young workers?

If the enhancement of the system of financial security at retirement were favoured, what would be the optimal approach for increasing the retirement income of future generations and the approach to adopt with regard to the different income categories?

Axis 2 Structural measures for the sustainability of the Plan

Thanks to corrective measures introduced in recent years, the Plan is healthy. However, it is still faced with many demographic and economic challenges that could affect its future. For example, as life expectancy continues to rise, pensions will be paid over longer periods of time, which will lead to growing financial pressure on the Plan.

In order to better meet the challenges that could affect the QPP's financial situation and to avoid a new increase in contribution rates, structuring measures have been proposed to ensure the Plan's sustainability. Some of those measure help the Plan adapt to socio-economic and demographic changes, while others are designed to ensure a stable and sustainable contribution rate.

2.1 Adapting the Plan to its socio-economic and demographic environment

Today, experienced workers are in better health and more highly educated than in earlier generations. Thanks to changes in working conditions and the work environment, they should be able to remain employed longer or re-enter the labour market. The participation rate of people aged 50 to 69 has been on the rise in Québec since the late 1990s.

However, upon examination of the participation rate of people aged 60 or over, we find that in Québec the average age of retirement from the labour market is lower than in the rest of Canada, the United States and, overall, countries that are members of the Organization for Economic Co-operation and Development (OECD). In 2014, the average age of retirement in Québec was a little over age 62.[10]

Furthermore, since the 1990s, there have been many reforms with respect to retirement in numerous OECD countries, particularly to maintain the sustainability of public pension plans. Since it seems life expectancy will continue to rise, the age of eligibility for government benefits has been raised.[11]

In recent decades, the gradual transition from work to retirement has become more popular, and the forms it can take have diversified. Growing numbers of people now prefer to leave the labour market gradually, or at a later age. Receiving a retirement pension no longer necessarily coincides with a permanent departure from the labour market. Many people apply for a retirement pension under the QPP even though they continue working.

Taking into account observations concerning retirement in Québec, as well as the socio-economic and demographic changes that affect the Plan, the measures concerning QPP benefits are outlined below. The measures aim to continue adapting the Plan to its environment and lean toward maintaining the financial equilibrium of the QPP.

10. For more information on socio-economic changes, see *Observations on Retirement in Québec,* 2016.

11. Many OECD countries have raised or are planning to raise the retirement age to 67 or higher. Other countries have raised the minimum age for eligibility for early retirement. In the countries studied, this threshold has generally been raised by at least two years and set at 62. When early retirement pension payments are offered by public pension plans, the age of eligibility is generally five years lower than the normal retirement age. For further information on reforms of public plans in OECD countries, see *Observations on Retirement in Québec*, 2016.

– **Retirement pension**

At the beginning of the 1980s, young people who were part of the labour force were experiencing a very high unemployment rate, and were having difficulty entering the labour market. In order to create jobs for them, two early retirement measures were set out in the Plan: early retirement pension payments and a more flexible definition of disability.

The implementation of the measures made it possible for people who had contributed sufficiently to the Plan to withdraw from the labour market as of age 60. When early retirement pension payments were introduced in 1984, they were designed essentially for permanent cessation of work.

Due to growing life expectancy and changes in demographic structure, Québec is dealing with an aging population and the related repercussions on the labour market. The number of people aged 20 to 64 will drop by 2030. Even if the current situation for younger people in the labour force has improved compared with that of the 1980s, the labour supply will shrink in the coming decades, which is why it is important to keep experienced workers employed.

Despite greater life expectancy, Quebeckers continue to retire early. Since 1997, around 60% of women and over 50% of men have been applying for their QPP retirement pension when they turn 60, even if by doing so, the amount of their pension is reduced by a third.[12]

– *Raising the minimum age for eligibility for an early retirement pension under the QPP*

Given the issues linked with life expectancy, as well as the importance of keeping experienced workers employed[13] and of strengthening the sustainability of the Plan, increasing the minimum age of eligibility for early retirement pensions under the QPP must be examined.[14]

The retirement income for future generations of retirees could be improved by raising the minimum age for eligibility for early retirement pensions, thus encouraging experienced workers to stay longer in the labour market. In addition, there could be a greater number of QPP contributors aged 60 and over, which would play a part in stabilizing QPP contributions.

Currently, a retirement pension paid at age 65 replaces 25% of the average income on which an individual has contributed. If a retirement pension is paid before that age (taking into account the applicable adjustment factors) the income replacement rate of the pension could decrease to 16%. As shown in Table 7, depending on the age at which payment begins,[15] the minimum income replacement rate of a retirement pension could be higher than 16%.

12. For further information on the observations concerning the socio-economic and demographic changes that are affecting the QPP, see the companion document, *Observations on Retirement in Québec*, 2016.
13. For more information on the issues related to retirement, see *Observations on Retirement in Québec*, 2016.
14. Raising the minimum age of eligibility for early pensions under the QPP would follow global trends observed in several OECD countries.
15. These replacement rates are based on current QPP adjustment factors, that is, a 0.5% to 0.6% for each month prior to age 65, according to the pension amount. The income replacement rates of retirement pension are therefore higher than those indicated in Table 7 for an individual whose average career earnings are less than the MPE. The adjustment factor that applies to payment of early retirement pensions under the Canada Pension Plan is 0.6% for each month prior to age 65.

Table 7 Income replacement rate of retirement pensions under the QPP, according to the starting date of payment for individuals whose average income is equal to the MPE in 2016

Age at which payment begins	Income replacement rate
60	16.0%
61	17.8%
62	19.6%
63	21.4%
64	23.2%
65	25.0%

To ensure that the financial repercussions of raising the minimum age of eligibility for QPP pensions would be relatively neutral for the Plan and, consequently, to avoid a new increase in contribution rates, the adjustment factor that applies to payment of early retirement pensions must be adjusted differently.[16]

– **Disability benefits**

QPP disability benefits are designed to provide basic financial protection against loss of employment income resulting from disability. Although the general health of the population has improved since the QPP's inception, there will always be some workers who become disabled due to health problems. These benefits therefore remain important.

Given the marked improvement in the state of health of people age 60 or over, and the positive changes that have occurred in working conditions and work environments, it seems appropriate to encourage people to remain employed after 60, in accordance with their continuing ability to work. Therefore certain parameters of the Plan need to be reviewed in order to maintain sufficient protection in case of disability and to adapt the QPP's disability benefits to the new situation.

– *Simplifying and standardizing disability protection as of the minimum age of eligibility for a retirement pension*

Today, when an individual aged 60 to 64 is in a period of gradual transition from work to full retirement and he or she becomes disabled, the Plan provides for three types of situations. Different eligibility requirements apply to each of these situations.

In order to simplify the disability protection offered to people as of the minimum age of eligibility for a retirement pension and to adapt disability benefits to the different forms of transition from work to retirement, uniform coverage is one avenue being explored. For example, disability benefits would be paid to people unable to engage in their usual gainful occupation but who have maintained recent ties to the labour market, whether or not they receive a retirement pension. This measure would make it possible to expand disability protection because it would include people who contribute to the QPP while receiving their retirement pension.

16. The reference age used to calculate QPP retirement pensions would remain 65. Thus, the amount of the pension would still be established in relation to age 65 so that upward and downward adjustments would be in accordance with whether the pension begins before (early retirement) or after (postponed retirement) that age.

During the transition from work to retirement, the purpose of disability benefits would be to acknowledge a major decrease in a person's ability to work, as well as the difficult conditions associated with certain jobs. Moreover, this would make it possible to keep people with reduced work capacity employed and provide them with basic financial support, in relation to their former income, in the form of the additional amount for disability. This amount would be added to their retirement pension.

Inset 6 Effect of the measure on disability benefits

GEOFFREY'S CASE

Geoffrey applied for his QPP pension payments when he turned 60, but continued to work. When he was 64, he had to stop working due to health issues. According to the medical assessment, he could still do other jobs. In this example, let us suppose that the employment income that Geoffrey earned over the course of his career entitled him to a pension equivalent to 80% of the maximum retirement pension.

Under the present system, Geoffrey is not eligible for disability benefits because he has been receiving his retirement pension for more than six months. He would also not be eligible for the additional amount for disability because he is able to do a different job. (He does not meet the eligibility conditions with respect to total disability.)

The proposed measure would make Geoffrey eligible for disability benefits. An additional amount for disability of $471 would be added to his retirement pension of $570, which would add up to total monthly benefits of $1041 (in 2016 dollars). The additional amount for disability would be discontinued when Geoffrey turns 65, which is the age at which he would become eligible for Old Age Security (OAS).

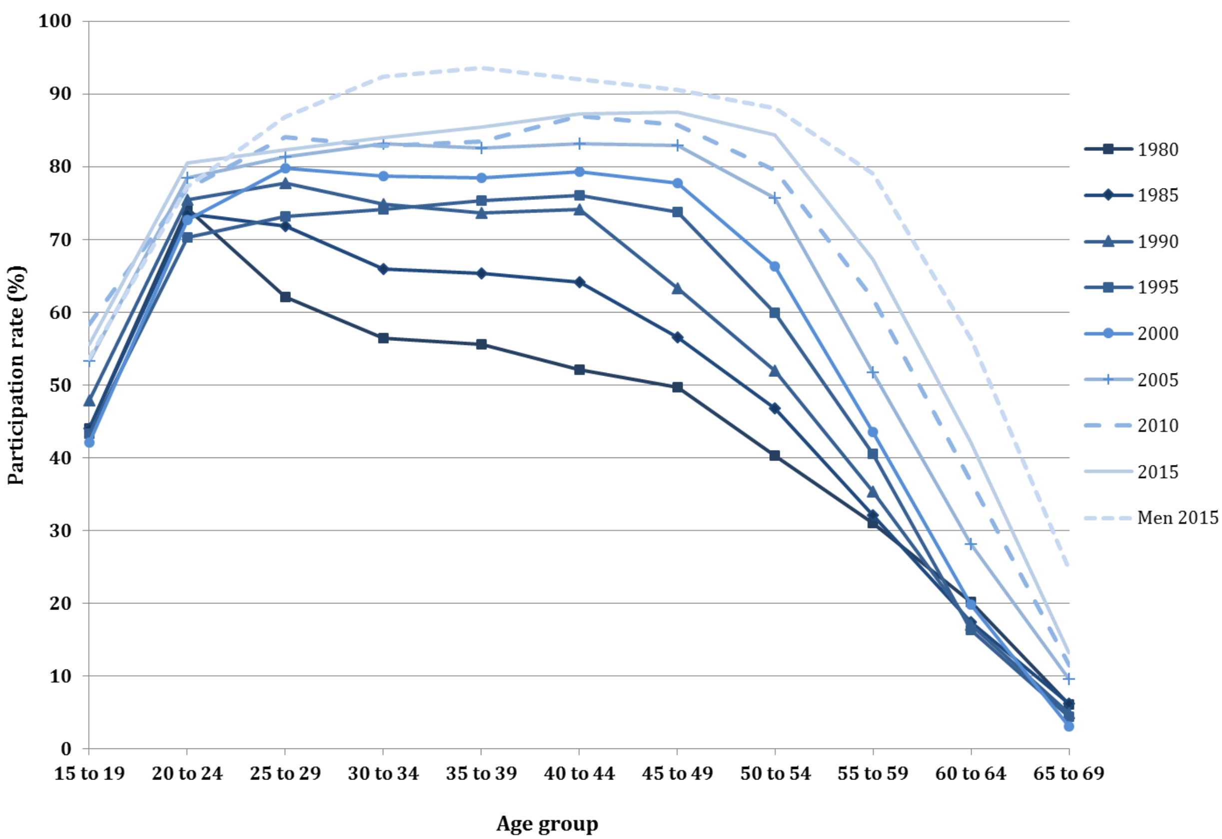
– **Survivors' benefits**

At the time it came into effect, the Plan focussed on male workers and was designed to meet the needs of the traditional family. According to the underlying assumptions, women and children were dependents, and their needs were usually met by the man's income.

QPP survivors' benefits were intended to provide basic financial protection for survivors in the event of the death of a spouse. In addition to these benefits, the loss of income resulting from such a death can also be compensated through benefits from private sources (for example, private insurance and private retirement pension plans), as well as by other public mechanisms, of which the principal one is the Old Age Security program.

With their massive entrance into the labour market since the 1970s, more women are earning employment income, as confirmed by the increase in their participation rate. Since 1976, the gap between men's and women's participation rates has undergone a striking reduction.

Chart 7 Women's labour market participation rate in Québec, 1980 to 2015



Source: Statistics Canada, Labour Force Survey

More and more couples have two incomes, which means that they are in situations of economic interdependency rather than dependency. Since there is a growing number of households with two employment incomes, we need to re-examine certain aspects of QPP survivors' benefits.

– *Modernizing the fixed portion of survivors' benefits*

Under current QPP rules, benefits for surviving spouses comprise a fixed portion to which is added a variable portion calculated based on the earnings recorded under the deceased spouse's name. The fixed portion varies depending on the age of the survivor and on whether that person is disabled or has dependent children.

Furthermore, the fixed portion increases when the survivor turns 45, sometimes greatly. For example, the fixed portion for people who are under 45 years old, not disabled and have no dependent children, goes from $121 to $471 (in 2016). Yet, this increase is not based on any change in financial needs at that age and, moreover, survivors under the age of 45 who have no dependent children often find it easier to re-enter the labour market following the death of their spouse than do older people.

The fixed portion for the QPP is particularly generous in comparison with that paid by the CPP. For people under the age of 65, the CPP fixed portion is $184 per month (in 2016). Survivors aged 35 to 44 who have no dependent children can receive benefits, but they are reduced, on the basis of the survivor's age at the time of their spouse's death, until the survivor turns 65. Finally, the CPP does not provide for the payment of any benefits for survivors under the age of 35 who have no dependents, unless they are disabled.

In order to take into account socio-economic changes, in particular the increase in women's participation, and the fact that that rate no longer decreases at age 45, and to reduce the current gap between the fixed portions of the QPP and the CPP, the fixed portions of QPP survivors' benefits would be as follows (QPP proposal):

Table 8 Fixed portions payable to surviving spouses under age 65 (in 2016)

Situation of the surviving spouse	Present QPP		Proposed QPP	
	Fixed portion paid before the age of 45	Fixed portion paid starting at age 45	Fixed portion paid before the age of 45	Fixed portion paid starting at age 45
Person under the age of 45 with no dependent children	$121	$471	$121	$121
Person under the age of 45 with dependent children	$438	$471	$438	$438
Person aged 45 or older	–	$471	–	$438

– *Reviewing the maximum amount of combined benefits (retirement pension and survivors' benefits)*

Under the QPP, an individual can receive both types of benefits simultaneously. However, certain rules have to be followed when the two types of payments are combined. In this section, only the combination of a retirement pension with surviving spouse's benefits is taken into consideration.

The combination of a retirement pension and survivors' benefits is not equal to the sum of those two forms of benefits. The amount payable to the beneficiary is capped. The maximum amount is related to the fact that the QPP is a social insurance plan that provides basic protection. If the total of the combination of retirement pension and survivors' benefits exceeds the set maximum amount, only the amount of the surviving spouse's benefits is reduced in accordance with the excess. It can even be reduced to zero if the retirement pension reaches or exceeds the set maximum.

The maximum amount of combined retirement and survivors' benefits depends on the age of the surviving spouse at the time the application for a retirement pension is filed and the year in which the benefits are combined. The amount is much lower for a person whose retirement pension begins at age 60 than for someone who applies for it at age 70. For example, the maximum amount of combined retirement pension-survivors' benefits varies between $699 and $1551 in 2016.[17] Therefore, the maximum amount can double solely based on the age when the retirement pension is paid. This kind of variation is unrelated to the needs of surviving spouses.

To ensure that beneficiaries are treated equitably and particularly, to avoid unfairness between people who have the same income profile, the maximum amount of combined benefits (retirement pension and surviving spouse's benefits) would be set differently. It would continue to be established at the age as of which payment of the surviving spouse's retirement pension begins (and at age 65 at the latest) and subsequently indexed for inflation. For example, the maximum amount of combined retirement pension-survivors' benefits would be set between $699 and $1092 in 2016 for future recipients of survivors' benefits.

– **The effect on the steady-state contribution rate**

According to the latest actuarial valuation of the QPP as at December 31, 2015, the QPP's steady-state contribution rate is 10.87%. The measures described in this section would have an effect on this rate. Since maintaining the financial equilibrium of the QPP is one of the goals, some measures designed to adapt benefits to the socio-economic and demographic environment of the Plan would push the steady-state contribution rate up, while others would draw it down.

Overall, the measures concerning QPP benefits would have practically no net effect on the steady-state contribution rate. In addition, the measures would maintain contributors' and beneficiaries' present rate of return.[18]

2.2 Ensuring a stable and sustainable Plan contribution rate

Based on intergenerational solidarity, the QPP is partially funded[19]. Under this form of funding, contributors and their employers shoulder most of the cost of benefits. In addition to the financial transfer between generations, the Plan provides for a degree of financial redistribution within generations, specifically between people with high incomes and those with low incomes.

Although contributions by Québec workers and employers are the Plan's primary source of funding, partial funding generates some investment income. Thanks to the Plan's reserve, contribution rates to the QPP can remain relatively stable because the investment income generated by the reserve is used to fund part of the benefits.

17. The maximum amount of the combined retirement-survivors' benefits takes into account the adjustment factors that apply at the time payment of the retirement pension of the surviving spouse begins. In 2016, these factors vary between 64% and 142%.
18. For further information on internal rates of return, see *Observations on Retirement in Québec*, 2016.
19. For further information on the funding and financial situation of the QPP, see *Observations on Retirement in Québec*, 2016.

Since the QPP was first set up, its funding has been reviewed at different points. There are a number of reasons for this, in particular, a considerable increase in life expectancy, slower growth in wages and the massive retirement of baby boomers.

In order to ensure the sustainability of the QPP and to limit intergenerational transfers, the contribution rate was pushed up sharply when the Plan was reformed in 1997: it increased from 6.4% in 1998 to 9.9% in 2003. The reform, which was designed to stabilize the contribution rate, also made it possible to build a considerable reserve.[20] Furthermore, it created an opportunity to introduce into the Plan the objective of long-term stable funding. Institution of the steady-state contribution rate in 2003 made this objective concrete.

Owing to subsequent financial pressure on the QPP, a new gradual increase in contribution rates over six years was announced in March 2011 in the 2011-2012 Budget Speech. Along with this increase, the objective of stable long-term funding of the QPP was reaffirmed and is still being pursued.

Following the changes adopted in 2011, the contribution rate, which was 9.9% that year, will gradually rise to 10.8% in 2017 (in 2016, it is 10.65%). Starting in 2018, an automatic adjustment mechanism will increase the contribution rate by 0.1% per year if the steady-state contribution rate is at least 0.1% higher than the contribution rate for the year in question, unless the government decides against the increase.

Since 2012, a gap has formed between the QPP contribution rate and that of the CPP, which has remained at 9.9%. Ideally, this gap should make it possible to maintain the equivalence of the QPP and the CPP,[21] and to protect the competitiveness of companies in Québec.

Inset 7 Comparison of the financial situations of the QPP and the CPP

Until 2011, the rates of contribution to the QPP and the CPP had always been identical. However, owing to financial pressure on QPP funding, a separate rate of contribution has applied since 2012. In 2017, the rate of contribution to the QPP will be 10.8% while the CPP rate will remain 9.9%. The difference between the financial situation of the QPP and that of the CPP can be explained mainly by unfavourable demographics and lower salaries in Québec.

In terms of demographics, the baby boom and subsequent drop in birth rate were more drastic in Québec than elsewhere in Canada. For example, the ratio between people aged 20 to 64 and those aged 65 or older has been to the CPP's advantage since 2000. In 2015, the ratio was 3.5 in Québec but 4.0 in the rest of Canada. In 2030, it will be 2.2 in Québec, compared with 2.5 elsewhere in the country. Because the population of Québec is aging more markedly, the proportion of retirement pension beneficiaries is greater in the case of the QPP than in that of the CPP.

Moreover, wages are lower in Québec than elsewhere in Canada. For example, average weekly pay in Québec was 9.6% lower than the Canadian average in 2015. This means that the average income on which contributions are made is lower in Québec, and this has repercussions on the reserves that these two plans build. For benefits to be comparable, the QPP contribution rate has to be higher than that of the CPP.

In addition to these issues, the difference between the financial situations of the QPP and the CPP is also a result of the higher cost of QPP survivors' benefits (in particular owing to higher fixed portions, as mentioned in Section 2.1).

20. Without the 1997 QPP reform, the contribution rate would have reached 13% in the long term.
21. One of the reasons the equivalence of these two plans is important is because it makes mutual recognition of pension entitlement possible.

The following table shows the differences in the costs of the QPP and the CPP by category of benefits. The differences are based on the pay-as-you-go rate, which is the relationship between yearly benefits and contributions.

Pay-As-You-Go Rate in 2016

Benefits	QPP	CPP	QPP-CPP
Retirement	8.4%	7.1%	1.3%
Disability*	0.6%	0.9%	−0.3%
Surviving spouse	1.3%	1.0%	0.4%
Death	0.1%	0.1%	0.0%
Children	0.0%	0.1%	−0.1%
Total**	**10.5%**	**9.1%**	**1.3%**

* Includes the additional amount for disability.

** The total does not correspond to the sum because some numbers have been rounded off.

Sources: Retraite Québec, *Actuarial Valuation of the Québec Pension Plan as at 31 December 2015*, Québec, 2016; Office of the Superintendent of Financial Institutions, *Actuarial Report (27th) on the Canada Pension Plan as at 31 December 2015,* Ottawa, 2016, and Statistics Canada.

According to the *Actuarial Valuation of the Québec Pension Plan as at 31 December 2015*, the Plan is financially sound thanks in particular to measures adopted in 2011. However, the findings of the valuation show that the steady-state contribution rate is at 10.87%, which is 0.07 of a percentage point higher than the statutory contribution rate of 10.80% for 2017. The valuation shows that the QPP's steady-state contribution rate exceeds by less than 0.1% the contribution rate provided for under the *Act respecting the Québec Pension Plan*. Consequently, the automatic adjustment mechanism will not be engaged in 2018.

If the phenomena negatively affecting QPP funding (i.e., a greater increase in life expectancy than expected or a lower increase in salaries) were to occur later, the mechanism would then have to be engaged. Therefore, the resulting increase in the contribution rate would mean that rates of return would diminish for future generations because they will need to make greater contributions than previous generations to receive the same level of benefits.[22] What is more, an additional increase in contribution rates could have a negative effect on the Québec economy and the competitiveness of Québec companies.

In recent years, numerous OECD countries have undertaken reforms to ensure the sustainability of their public pension plans. Many have established mechanisms that automatically adjust contributions and benefits in accordance with various indicators, most often demographic (e.g., life expectancy) and economic. For example, Germany adjusts both contributions and benefits, Finland and Italy adjust new benefits only, whereas Sweden reduces the indexing of all pensions currently in payment.[23]

22. For further information on rates of return for different generations, see *Observations on Retirement in Québec*, 2016.
23. Additional examples of automatic adjustment mechanisms for pension plans in OECD countries are described in Appendix 3.

The CPP provides for an automatic adjustment mechanism in which additional costs are shared by contributors and their employers, as well as by beneficiaries. If there is an imbalance in CPP funding,[24] the contribution rate is increased by 50% of the amount of the discrepancy, and current pensions are no longer indexed for a renewable period of three years. This default mechanism continues to apply as long as the minimum contribution rate (equivalent to the QPP steady-state contribution rate) is higher than the statutory contribution rate. As soon as the CPP's funding balance is restored, the increases to contributions cease and indexing of benefits is restored.

Below are the effective measures taken to stabilize the funding of the QPP and maintain intergeneration fairness. They make it possible to avoid further increasing the discrepancy between the QPP and CPP contribution rates, to protect the competitiveness of companies in Québec while respecting the ability of workers to pay, and maintain the QPP's return for future generations. The measures concern all parties involved in the Plan, contributors, employers and beneficiaries alike.

- **Guarantee full funding of proposed improvements to the Plan**

As the expert committee on the future of the Québec retirement system put it in the D'Amours Report, the fact that current workers fund the majority of benefits paid out can be a source of unfairness. When benefits are improved, contributors and their employers bear the costs, usually in the form of a substantial increase in the contribution rate. The Committee thus recommended that "any future improvements to the Québec Pension Plan should be fully funded…".[25]

In order to take into account both the recommendation in the D'Amours Report and concern for intergenerational equity, the proposal is to ensure full funding of possible improvements to the QPP. So as to avoid transgenerational transfer of the costs entailed by these improvements, the changes that would enhance the QPP would be funded as much as possible by the people who will benefit from them. This measure would also make it possible to maintain stable funding for the Plan.

For example, the cost of a change could be funded by a permanent increase in contribution rates at the latest on the first of January of the year following the effective date of the proposed change. If the change targets contribution years prior to the date it comes into effect, the additional cost of the change could be funded by a temporary increase in contribution rates, for example, over a maximum period of 15 years.[26] The short period of additional contributions would make it possible to fund more quickly a change targeting previous contribution years and to limit intergenerational transfers.

- **Introduce a longevity factor**

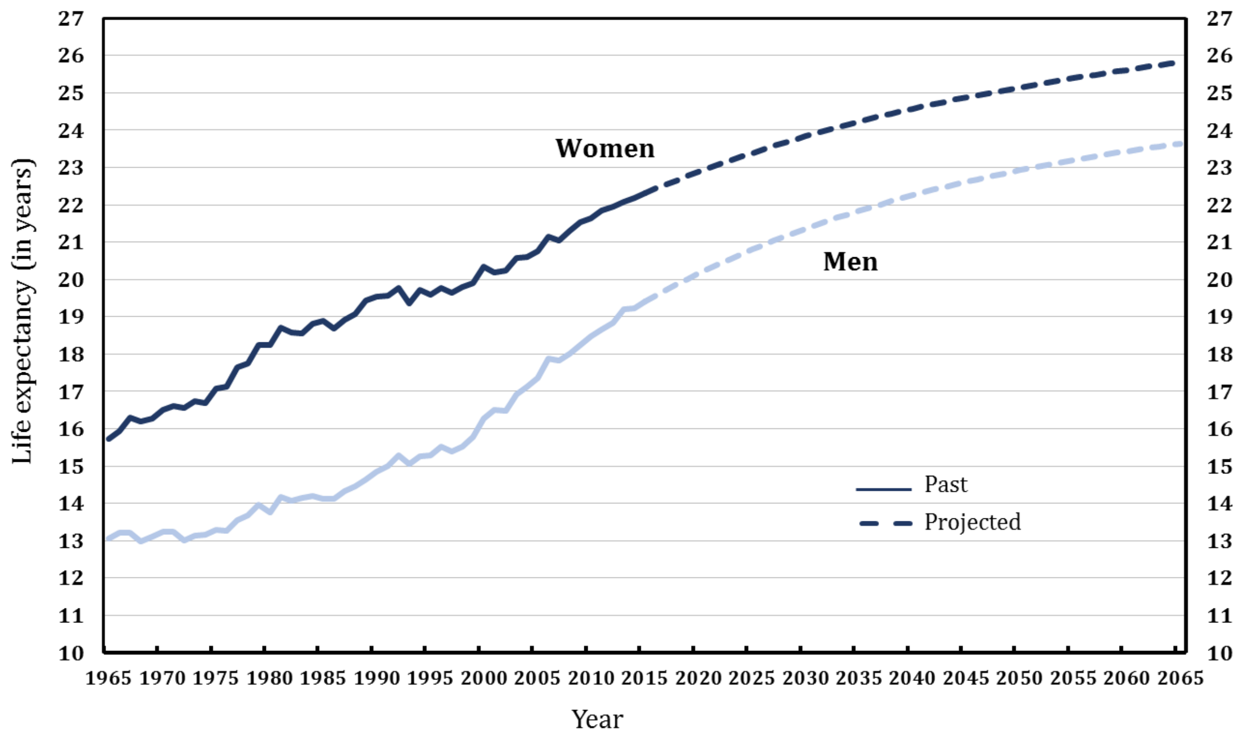
Since the Plan first came into effect, life expectancy at age 65 has increased 1.5 months per year. From 1966 to 2013, it rose from 16 to 22 years for women and from 13 to 19 years for men. It is expected to continue growing for the next 50 years.

24 There is an imbalance when the legal contribution rate of the CPP is lower than the permanent contribution rate and federal, provincial and territorial authorities cannot agree upon a solution. This default mechanism applies only if the authorities take no decision regarding the problem of CPP funding.

25. EXPERT COMMITTEE ON THE FUTURE OF THE QUÉBEC RETIREMENT SYSTEM, *Innovating for a Sustainable Retirement System – A Social Contract to Strengthen the Financial Security of All Québec Workers*, Québec, 2013, p. 52.

26. A similar funding rule is already in place for the CPP.

Chart 8 Changes in life expectancy as at the age of 65



Source: Régie des rentes du Québec, *Actuarial Valuation of the Québec Pension Plan as at 31 December 2015*, Québec, 2016.

Due to the increase in life expectancy, the length of time that QPP benefits are paid has grown. Between 1965 and 2013, if we take into account the lowering of the "normal" retirement age from 70 to 65 at the end of the 1960s, the duration of pension payments has been prolonged by around 10 years.[27]

As the period during which pensions are being paid lengthens, increasing financial pressure is being put on the QPP. This trend is also apparent in public retirement pension plans in many OECD countries. In order to attenuate the pressure, which has resulted in particular from greater life expectancy, the government has had to adjust the QPP's funding a number of times through hikes in contribution rates. To reduce the possibility of further increases and to stabilize contribution rates in the future, we propose introducing a longevity factor.[28]

Introducing this factor would reduce the effect of longevity on QPP contribution rates. In this way, the costs of the Plan that result from longer pension payments would not be borne by future generations of contributors alone. Moreover, this would ensure that the total value of retirement pensions would be similar from one generation of beneficiaries to the next, out of concern for intergenerational fairness.

Essentially, the longevity factor would be determined each year, and would apply only to the initial pension. In other words, the pensions of new beneficiaries would be adjusted in accordance with life expectancy.

27. For further information on demographic changes, see *Observations on Retirement in Québec*, 2016.
28. The introduction of a longevity factor is one of the general trends in the reforms of the public retirement plans of many OECD countries. For further details on these reforms, see Appendix 3.

Inset 8 Application of a longevity factor to QPP retirement pensions

The following example illustrates the effects of a longevity factor on future beneficiaries and on the amounts of their pensions. It should be noted that the conditions used have been chosen simply for the purposes of this example and that they are not the definitive terms of a possible longevity factor.

For example, a longevity factor could be applied when life expectancy at the age of 65 reaches 22 years, in other words, around 2025, according to current estimates. The new pensions would be reduced in accordance with the increase in life expectancy beyond the chosen threshold. The following table shows the effect of a longevity factor on new pensions for selected years.

Year	Life expectancy	Reduction of new pensions	Number of months of delay required to cancel the reduction
2025	22.0	0.0%	0
2030	22.5	−1.1%	2
2035	22.9	−3.0%	5

This table shows that it would take only a few extra months of delay to cancel out the reduction resulting from applying the longevity factor.

– **Indexing current pensions to inflation in Québec**

Since 1991, the consumer price index (CPI) in Canada, which determines the indexing of QPP and CPP benefits, has experienced average annual growth that has been 0.1% stronger than the index for Québec.[29] This means that the indexing of QPP pensions paid to beneficiaries has been higher than the inflation of workers' wages in Québec.

To ensure that increases in QPP benefits are linked with an economic indicator relevant to Québec, and to inject greater stability into the Plan's contribution rates, pensions could be indexed to the Québec CPI rather than the Canadian CPI.

Inset 9 Indexing current pensions to inflation in Québec

To illustrate the effects of indexing current pensions to inflation in Québec, a simulation was carried out using the case of a person who began receiving the maximum retirement pension at the age of 65 in 2006. If past pension payments had been indexed to inflation in Québec, the amount, which was $845 in 2006, would be $988 in 2016 instead of $1001. This is $13 less than the pension indexed to inflation in Canada.

29. Retraite Québec calculations based on Statistics Canada data.

– **The effect on the steady-state contribution rate of measures designed to ensure a stable, sustainable contribution rate**

The main purpose of the measures described in this section (fully funding any improvements to the QPP, introducing a longevity factor and indexing current pensions to inflation in Québec) is to stabilize the QPP contribution rate, thereby avoiding an increase in that rate in the future.

Achieving this objective could champion the competitiveness of Québec enterprises and maintain (or even reduce) the current gap between the QPP and CPP contribution rates. Consequently, thanks to the measures' stabilizing effect, the QPP steady-state contribution rate could be similar to or less than the rate forecast for 2017, in other words, 10.8%.

Summary questions in preparation for the parliamentary committee

With regard to adapting the Plan to its socio-economic and demographic environment

Are you in favour of the proposed changes to QPP disability benefits?

Are you in favour of the proposed changes to QPP survivors' benefits?

Are you in favour of an increase in the minimum age of eligibility for early retirement pensions under the QPP as a solution to the demographic and socio-economic challenges and with the objective of strengthening the Plan's sustainability?

Do you have other suggestions on how to adapt the QPP's various pensions and benefits?

With regard to ensuring a stable, sustainable rate of contribution to the Plan

Are you in favour of full funding of improvements to the QPP, as is the case for the CPP?

Are you in favour of introducing a longevity factor for the QPP?

Are you in favour of indexing current pensions to inflation in Québec?

Do you have other suggestions on how to ensure the stability of QPP contribution rates?

Conclusion

This public consultation on the QPP is based on three main principles: intergenerational fairness, the sustainability of the Plan and the implementation of a contribution rate that workers in Québec are able to assume. The three principles have been used as the foundations for the proposed measures.

With the objective of improving the way we meet the needs of future generations whilst respecting intergenerational fairness, and to continue adapting the Plan to demographic and socio-economic changes, several improvements and measures have been proposed to Quebeckers.

The measures aim to enhance the retirement income of future retirees and keep experienced workers employed. In addition, they offer beneficiaries better protection. They also strive to ensure better management of the Plan's risks through the involvement of contributors, their employers and beneficiaries.

Effective measures designed to ensure a stable QPP contribution rate and to contribute to the sustainability of the Plan have been proposed to better meet the challenges that could affect the QPP's financial situation and to avoid another increase in the contribution rate that could further broaden the present gap between QPP and CPP contributions.

It is now up to the stakeholders to make their points of view heard on all of the measures presented herein, which are intended to better prepare the QPP for the future and strengthen it for future generations in Québec.

Appendix 1 – Lexicon

AGE OF ELIGIBILITY FOR THE RETIREMENT PENSION: Age at which it is possible to begin receiving one's QPP pension. It is between 60 (minimum eligibility age) and 70 years of age.

PUBLIC COMPONENT OF THE RETIREMENT FINANCIAL SECURITY SYSTEM: Component including the federal government's Old Age Security program and the compulsory basic public plans, such as the QPP and the Canada Pension Plan.

BASIC EXEMPTION: With respect to employment earnings on which one can contribute to the QPP, the amount for which no contribution is paid. It is set at $3500.

MAXIMUM PENSIONABLE EARNINGS (MPE): With respect to employment income on which QPP contributions can be made, the maximum amount on which a worker must contribute to the Plan. In 2016, it was $54 900.

QPP RESERVE: Assets accumulated in the QPP Fund. The Fund is managed by the Caisse de dépôt et placement du Québec in compliance with the applicable investment policy.

STEADY-STATE CONTRIBUTION RATE: An estimate of the contribution rate that would make it possible to keep accumulated assets (in other words, the QPP's reserves) stable in relation to benefits paid over a very long period. This is an indicator that makes it possible to assess the QPP's long-term financial stability.

INTERNAL RATE OF RETURN: The annual rate of return that a contributor obtains on the contributions under his or her name until death. It determines the QPP benefits to which he or she is entitled.

Appendix 2 – Description of Québec Pension Plan benefits

1) QUÉBEC PENSION PLAN BENEFITS[1]

RETIREMENT	
ELIGIBILITY	
Age of eligibility	60 to 70 years old; it is not necessary to have stopped working.
Required contributions	At least one year of contributions to the QPP.[2]
CALCULATION	
Basic retirement pension	The basic retirement pension is equal to 25% of the person's average (adjusted) monthly earnings. The adjustment is made according to the maximum pensionable earnings of the year of retirement and the four preceding years.
Exclusion for low earnings	Average career earnings are calculated after excluding 15% of the months during which earnings were lowest (periods of unemployment, education, illness, etc.). This corresponds to around 7 years if retirement begins at age 65.
Adjustment factor in case of early retirement (before age 65)	The adjustment factor varies between -0.5% and -0.6% per month, depending on the amount of the pension.
Adjustment factor in case of delayed retirement (after age 65)	The factor is +0.7% per month delayed.
Retirement pension supplement	A retirement pension beneficiary who works makes contributions to the Plan, no matter how old he or she is. As of the following January 1, such people are entitled to a supplement, which is calculated as follows: • 0.5% of the income on which the person made contributions; the maximum amount of the supplement beginning in 2016 is $20.88 per month.

1. The amounts are those of 2016.
2. Generally, it is sufficient to have earned income higher than the basic exemption of $3500.

DISABILITY	
ELIGIBILITY	
Definitions of disability	Total disability (age 18-64): • Inability to do any type of substantially gainful work. More flexible definition of disability (age 60-64): • Inability to do one's usual work.
Additional amount for disability for retirement pension beneficiaries	If a beneficiary (aged 60 to 64) is unable to do any type of substantially gainful work and has been receiving his or her retirement pension for more than 6 months.
Age and contributory period required for disability benefits	In case of total disability (age 18-64): • 2 of the last 3 years of the contributory period, or • 5 of the last 10 years of the contributory period, or • half of the contributory period. If the more flexible definition of disability (age 60-64) applies or for the additional amount for disability: • 4 of the last 6 years.
Duration of the pension for a disabled person's child	Pension payable until age 18
Calculation	
Disability pension	Fixed portion + variable portion: • The fixed portion is $471.40 per month. • The variable portion is 75% of the basic retirement pension, which is a maximum monthly amount of $819.38. Paid after a waiting period of 3 months.
Additional amount for disability	Fixed monthly amount of $471.40
Pension for a disabled person's child	Fixed monthly amount of $75.46

SURVIVORS	
ELIGIBILITY	
Beneficiary of a surviving spouse's pension	If the deceased person was married or in a civil union: • his or her spouse on the day of death (if they were not legally separated). In other cases, the person who was living in a conjugal relationship (within the meaning of the Act) with the deceased person on the day of death.
Duration of an orphan's pension	Pension payable up to age 18
Contributory period required of the deceased person	One third of the contributory period (at least 3 years) or 10 years
CALCULATION	

Amount of the pension for surviving spouses under the age of 65	Fixed portion + variable portion:
	• The fixed portion depends on the age of the surviving spouse and on other factors:
	  · under the age of 45 with no children and not disabled: $120.73 per month;
	  · under the age of 45, not disabled but with children: $437.70 per month;
	  · age 45 to 64 or disabled: $471.40 per month.
	• The variable portion is 37.5% of the basic retirement pension of the deceased contributor, in other words, a maximum of $409.69 per month.

Amount of the pension for surviving spouses aged 65 or older	60% of the basic retirement pension of the deceased person, in other words, a maximum of $655.50 per month
Amount of the orphan's pension	Fixed amount of $237.69 per month
Amount of the death benefit	Fixed amount of $2500 or Sum of the contributions made ($2500 maximum) if the deceased person had not made contributions for the required number of years but had contributed at least $500 to the QPP and never received any retirement or disability benefits under the Plan.

2) BENEFICIARIES AND AMOUNTS PAID

2.1) Monthly benefits paid as at December 31, 2015

Type of benefits	Average Amount		Maximum amount
	Women	Men	
Retirement	$401.32	$586.10	at age 60 = $707.16 at age 65 = $1065.00 at age 70 = $1512.30
Additional amount for disability	n/a	n/a	$465.81
Disability	$856.01	$904.63	$1264.56
Surviving spouse's*	$407.18	$238.77	Not disabled: • under age 45: · without children = $518.68 · with children = $831.89 • age 45 to 64 = $865.19 Disabled: • under age 65 = $865.19 Age 65 or older = $639.00

* The average monthly amount of the combined retirement pension-surviving spouse's benefits is $683.63 for women and $816.16 for men.

2.2) Number of beneficiaries and amounts paid in benefits as at December 31, 2015

Type of benefits	Number of beneficiaries	Amounts paid (in millions of dollars)
Retirement	1 729 349	10 251.3
Additional amount for disability	705	6.0
Disability	65 073	784.5
Surviving spouse	365 527	1670.0
Death	48 527	119.7
Children	19 766	47.7
Total	**1 924 717***	**12 879.2**

* Beneficiaries who receive combined benefits are counted only once in the total.

Appendix 3 – Main automatic adjustment mechanisms applying to public pension plans in OECD countries

Country*	Determining variables	Adjusted factors	Operation of the mechanism
People concerned: contributors and all beneficiaries			
Germany	Dependency ratio (number of retired persons to number of contributors)	Benefits and contributions	The first indicator of sustainability links increases in benefits to wages and to changes in the dependency ratio. When this ratio goes up because the increase in the number of retired people is not compensated by an equivalent increase in the number of contributors, increases in the gross average salary are reflected only partly, thereby limiting increases in benefits. The second indicator of sustainability concerns a funding goal. On 1 January each year, the law requires that the contribution rate be raised in case, were it to be kept steady, the projected reserves for the end of the year were to fall below the threshold of 0.2 months of disbursements. However, the contribution rate has to remain below 20% until 2020 and under 22% until 2030.
People concerned: new beneficiaries			
Finland	Life expectancy	New benefits	Basic benefits are adjusted in accordance with a coefficient related to life expectancy for the year in which the beneficiary turns 62. (The pension is multiplied by the coefficient.) The coefficient for each cohort is determined when it turns 62.
France	Life expectancy	Number of quarters required (retirement age)	The duration of the contributory period required to obtain maximum benefits increases automatically. The contributory period is increased by two thirds of the growth in life expectancy. The objective is to maintain the same relationship between the length of the anticipated retirement and the length of the career.
Italy	Life expectancy, gross domestic product (GDP)	Calculation based on benefits and retirement age	In the notional defined contribution plan, for contribution periods accumulated as of 1 January 2012, the amount of contributions is re-valuated every year in accordance with the average rate of growth of the GDP over the previous five years. The amount of benefits (under the notional defined contribution plan) is calculated by multiplying the total amount of contributions by an actuarial coefficient that varies according to the age at the time of retirement (62 to 70) and life expectancy at that age. The normal retirement age will be 66 across the board in 2018, and will then be adjusted according to life expectancy.
Norway	Life expectancy	Pension calculation	Beginning in 2011, adjustment based on life expectancy applies to the benefits of each cohort of new retired people.

* The information was up to date on January 1, 2016.

Country*	Determining variables	Adjusted factors	Operation of the mechanism
People concerned: new beneficiaries (continued)			
Poland	Life expectancy	Calculation of basic pension	The amount of benefits is calculated by multiplying the amount of virtual capital of the notional accounts by an actuarial coefficient that varies according to age (based on average life expectancy at the time of retirement).
Portugal	Life expectancy, GDP, consumer price index (CPI)	Calculation of basic pension, indexing	A sustainability coefficient, which takes into account average life expectancy at age 65, is integrated into benefits calculations. The indexing of benefits according to the national minimum wage has been replaced by "indexing of social support measures." The latter is updated each year in accordance with GDP growth and the average 12-month variation of the CPI.
People concerned: all beneficiaries			
Japan	Life expectancy, dependency ratio, consumer price index	Calculation of basic benefits and indexing	The amount of benefits is adjusted in accordance with a demographic factor that takes into account life expectancy and changes in the ratio of the number of people participating in the labour market in relation to the number of retired people. The demographic factor is subtracted from the indexing, which is calculated based on the CPI. If the CPI drops, benefits remain unchanged. The replacement rate cannot be lower than 50% of the average after-tax income of people in the labour force.
Sweden	Wages, GDP, Life expectancy	Calculation of basic benefits and indexing	The automatic balancing mechanism operates in accordance with the following ratio: $\frac{\text{Assets linked with contributions + stabilization reserve}}{\text{The plan's accumulated liabilities}}$ When liabilities are greater than assets (the ratio is lower than 1), notional accounts and benefits are indexed at a rate lower than that of average wage growth. The conversion of notional accounts into benefits takes the increase in life expectancy into account. The amount of the pension is obtained by dividing the account balance by a conversion coefficient that depends on the life expectancy of the generation to which the insured person belongs and the anticipated average duration of retirement.

* The information was up to date on July 1, 2016.

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