Public consultation on the
Québec Pension Plan

A plan adapted to the challenges of the 21st century

Consultation document

Votre gouvernement

Québec

Translation
ITC Traductions Canada

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Québec Pension Plan (QPP)

Key statistics for the year 2021

Québec Pension Plan – Base plan

4 203 000
members

$17.7 billion
collected in contributions

2 159 968
beneficiaries

$16.0 billion
paid in benefits

10.8%
Contribution rate

$102.1 billion
Reserve administered by Retraite Québec and managed by the Caisse de dépôt et placement du Québec

15.9%
Return on the QPP's base plan fund

9.8%
Average return for the last 5 years

Québec Pension Plan – Additional plan

4 203 000
members

$1.6 billion
collected in contributions

496 735
beneficiaries

$5.0 million
paid in benefits

1.0%
Contribution rate

$3.1 billion
Reserve administered by Retraite Québec and managed by the Caisse de dépôt et placement du Québec

14.4%
Return on the QPP's additional plan fund

Message from the Minister

Since its creation, the Québec Pension Plan has made significant contributions to the financial security of seniors by providing them with a basic income in retirement. Québec can even take pride in having one of the best retirement systems in the world, which is certainly one of the reasons why we have one of the lowest poverty rates among seniors.

Over time, the Québec Pension Plan has evolved considerably, while always respecting the fundamental principle of intergenerational equity. It is still the central pillar of the Québec pension system. Its good financial health gives us the opportunity to reflect on the direction we want to take, collectively, to ensure that it meets the needs of Quebecers even better.

In recent years, Québec's society has significantly evolved in terms of retirement needs and our pension plan must adapt to new realities. Among other things, increased life expectancy increases the risk that a person's retirement income will be insufficient to maintain their standard of living.

That is why we are launching this public consultation so that we can examine ways to increase the financial security of Quebecers in the short and medium term, just as we did with the 2019 pension enhancement. We also wish to discuss the measures that will have a beneficial effect on the long-term financing of the Plan, while improving the income of retired Quebecers.

These issues are at the heart of our concerns, and we must take them into account in order to meet the challenges of the 21st century and continue to build the Québec of tomorrow.

The Minister of Finance,

Eric Girard

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Executive Summary

This document is intended to contribute to the discussion of potential changes to the Québec Pension Plan (QPP) in the coming years. The majority of the avenues for consideration discussed are aimed at increasing the financial security of retirees by increasing the indexed life annuity available under the QPP. Indeed, this type of annuity protects against financial risks related to retirement, such as the risk of having insufficient income at retirement due to a longer than estimated life span, the risk of inflation or even the risk associated with the management of financial assets.

However, the retirement environment has changed significantly in recent years, while some parameters have changed little. Notably, the minimum age at which retirement pensions under the QPP begin to be paid has not been reviewed in nearly 40 years, while increased longevity has had a significant impact on the financial needs of retirees.

Based on the actuarial valuation as at 31 December 2021, the QPP is in good financial health, representing an opportunity to make changes that will benefit Quebecers in retirement.

In order to adapt the QPP to the challenges of the 21st century, the Gouvernement du Québec wishes to consult the public on important topics that will be addressed in this document, such as:

- the minimum and maximum retirement pension eligibility ages, the postponement of which would improve the pension throughout retirement;
- job retention for people over aged 65, with respect to the obligation to contribute to the QPP beyond the age of 65 and the protection of the retirement pension of people aged 65 or over who see a decrease in their employment earnings;
- adjustment factors for early retirement pension payments, the revision of which would allow for beneficial changes while reducing costs to the Plan;
- the recognition of periods of reduced work income, which could be improved to better take into account certain elements of workers' lives, particularly for the additional plan.

Introduction

For nearly 60 years, the Québec Pension Plan (QPP) has provided basic financial protection in the event of loss of income, including retirement, death or disability. During this period, the plan has continually evolved to meet the needs of the population.

The Act respecting the Québec Pension Plan (the Act) provides for a periodic review of the QPP. The Plan is subject to a public consultation in parliamentary committee every six years. During this process, an analysis of its financing is carried out and certain elements may be reviewed to better meet the needs of Québec society.

The actuarial valuation as at 31 December 2021 shows that the QPP is in good financial standing. This favourable situation represents an opportunity to make changes that will have a beneficial impact on the retirement pensions of Quebecers.

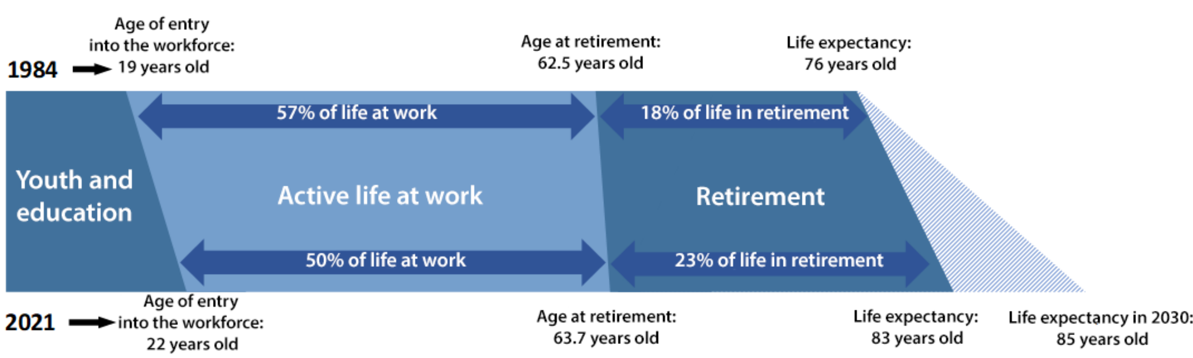
A context that has significantly changed

The context surrounding retirement has significantly evolved over the past few years, while some QPP parameters have barely changed. For example, the minimum age of eligibility for the QPP retirement pension was reduced from 65 to 60 in the mid-1980s to help younger generations enter the workforce. At that time, life expectancy was only 76 years.

Today, the job market has evolved, and a person can expect to live to the age of 83. As people are studying longer but the retirement age has not increased, workers have less time to save for an increasingly long retirement.

As a result, Quebecers will now spend almost a quarter of their lives in retirement, increasing the risk that their accumulated savings will be insufficient to maintain an adequate standard of living until they die.

CHART 1
Evolution of life expectancy at retirement between 1984 and 2021



In light of this new reality, the Gouvernement du Québec wants to help workers make an informed and realistic decision about their retirement. It must also ensure the sustainability of funding for the QPP and other government programs within the context of an aging population.

A reflection must therefore begin to explore possible solutions to adapt the QPP to the new demographic and socio-economic realities of Québec, while ensuring intergenerational equity.

Adapting the QPP to the challenges of the 21st century

This document, which is divided into six chapters, is intended to contribute to discussions on possible changes to the QPP in the coming years. It allows us to take a look at the needs of Quebecers and to examine possible ways of adapting the QPP to the changing reality in which they evolve.

- Chapter 1 briefly describes the financial status of the QPP and details the associated funding indicators.
- Chapter 2 presents the socio-economic and demographic context in Québec, as well as some findings on the challenges related to financial security in retirement, which justify the relevance of adapting the QPP accordingly.
- Chapter 3 provides a starting point for thinking about how to increase the financial security of Quebecers in retirement. The report outlines the benefits of delaying the starting date of pension payments and retaining experienced workers, as well as some of the avenues that could be explored to allow for these changes while reducing costs to the Plan.
- Chapter 4 outlines the ways in which the recognition of certain periods of reduced work earnings in pension calculations can be improved.
- Chapter 5 details the effect of the solutions examined on the Plan's financial margin.
- Finally, chapter 6 discusses the automatic adjustment mechanisms to be provided in the event of a financial imbalance in the base and additional plans.

The challenges and solutions discussed in this paper therefore provide a basis for discussion of potential changes to the QPP. After reading this document, it will be up to the population to make their views heard to improve the Plan.

1. A financially sound plan

The Actuarial Valuation of the Québec Pension Plan as at 31 December 2021[1] was recently tabled in the National Assembly. The QPP's financial situation is presented in detail[2].

According to this valuation, the QPP is in good financial health as the funding indicators, i.e. the steady-state contribution rate and the reference contribution rate of the Plan[3], are:

– 10.54% for the base plan, which is 0.26% lower than the current contribution rate of 10.80%;

– 1.85% for the additional plan, which is 0.15% lower than the 2.00% contribution rate applicable as of 2023.

Thus, based on the contribution rates set out in the Act, the QPP will have sufficient cash inflows to pay pensions to beneficiaries for the next 50 years.

A favourable situation that allows us to explore ways to improve the QPP

This favourable situation represents an opportunity to make changes to the Plan to improve the financial security of retired Quebecers.

Some of the solutions being considered, which will be presented later in this document, could have an upward impact on the funding indicators identified in the actuarial valuation. In other words, they would involve a certain cost to the QPP.

Due to a favourable financial situation, these measures could be considered without having to increase the statutory contribution rates. However, in the context of an uncertain economic situation, measures to increase the financial margin of the QPP could still be considered.

1 This document is available on Retraite Québec's website.

2 Under section 216 of the Act, Retraite Québec must, at least once every three years, have an actuarial valuation of the Québec Pension Plan (QPP) prepared, including a projection of the cash inflows and outflows for the base plan and the additional plan and the reserves of each plan for the next 50 years.

3 The steady-state contribution rate for the base plan is the contribution rate that is required to keep the ratio of the reserve to the annual cash outflows of the plan constant over the long term. The reference contribution rate for the additional plan allows for a reserve at the end of the twentieth projection year that is at least equal to the value of the expenses for contributions paid prior to the end of that twentieth year.

2. A constantly changing environment and challenges

The context of retirement has changed significantly in society in recent years. Several factors, such as increased life expectancy, labour scarcity and changes in the labour market, raise the question of whether the QPP is still adequately meeting the needs of the Québec population.

In addition to these elements, other factors, such as Quebecers' saving habits and the protection of their retirement income, can have an impact on their financial security in retirement.

The purpose of this chapter is to present the socio-economic and demographic context in Québec, as well as some findings on the challenges with regard to financial security at retirement. Its main purpose is to present:

- the increase in the length of retirement, which is primarily the result of the continuing increase in life expectancy;
- Quebecers' habits regarding the age at which persons retire, particularly in comparison with other jurisdictions;
- the context in which certain financial risks emerge and the findings on workers' savings patterns for retirement;
- the evolution of the labour market within the context of workforce scarcity and current trends that show a greater presence of experienced workers.

2.1 A longer retirement than before

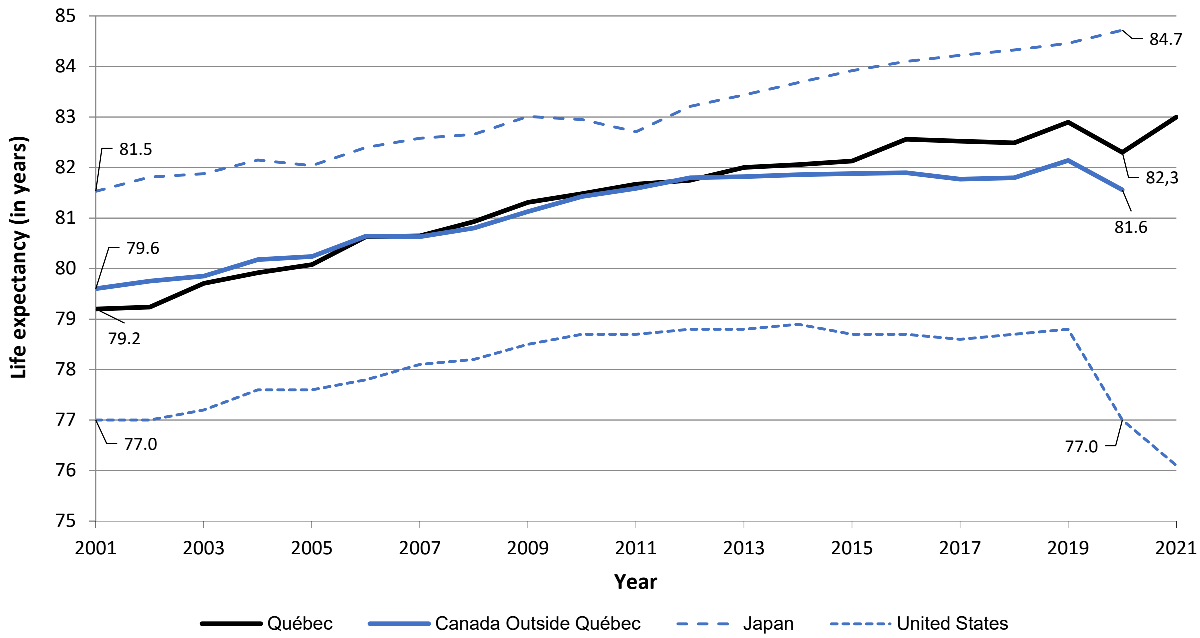
Like the major western economies, Québec has experienced an increase in life expectancy at birth over the past 20 years.

- In Québec, life expectancy has increased by almost four years since 2001, from 79.2 years to 83 years in 2021 (82.3 years in 2020).
  - In 2021, life expectancy at birth was 81.1 years for men and 84.9 years for women.
- As a comparison, for the year 2020, it was 84.7 years in Japan, 81.6 years in the rest of Canada and 77 years in the United States.

Furthermore, according to forecasts[4], the life expectancy of an individual who reaches 65 years of age will increase by about two more years in the next 25 years.

[4] Actuarial Valuation of the Québec Pension Plan as at 31 December 2021, Table 18 - Life expectancy without improvements after the year shown, by age and sex - 2022, 2046 and 2071.

CHART 2
Life expectancy at birth in Québec and selected countries, 2001-2021



Source: Institut de la statistique du Québec.

2.2 Retirement age in Québec and elsewhere

The minimum age of eligibility for a QPP pension was reduced from 65 to 60 in 1984, at a time when Québec needed to take action to encourage retirement to help younger generations enter the labour market. As a result, the average age of retirement declined sharply from 62.5 years in 1984 to 58.4 years in 1998.

Although the average retirement age has been increasing since 1998, it has increased by only 1.2 years from 1984, while life expectancy has increased by 7 years.

TABLE 1
Changes in life expectancy, minimum pension eligibility age, and average retirement age

	1984	1998	2021	1984-2021 gap
Life expectancy	76 years old	78 years old	83 years old	+7 years
Minimum age of eligibility	60 years old	60 years old	60 years old	—
Average age at retirement	62.5 years old	58.4 years old	63.7 years old	+1.2 years

Source: Institut de la statistique du Québec, Statistics Canada.

On the other hand, workers continue to leave the workforce earlier than in other provinces and territories in Canada.

– In fact, the 2021 data shows that the average retirement age in Québec was 63.7 years, compared to the Canadian average of 64.4 years.

TABLE 2
Average retirement age, 2021

Country/province	Average age
Québec	63.7 years old
Ontario	64.1 years old
British Columbia	65.6 years old
Canada	64.4 years old

Source: Statistics Canada.

In many countries, the minimum age of eligibility for a retirement pension is increasing and is frequently set at 62 years or older. The table below outlines the first eligibility ages applicable in selected OECD countries. A more detailed version of this table is presented in Appendix 3.

TABLE 3
Age of eligibility for public pensions and expected reform in selected countries, 2022

	Minimum age(1)	Standard age(2)	Reforms
Québec and Canada	60 years old	65 years old	No reform planned
Germany	63 years old	65 years and 10 months	Gradual increase of the normal retirement age to 67 (until 2031)
Denmark	64 years old	67 years old	Gradual increase of the normal retirement age to 69 (until 2035)
United States	62 years old	66 years and 4 months	Increase in the normal retirement age to 67 in 2027
France	62 years old 60 years old if difficult job	62 years old	Pension reform planned for 2023, which would raise the normal retirement age to 65 by 2031
Netherlands	66 years and 7 months	66 years and 7 months	Gradual increase of the normal retirement age to 67 until 2024 and 2025 Thereafter, the legal retirement age will be linked to life expectancy
United Kingdom	66 years old	66 years old	Increasing the normal retirement age to 67 from 2026 to 2028 and to 68 from 2044 to 2046 (study underway to advance the latter scenario)
Sweden	Between the ages of 61 and 64, depending on the year of birth	No real legal age, but a minimum age	Starting in 2026, the normal retirement age will be replaced by a target age that considers life expectancy
Switzerland	Men: 63 years old Women: 62 years old	Men: 65 years old Women: 64 years old	Raising the normal retirement age to 65 for women

(1) The minimum age refers either to the normal age, if no early retirement is possible, or to the early retirement age. This early age often requires certain conditions, such as a number of years of insurance or career, or varies according to the type of job performed. Such an anticipation often implies a reduction in the amount of the pension. There are special conditions to avoid the reduction of the pension in some countries (for example, long careers or for people with a disability).
(2) Age at which an unreduced pension can be obtained.

2.3 Financial risks related to retirement

There are three main financial risks in retirement: longevity risk, inflation risk and rate of return risk. Depending on the source and nature of their retirement income, individuals are affected to varying degrees by these different risks. These risks also affect society in general, as some or all of their consequences are covered by various social programs.

Longevity risk

The individual who has retired, or will retire, is faced with a longevity risk. Retirement at the age of 65 often requires more than 20 years of income, and even more if retirement is taken early. Longevity risk is associated with the possibility of living longer than expected and experiencing a significant drop in income before death. It is primarily aimed at retirees who derive a large portion of their retirement income from investments.

Longevity risk has increased in recent years due to the increase in life expectancy and the decrease in the number of pension plans that provide a lifetime annuity (until the member dies). Since women have a longer life expectancy, they are more exposed to this risk than men.

Inflation risk

The retiree must also anticipate that, his or her income, if it is not fully indexed, will allow him or her to purchase fewer and fewer goods and services over time due to inflation.

Inflation risk means that the cost of living rises more than the growth in income and assets, which decreases purchasing power in retirement. The Consumer Price Index (CPI) is generally used to measure inflation.

Rate of return risk

Rate of return risk is related to the uncertainty of investment income. It increases when a significant proportion of retirement assets are managed by the retiree himself or herself until death, without providing a guaranteed life income. Retirement savings generally offer variable investment returns. Managing the financial risks associated with retirement is a major issue, especially for households that must accumulate significant financial assets to support their standard of living.

2.4 Protection against financial risks related to retirement that is often inadequate

For most retirees, only a portion of their retirement income is protected against the risks mentioned above, namely the pensions paid under the QPP, the Old Age Security pension (OAS) and the Guaranteed Income Supplement (GIS).

These annuities are guaranteed, paid for life, and indexed to the CPI. As a result, they are protected from the longevity, rate of return and inflation risks. Government benefits ensure that about one-third of workers, primarily single people with earnings of less than $30 000, will have an adequate and stable income replacement rate in retirement.

About another third of Québec workers are members of a pension plan that guarantees them an income for life during retirement and protects them against certain financial risks.

Other Québec workers, those for whom government plans do not provide an adequate income replacement rate in retirement and who do not have access to a pension plan, are more affected by the financial risks associated with retirement. These individuals need to accumulate savings, on an individual or group basis, to ensure an adequate income in retirement.

Savings for retirement that are sometimes insufficient

While private savings are often essential for households with incomes above $30 000, recent tax data show that more than 665 000 workers with incomes above this threshold are not saving in a traditional retirement savings vehicle (RRSPs and supplemental pension plans [SPPs]).

TABLE 4
Distribution of workers in Québec by pension plan membership and earnings, 2019

Membership in a pension plan	Income level						TOTAL	
	$30 000 or less		Between $30 000 and $50 000		Over $50 000			
	Number	%	Number	%	Number	%	Number	%
None	1 637 800	80	428 100	41	237 200	14	2 303 100	48
RRSP only	170 000	8	252 700	24	499 400	29	922 100	19
SPP only	209 100	10	242 800	23	434 200	25	886 000	18
RRSPs and SPPs	37 300	2	121 500	12	539 700	32	698 500	15
Total	**2 054 200**	**100**	**1 045 100**	**100**	**1 710 500**	**100**	**4 809 700**	**100**

Having access to an employer-sponsored pension plan or other sources of private savings is important for those who have annual work income above $30 000. It is difficult for households to obtain an adequate income replacement rate by relying solely on government programs. In addition, some people who save for retirement make only modest contributions.

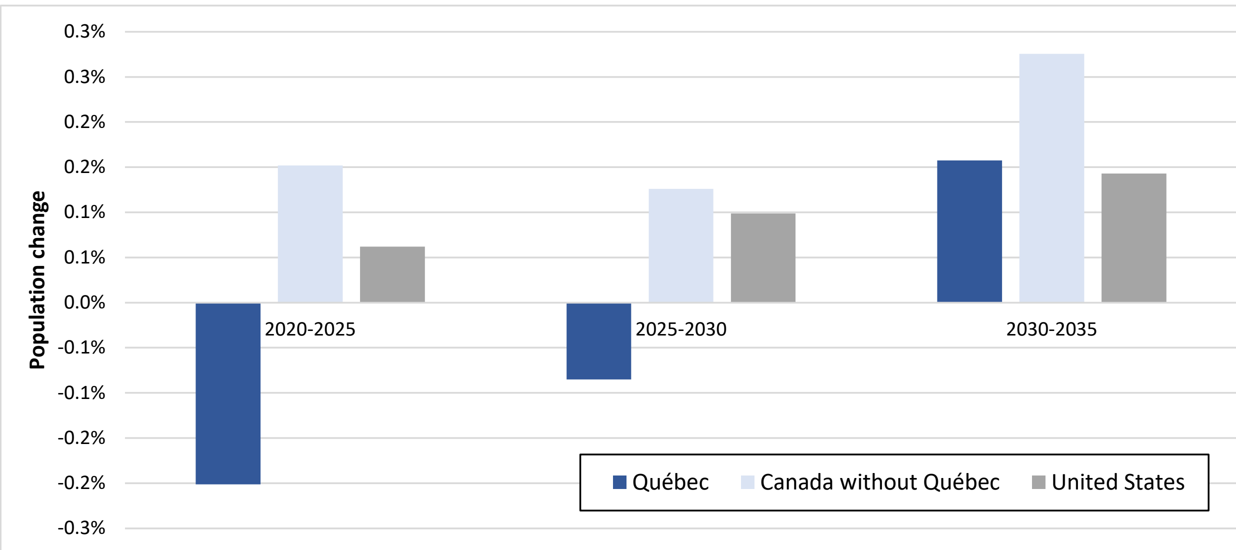
In 2019, it is estimated that approximately 41% of workers earning between $30 000 and $50 000 and 14% of those earning more than $50 000 do not have retirement savings, other than their contributions to the QPP, in an RRSP and/or an SPP. If this situation were to continue throughout their careers, these individuals could experience a significant drop in income in retirement.

2.5 Changes in the labour market

In Québec, due to the demographic structure and the increase in life expectancy, the aging of the population has an impact on the labour market. The labour supply is shrinking and may decline further over the next decade. The labour shortage could intensify more quickly in Québec than in the rest of Canada due to a more significant demographic transition.

In fact, unlike the working-age population (20 to 64 years old) in the United States and other Canadian provinces and territories, which is growing, Québec's working-age population will be shrinking until 2030. It will also grow more slowly than elsewhere in Canada between 2030 and 2035.

CHART 3
Variation in the population aged 20 to 64 in Québec, other Canadian provinces and territories, and the United States, by period



Sources: Actuarial Valuation of the Québec Pension Plan as at 31 December 2021 (Québec),
UNITED NATIONS, DEPARTMENT OF ECONOMIC AND SOCIAL AFFAIRS, POPULATION DIVISION,
World Population Prospects (The 2019 Revision), customized data acquired from the website (United States),
Actuarial Report (30th) of the Canada Pension Plan as at 31 December 2018 (Canada excluding Québec).

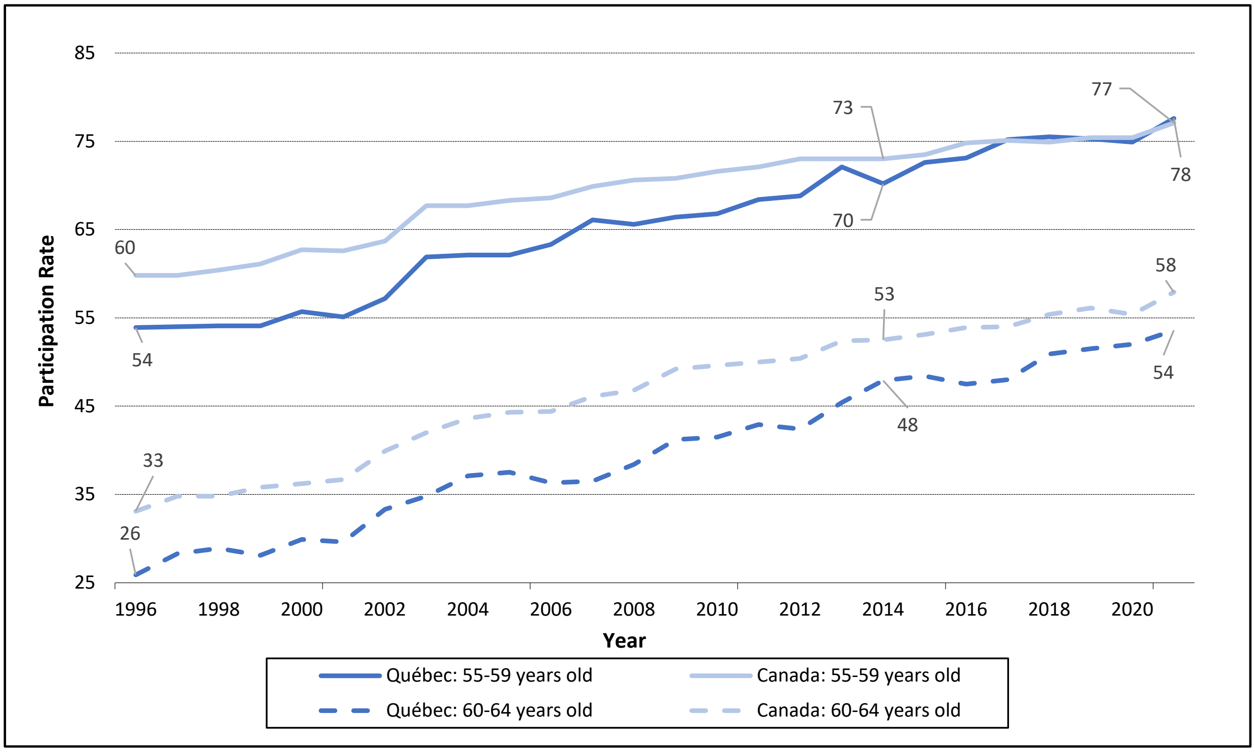
In order to adapt to the current labour shortage, many employers are relying on older people to fill vacant positions. The increase in labour force participation of people aged 55-59 is a trend that has continued for several years.

– In 2021, the participation rate of people in this age group in Québec has even slightly exceeded that of Canada. Indeed, the participation rate for the Québec population aged 55 to 59 increased between 2014 and 2021, from 70% to 78%.

This increase in participation was also observed among those aged 60-64, for whom the participation rate increased from 48% to 54% between 2014 and 2021. However, it is lower than in the rest of Canada.

This increase is expected to continue over the next few years as people aged 55 to 59 reach 60.

CHART 4
Labour force participation rates of persons aged 55 to 59 and 60 to 64, Québec and Canada
(in percent)



Source: Statistics Canada, Labour Force Survey.

In addition to the context of labour scarcity, several factors favour job retention.

– Today's experienced workers are healthier and better educated[5] than those of previous generations. In addition, longer working lives are more attainable as the quality of employment has generally improved for the workforce aged 55 and over.

– Today's labour market offers a variety of opportunities to earn income well into old age, including seasonal or part-time work, which allows for a delay in the start of the payment of a QPP retirement pension.

– The provincial government's measures continue to make it tax-efficient for a 60-year-old to work.

– Beginning at the age of 65, the Guaranteed Income Supplement, which is part of the Old Age Security program, provides the opportunity to receive earnings of $5000 without having your benefits affected.

Furthermore, the transition from work to retirement is increasingly gradual and therefore provides work income at older ages. Thus, retirement is no longer synonymous with a definitive withdrawal from the labour market.

[5] The percentage of the population aged 55 to 64 with a post-secondary degree or diploma has increased from 19% in 1990 to 61% in 2021. Conversely, the percentage of the population aged 55 to 64 without such a degree, which stood at 67 percent in 1990, has dropped to 16 percent in 2021.

3. Increasing financial security in retirement

An increasing longevity and an early retirement from the labour market, particularly, imply that a retired person often has to rely on his or her retirement income for two, or even three, decades. As a result, this person is more vulnerable to the financial risks associated with retirement.

This chapter is a starting point for reflection on how to ensure better financial security for Quebecers. The following topics are discussed:

– the minimum and maximum eligibility ages for QPP pensions, the postponement of which would increase the amount of the pension throughout retirement;

– the requirement for those aged 65 to contribute to the QPP pension, whereas this contribution is optional under the Canada Pension Plan (CPP).

Finally, options could be explored to allow for these changes while reducing costs to the Plan.

3.1 Opportunities to postpone the starting date of retirement pension payments

The QPP is an important asset in helping Quebecers increase their retirement income and counter the financial risks associated with retirement. However, the benefits associated with postponing the application for a retirement pension under the QPP are not yet sufficiently known to workers.

Some people are reluctant to postpone their application for a retirement pension under the QPP, partly because of the fear of losing money. However, it is generally advantageous to postpone the starting date of your QPP retirement pension payments until the age of 65 or even 70.

The chart on the next page shows the cumulative earnings from an annuity by age of the applicant. It shows that by the time a person reaches age 73, the cumulative income from a retirement pension paid as of age 65 exceeds the income that would have been earned from a reduced pension paid as of age 60.

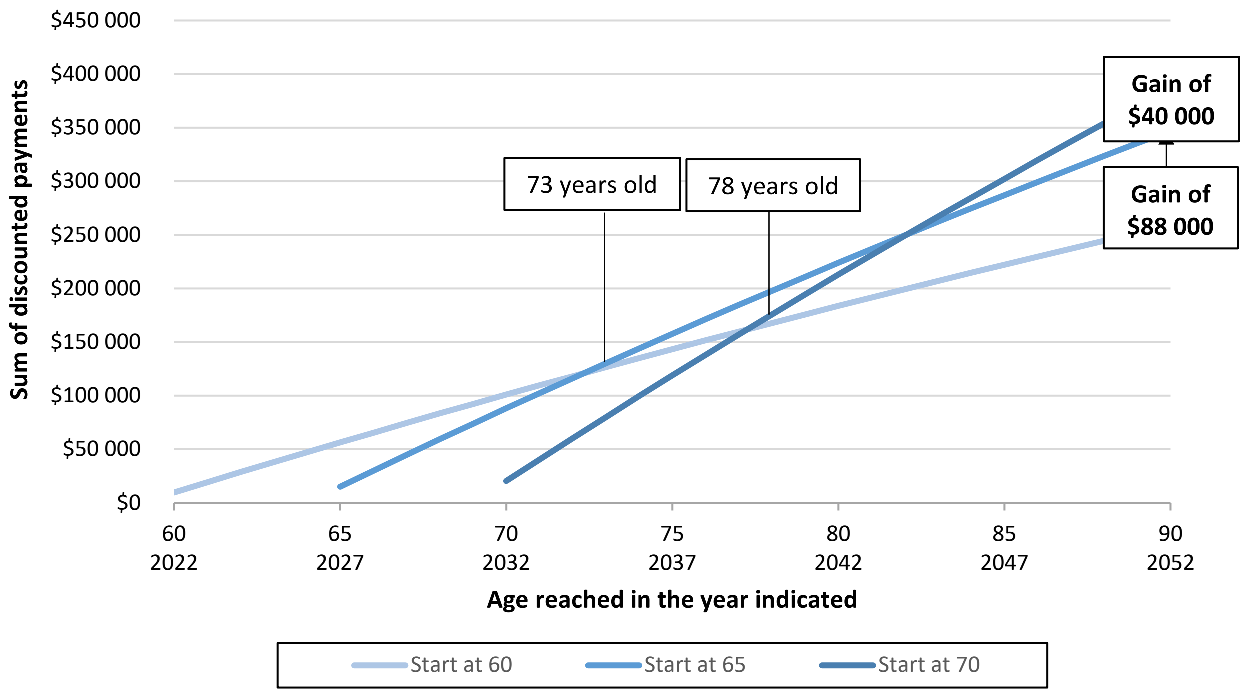
– By the time this person reaches age 90, this will represent a gain of $88 000.

For a person reaching age 78, the cumulative income from a retirement pension paid as of age 70 exceeds that of a reduced pension that would have been paid as of age 60.

– By the time this person reaches age 90, this will represent a gain of $128 000.

Such longevity is common. In fact, more than 87% of women and 80% of men who began receiving their pension at age 60 in 2006 are still QPP beneficiaries after 15 years of payments.

CHART 5
Cumulative pension amounts at different ages based on the age of application



Note: For a person who receives the maximum QPP retirement pension benefit, after contributing to the QPP for 42 years. This person reaches the age of 60 in 2022 and stops working, and therefore stops contributing to the QPP. The amounts are discounted at a rate of 3% starting in 2022. The salary increase is set at 3% and the inflation rate at 2%.

On the other hand, many people apply for their retirement pension under the QPP early, even if they continue to work[6]. Due to the adjustment factor, which varies depending on the age at which the pension starts, early pensions paid under the QPP are often reduced.

– In the last decade, more than 600 000 retirement pensions were paid out as early as the age of 60. For example, in 2016, approximately 60% of members had applied for their QPP pension at the minimum eligibility age of 60.

However, this trend has been changing since 2017. The clienteles concerned thus avoid having their retirement pension reduced because of an application for an early pension.

– The percentage of applicants aged 60 (about 36% of women and 31% of men in 2021) is close to that of the equivalent plan, the Canada Pension Plan (CPP), but still remains high.

In addition, a survey conducted in 2021 showed that, among those who applied for their pension under the QPP at age 60, some regretted their decision as they advanced in age. This survey also shows that if they could go back, they would apply for their pension at a later age. Thus, in 2021, one out of five beneficiaries who had reached age 70 was reconsidering their decision made at age 60.

6 The number of working QPP beneficiaries is increasing. It increased from 158 167 in 2010 to 352 634 in 2020.

3.2 Avenues for consideration on minimum and maximum pension eligibility ages

The enhancement to the QPP, which was implemented in 2019, will provide future generations with increased long-term financial security, but it will not reach its full effect for about 40 years[7]. The purpose of this consultation is to suggest ways to increase financial security in retirement in the short and medium term. The solutions discussed would be particularly helpful to the generations that will be retiring in the next decade.

Since the QPP additional plan will not reach its full effect until 2065, these individuals will only partially benefit from the recent QPP enhancement.

Thus, the following sections address avenues for consideration to increase the financial security of retirees, whether through increased income for life or increased work income. The purpose of these suggestions is to determine the minimum and maximum ages of eligibility for retirement benefits under the QPP and to identify ways to encourage the participation of experienced workers in the labour market.

Current situation

The age at which a person finishes working and the age at which he or she begins to receive a retirement pension under the QPP are becoming less and less related. In fact, many people apply for their pension under the QPP early, even if they continue to work[8].

To be able to postpone the starting date of the payment of their retirement pension under the QPP, an individual must have sufficient assets to wait for their public pensions to be paid or remain employed until a later age.

Maximum amount based on an individual's age at the starting date of payment of their retirement pension

The retirement pension under the QPP offers its full protection only when it begins at the age of 65. If the pension is paid earlier, then the amount of the pension is reduced for life by up to 0.6% per month of anticipation.

On the other hand, if a person applies for a retirement pension after the age of 65, the amount of the pension increases by 0.7% per postponed month. Currently, the maximum age to start receiving a pension under the QPP is 70.

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7 Until 2019, the retirement pension under the QPP paid at the age of 65 replaced about 25% of the average annual earnings on which a person contributed over the course of their career. Following the enhancement to the QPP, this replacement rate will gradually increase to 33.3% after a period of contributions of approximately 40 years. The current generation of retirees is benefiting very little from the additional plan.

8 The number of working QPP beneficiaries is increasing. It increased from 158 167 in 2010 to 352 634 in 2020.

Avenues for consideration

An increase in the minimum age of eligibility for a retirement pension under the QPP could be one way to address inflation, longevity and rate of return risks. Such an increase would provide higher retirement income for a significant portion of the population, making it easier to plan financially for retirement.

Raising the age of eligibility could also encourage labour force participation of people aged 60 or older.

As an example, the following two options could be considered:

- an increase from the age of 60 to 62 for the minimum age and from the age of 70 to 72 for the maximum age of eligibility by 2030;
- an increase from the age of 60 to 65 for the minimum age and from the age of 70 to 75 for the maximum age of eligibility by 2045.

Increasing the minimum age of eligibility for a QPP pension would increase the pension paid to members.

Option 1: Increasing the minimum eligibility age to 62 and the maximum eligibility age to 72

The minimum age of eligibility for a QPP pension could be increased from 60 to 62 after a seven-year period. The maximum age of eligibility could be increased from 70 to 72 over the same period.

Therefore, if the minimum eligibility age were raised to 62, a contributor who is eligible for the maximum retirement pension may have to postpone receiving it for up to two years. However, the pension he or she would receive from the starting date of the payment would be $2166 per year higher until death.

- In fact, the pension that this person would receive if he or she applied for it at age 60 would be $9628 per year. If this person had applied for his or her pension at age 62, he or she would have received a pension of $11 794 per year instead.
- This difference would allow this person to obtain a higher cumulative retirement pension at age 70 than if he or she had applied for the pension at age 60.

Similarly, increasing the maximum age of eligibility for QPP benefits to 72 could increase the additional annual amount by $2527.

TABLE 5
Maximum effect on pension amount in a scenario where the minimum eligibility age is increased to age 62
(in dollars per year, unless otherwise indicated)

	Current situation	After amendment	Difference	*Difference in percentage*
Minimum eligibility age (increase from age 60 to 62)	9628	11 794	**2166**	***22%***
Maximum eligibility age (increase from age 70 to 72)	21 361	23 888	**2527**	***12%***

Option 2: Increasing the minimum eligibility age to 65 and the maximum eligibility age to 75

In a scenario where the minimum age for QPP pension eligibility was instead raised to the age of 65, a situation similar to Option 1 would arise. This would increase the minimum eligibility age from 60 to 65 and the maximum eligibility age to 75, both over a 22-year period.

This would result in a loss of up to five years of retirement pension, but a 56% increase in the annual pension amount for life. This increase would allow a person to obtain a higher cumulative amount at age 73.

If he or she decides to wait until age 75 to apply for a pension, the annual amount will be increased by 30% as a result of this increase.

TABLE 6
Maximum effect on pension amount in a scenario where the minimum eligibility age is increased to age 65
(in dollars per year, unless otherwise indicated)

	Current situation	After amendment	Difference	*Difference in percentage*
Minimum eligibility age (increase from age 60 to 65)	9628	15 043	**5415**	***56%***
Maximum eligibility age (increase from age 70 to 75)	21 361	27 679	**6318**	***30%***

3.3 Avenues for consideration concerning job retention for people aged 65 and over

Despite some preconceived notions, working beyond the age of 65 is financially beneficial. Beneficiaries with low retirement incomes are often the ones whose standard of living improves the most with additional work income.

For example, a person with a retirement income of $37 666 who decides to work to increase his or her income by $15 000 will keep almost three-quarters of the additional work income. His or her retirement income will not be reduced when he or she returns to work. This individual will have a net gain of $9519 after government withholdings, claw backs and employment incentives, which represents a 63.5% labour income retention rate.

TABLE 7
Illustration of retained earnings in retirement for a 65-year-old - 2022

	Without work income	With work income	Difference
Retirement income(1)	$37 666	$37 666	—
Work income	—	$15 000	$15 000
Subtotal: Gross income	$37 666	$52 666	$15 000
Net withdrawals and government claw backs	-$2577	-$9924	-$7347
Employment incentive measures	—	$1867	$1867
AVAILABLE INCOME	**$35 089**	**$44 608**	**$9519**
***Labour income retention rate*(2)**			***63.5%***

(1) In the illustration shown, retirement income includes $7666 from the Old Age Security pension, $10 000 from the Québec Pension Plan and $20 000 from private savings (e.g.: RRSP).
(2) The labour income retention rate represents the share of gross labour income that a taxpayer will retain. It is calculated by dividing the increase in disposable income following entry into the labour market by the additional employment income.
Source: Retained work income at retirement: Calculation tool available on the Ministère des Finances' website.

To encourage the postponement of retirement pension applications and job retention for those aged 65 and older, the following avenues for consideration are discussed in this section:

- make QPP contributions optional after the age of 65;
- amend the retirement pension calculation rules to ensure that employment earnings obtained after the age of 65 do not reduce the average earnings used to calculate the pension.

3.3.1 QPP contribution requirement for individuals age 65 or over

Current situation

A worker must contribute to the QPP, even if he or she is receiving a retirement pension[9]. In 2022, the maximum contribution is:

- $3776.10 per year for an employee;
- $7552.20 per year for a self-employed person.

In the case of an employee, the employer contributes the same amount as the employee. Employee contributions made to the QPP after retirement pension payments have begun are eligible for the retirement pension supplement[10].

While it is generally advantageous to continue to contribute to the QPP after the age of 65, some experienced workers need short-term liquidity and want to keep more of their salary.

Indeed, at the age of 65, many people are satisfied with their financial planning for retirement and wish to stop contributing to the QPP.

9 The only exception is for the beneficiaries of a disability pension who have not yet received their retirement pension.

10 Maximum contributions in 2021 will result in an additional $28 per month beginning in January 2022. The pension supplement will be 0.66% of contributed earnings starting in 2023.

The CPP allows you to stop contributing as of age 65

The CPP offers workers who have already started receiving their pension the option of stopping contributing to the Plan as of age 65.

Box 1 CPP contribution rules

Under the CPP, the applicable contribution rules are the following:

- 18 to 64 years old: contributions are mandatory;
- 65 to 69 years:
  - Contributions are mandatory for people who are not receiving a retirement pension,
  - The retirement pension beneficiary can opt out of the obligation to contribute to the CPP (the employer also stops contributing when the employee opts out);
- 70 years and older: contributions cease.

Avenues for consideration

In response to requests from certain workers who would like to increase their short-term liquidity, consideration could be given to offering QPP beneficiaries who wish to do so, the option to stop contributing starting as of age 65.

Stopping contributions to the QPP would increase the amount of work income retained in retirement for workers 65 or older who receive their QPP pension.

For example, a 65-year-old retiree who decides to work to increase his or her income by $15 000 would keep $10 707, after deductions and claw backs, if he or she stopped contributing to the QPP. This would represent an additional amount of $588.

Thus, this person's labour income retention rate would be 67.4%, or 3.9% higher than if he or she had contributed to the QPP.

TABLE 8
Illustration of net earnings for a worker aged 65 who ceases to contribute to the QPP - 2022

	With QPP contributions	Without QPP contributions	Difference
Work income	$15 000	$15 000	—
QPP contributions	-$707	—	$707
Other deductions and government recovery	-$6640	-$6759	-$119
Employment incentive measures	$1867	$1867	—
AVAILABLE LABOUR INCOME	**$9519**	**$10 107**	**$588**
Labour income retention rate(1)	***63.5%***	**67.4%**	***3.9%***

Note: In the illustration shown, retirement income includes $10 000 in Québec Pension Plan benefits and $20 000 in private savings (e.g.: RRSP).

(1) The labour income retention rate represents the share of gross labour income that a taxpayer will retain. It is obtained by dividing the labour income by the additional employment income.

3.3.2 Retirement pension protection for persons aged 65 or over with reduced income

Current situation

Under the QPP, the calculation of a contributor's retirement pension is based on his or her earnings from the age of 18 to the month before his or her retirement pension payments begin[11], not exceeding the age of 70[12]. If a person who is still working decides to postpone the starting date of his or her pension beyond the age of 65, his or her contributory period is extended, and low or nil work earnings after the age of 65 may reduce his or her career average earnings.

The current environment of labour scarcity, increased inflation risk and financial market variability makes it preferable to consider measures that would encourage the postponement of retirement pension starting date and promote job retention beyond the age of 65.

Under the QPP base plan, the pension calculation is less favourable than in the equivalent plan, the CPP, for a person who would like to remain employed after the age of 65 and who would receive lower earnings than those obtained during his or her career. The way the CPP is calculated better protects these clients when they postpone their pension until after the age of 65.

Under the CPP base plan, the contributory period ends in the month before payment of the retirement pension begins but does not exceed the age of 65. This limit reduces the number of years considered in the calculation of the pension and thus prevents earnings after the age of 65 from reducing the average career earnings used to calculate the retirement pension.

Avenues for consideration

Under the QPP base plan, the method of calculating the pension could be changed to ensure that years of low earnings after the age of 65 do not affect the average earnings used to calculate the retirement pension. The adoption of a protection mechanism for average earnings at age 65 would have a positive impact on retirement income and job retention. In fact, some people could postpone their application for a pension under the QPP beyond the age of 65 while continuing to work, without having to worry about a potential negative effect on their pension calculation.

3.4 Ways to increase financial security in retirement while ensuring the sustainability of the Plan

The measures designed to increase financial security and encourage experienced workers to remain in the workforce would have a positive impact on the retirement income of Quebecers. However, such actions would involve a cost to the Plan.

The financial health of the Plan may be affected by inflation, growth in workers' incomes and employment rates. Thus, to ensure the long-term financing of the QPP, certain actions aimed at reducing the pressure on the Plan, while allowing for greater encouragement of job retention, could be considered.

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11 For example, a person who starts receiving a retirement pension at the age of 65 would have a base contributory period of about 40 years, after the expected deduction of 15% of the lowest months (or 85% of the 47-year contributory period). However, a person receiving a retirement pension as of age 70 would have a contributory period of about 44 years (or 85% of his or her 52-year contributory period).

12 If the person has not started receiving a retirement pension by the age of 70, the contributory period ends the month before the person turns 70.

Adjustment factors for early pension payments

If the pension is requested before the age of 65, it is reduced for the entire duration of the payment period according to a certain adjustment factor. This factor currently ranges from 0.5% to 0.6% depending on the level of the pension for each month of anticipation before the beneficiary's 65th birthday.

To ensure the long-term financial health of the Plan and to encourage job retention, the adjustment factors for early retirement pension payments could be increased by 0.05%, and therefore vary from 0.55% to 0.65%. This change in adjustment factors may cause some individuals to postpone applying for a retirement pension beyond the age of 62.

This adjustment would decrease the retirement pension payments of new beneficiaries by up to $90 per year of pension anticipation.

4. Better recognition of special situations

Certain life situations can lead to a decrease in work earnings. For example, a period of disability or the need to care for a dependent child may lead to a reduction in hours worked, which in turn reduces the pension.

This chapter outlines the current arrangements that apply in some of these situations and begins a discussion of how to better recognize them in the pension calculation. In this regard, the following topics are addressed:

– the disparities between the base and additional plans;

– the late consideration of the periods recognized in the calculation of the pension;

– the lack of recognition for caregivers.

4.1 Current procedures for recognizing periods of low earnings

The amount of the retirement pension under the QPP is based on the average of the contributor's career earnings. Under the base plan, measures are in place to:

– limit the effect of a reduction in earnings during a period of disability[13] or the period required to care for a dependent child on average career earnings. Women are particularly affected by this situation;

– preserve eligibility for disability and survivor benefits[14].

The measures in place under the QPP base plan and the CPP allow for the removal of certain periods of disability and periods of caring for a dependent child from the calculation of the retirement pension amount. Thus, these periods of low earnings do not affect either career average earnings or the determination of eligibility for benefits.

Since 1 January 2019, the QPP and CPP also include an additional plan, which will improve the financial security of Québec workers by increasing their pension.

13 The disability periods covered are those where the person is receiving a disability pension under the QPP or an unreduced income replacement indemnity from the Commission des normes, de l'équité, de santé et de la sécurité au travail (CNESST) for a period of at least 24 months.

14 Survivor benefits are paid to the family of a deceased person. They include the surviving spouse's pension, the orphan's pension and the death benefit.

Box 2 Recognition of special situations under the QPP base plan

When calculating the QPP retirement pension under the base plan, certain contribution periods may be deducted. If the earnings in these periods are less than the average earnings in the other periods, they can be removed from the pension calculation to increase the amount of the pension. This deduction is applied to 15% of the contribution months with the lowest earnings. All citizens benefit from this exclusion.

Before applying this exclusion, certain periods of contribution where earnings are lower than average may be removed in the following situations:

- months of receiving family benefits for a child under 7 years of age;
- months of receiving of the Supplement for Handicapped Children Requiring Exceptional Care for a child under the age of 18;
- months of receiving a disability pension under the QPP;
- months within a period of receiving full income replacement benefits from the Commission des normes, de l'équité, de la santé et de la sécurité du travail (CNESST)[1].

The 15% deduction is then applied to the remaining months.

1 The period must last at least 24 consecutive months.

4.2 Issues related to current arrangements

Disparities between the base and additional plans

When the enhancement to the QPP was implemented, no measures to recognize periods of disability and periods of caring for a dependent child were introduced under the additional plan. In such cases, the enhancement to the CPP provides earned credits, i.e., it estimates the wage loss caused by a situation[15] and adds earnings to compensate for this loss in the calculation of the pension.

Currently, the periods covered are only considered when calculating the pension. Therefore, people who have these periods recognized are not informed of the impact of the deduction of these years on the amount of their pension before applying for it.

The base and additional plans do not provide for the recognition of caregivers

Furthermore, none of the plans (base or additional) provide for the recognition of periods of assistance provided by family caregivers.

Some groups have asked that the recognition of periods of caregiving be extended to include time spent by family caregivers. In fact, they sometimes must leave the labour market or significantly reduce their working hours in order to take care of a loved one who is ill or losing his or her independence.

15 The difference between the average income (4 or 6 years) prior to the event and the average income received during the period of loss or decrease in income is used in particular for this estimate.

According to Statistics Canada, in 2018, just over 20% of people aged 15 and over in Québec had acted as caregivers in the previous 12 months[16]. Women were more likely than men to have held this position (24% compared to 18%). A similar finding emerges for those aged 45 to 64. In fact, women in this age group were more likely to be caregivers than men (36% compared to 26%).

Under the base plan, caregivers can deduct certain months of low or no work earnings (up to 15%) from their contribution period. However, there are no specific measures to limit the effect of decreases in work earnings during these periods on their pension, except for periods when they are eligible for the Supplement for Handicapped Children Requiring Exceptional Care.

4.3 Avenues for consideration with regard to better recognizing specific situations

Considering the issues presented above, this section outlines some avenues for consideration for better recognizing certain specific situations.

4.3.1 Addition of earned credits to the additional plan and harmonization of the base plan

Changes could be made to the QPP to recognize credits for earnings associated with periods of disability and periods of caring for a dependent child under the additional plan. This would enhance the pension portion of the additional plan for these individuals, thereby enhancing their financial security in retirement.

In order to facilitate the understanding of these measures for contributors, these recognitions would be identical for both QPP plans. Thus, the deductions provided for under the base plan would be replaced by earned credits.

Furthermore, the entry of earned credits at the time of the child's birth, or at the beginning of a period of disability, would make it possible to inform the concerned individuals more quickly of the amount recognized for the calculation of their pension.

4.3.2 Recognition of periods of assistance provided by family caregivers

Consideration could be given to a measure that would allow for recognition of periods of loss or significant reduction in income related to caregiving, under conditions to be defined. In this regard, Retraite Québec is participating in an interdepartmental working committee on the reconciliation of work-family-education-caregiving responsibilities and on financial insecurity. Moreover, it collaborates with other government departments and agencies to understand the realities and needs of caregivers, who are at high risk of financial insecurity, based on psychosocial and economic factors.

In the current context of an aging population, the addition of such a measure to the QPP could make life easier for concerned workers by protecting the level of their retirement pension.

[16] Statistics Canada, *General Social Survey - Caregiving and care receiving*, 2018. Compiled by the Institut de la statistique du Québec.

5. Impact of the discussed options on the funding of the Plan

Based on the most recent actuarial valuation, the Plan's steady-state and reference contribution rates are:

– 10.54% under the base plan, which is 0.26% lower than the current contribution rate of 10.80%;

– 1.85% under the additional plan, which is 0.15% less than the current contribution rate of 2.00%.

However, some of the avenues for consideration presented above would reduce the Plan's financial margin. Given the margin available, however, these measures could be considered without increasing the statutory contribution rates.

Increase financial security and better recognize special situations

If the minimum age of eligibility for a pension under the QPP were to be increased from age 60 to 62 (Option 1), the Plan's margin would be 0.01% for the base plan and 0.12% for the additional plan[17].

Increasing the minimum age of eligibility for a pension under the QPP from age 60 to 65 (Option 2) would reduce the Plan's margin to 0.04% for the base plan and 0.09% for the additional plan[17].

TABLE 9
Financial impact of the avenues for consideration for each scenario of increasing the minimum age of eligibility for the QPP retirement pension

	Option 1: Minimum eligibility age increased from the age of 60 to 62				Option 2: Minimum eligibility age increased from the age of 60 to 65			
	Base plan		Additional plan		Base plan		Additional plan	
	As a % of	In millions of dollars	As a % of	In millions of dollars	As a % of	In millions of dollars	As a % of	In millions of dollars
Actuarial valuation margin as at 31 December 2021	**0.26**	**416**	**0.15**	**300**	**0.26**	**416**	**0.15**	**300**
Raising the minimum age of eligibility	-0.12	-192	-0.04	-80	-0.09	-144	-0.07	-140
Postponing the maximum age of eligibility	—	—	—	—	—	—	—	—
Making QPP contributions optional as of age 65	-0.11	-176	+0.01	20	-0.11	-176	+0.01	20
Protecting the level of retirement pension requested after age 65	-0.02	-32	—	—	-0.02	-32	—	—
Residual financial margin	**0.01**	**16**	**0.12**	**240**	**0.04**	**64**	**0.09**	**180**

17 These rates also take into account the impact of measures to make QPP contributions optional at the age of 65 and to protect the level of pension requested after the age of 65.

Ensuring a financial margin for the Plan

Factors such as financial market fluctuations, employment and inflation could affect the Plan's financial margin. To implement beneficial changes, while ensuring that the QPP remains financially sound over the long term, certain measures could be examined.

In this regard, consideration could be given to increasing the adjustment factors for early pension payments. This would provide the Plan with a higher residual financial margin:

– an increase in the adjustment factors in a scenario with a minimum age of eligibility for a QPP pension at 62 (option 1) would increase the residual financial margin to 0.08% for the base plan and 0.14% for the additional plan[18];

– an increase in the adjustment factors in a scenario with a minimum age of eligibility for a QPP pension at the age of 65 (option 2) would increase the residual financial margin to 0.06% for the base plan and 0.10% for the additional plan[18]

TABLE 10
Financial impact of the proposed avenues for consideration according to the scenario of increasing the minimum age of eligibility for the QPP retirement pension

	Option 1: Minimum eligibility age increased from the age of 60 to 62				Option 2: Minimum eligibility age increased from the age of 60 to 65			
	Base plan		Additional plan		Base plan		Additional plan	
	As a % of	In millions of dollars	As a % of	In millions of dollars	As a % of	In millions of dollars	As a % of	In millions of dollars
Actuarial valuation margin as at 31 December 2021	**0.26**	**416**	**0.15**	**300**	**0.26**	**416**	**0.15**	**300**
Residual financial margin	0.01	16	0.12	240	0.04	64	0.09	180
Increase in pension adjustment factors from age 60 to 65(1)	+0.07	112	+0.02	40	+0.02	32	+0.01	20
Residual financial margin after applying the measure	**0.08**	**128**	**0.14**	**280**	**0.06**	**96**	**0.10**	**200**

(1) Given that the increase in the minimum eligibility age would be phased in, there would be an impact related to the increase in the adjustment factors to the pension claimed before the age of 65.

18 These rates also take into account the impact of measures to make QPP contributions optional at the age of 65 and to protect the level of pension requested after the age of 65.

6. Automatic adjustment mechanisms in case of financial imbalance

The QPP's financial situation is measured regularly by means of actuarial valuations. The latest actuarial valuation indicates that the current funding of the QPP is adequate. However, changes in Québec's demographic, economic or financial situations could cause imbalances in this funding.

Financial imbalances can be (and have been in the past) corrected by legislative changes. However, the time required for reflection and development of legislation may result in funding deviations becoming more significant over time. An automatic funding adjustment mechanism provides rules for restoring the Plan's financial position should an unfavourable situation arise. It allows for the application of corrective measures quickly.

This is an important provision for intergenerational equity as it ensures the long-term funding of the Plan and avoids placing the financial burden on future generations.

Under the base plan, an automatic funding adjustment mechanism with a possible increase in contributions was introduced in 2011. When the additional plan was created in 2018, the Act provided that benefits and contributions could be modified in the event of a financial imbalance. However, the parameters of this adjustment mechanism have not yet been defined.

The CPP, which is the equivalent plan to the QPP in the rest of Canada, has a number of mechanisms in place to ensure that funding is automatically restored or that legislative changes are made quickly to reduce the cost of the plan. These mechanisms provide for both contributors and beneficiaries to participate in the efforts necessary to return to an adequate financial position.

The following table provides a summary of the automatic adjustment mechanisms under the QPP and CPP. Since their implementation under the QPP and CPP, there has been no need to apply them. Previous financial imbalances have all been corrected by legislative changes affecting either the contribution rate, benefit amounts, or both.

TABLE 11
Summary of automatic adjustment mechanisms under the QPP and CPP

QPP	CPP
Base plan	
<u>Excellent financial situation</u> No action planned. <u>Poorer financial situation</u> • Increase in the contribution rate if the steady-state contribution rate is 0.1 percentage point or more above the statutory contribution rate; • The increase is 0.1 percentage point per year.	<u>Excellent financial situation</u> No action planned. <u>Poorer financial situation</u> The following two actions are performed: • Increase in the contribution rate to close 50% of the gap between the statutory contribution rate and the steady-state contribution rate[19]. • Freeze benefit indexing for 3 years.
Additional Plan	
Automatic adjustment mechanism to be defined. The Act allows for an increase or decrease in contributions and/or benefits.	<u>Excellent financial situation</u> • Higher indexation of benefits paid. The indexation rate can be as high as twice the rate of inflation. • Benefits for future beneficiaries are also increased equivalently. <u>Poorer financial situation</u> • Indexation of benefits reduced up to 60% of inflation. • The benefits of future beneficiaries are reduced equivalently. • Increase in the contribution rate if the indexation reduction is not sufficient to close the gap between the statutory contribution rate and the steady-state contribution rate.

As an example, Appendix 4 presents the adjustment mechanisms that apply in different countries.

19 The CPP uses the *minimum contribution rate*. The details of its calculation are different from the calculation of the steady-state contribution rate, but the principle is the same. The term *steady-state contribution rate* is used here for the CPP to simplify the text.

Review questions

To ensure better financial security for future retirees (section 3), are you in favour of:

– progressively postponing the minimum age of eligibility for a retirement pension under the QPP from 60 to 62 or 65 (section 3.2)?

– gradually extend the current limit for starting to receive your pension under the QPP from age 70 to 72 or 75 (section 3.2)?

– making contributions to the QPP optional for retirement pension beneficiaries as of 31 December of the year in which they turn 65 (section 3.3.1)?

– amending the pension calculation rules to ensure that the earnings of a person applying for a pension after the age of 65 do not reduce the average earnings used to calculate the pension (section 3.3.2)?

In order to improve the financial security of seniors, while providing the Plan with a financial margin, are you in favour of increasing the adjustment factors for a pension requested before the age of 65 (section 3.4)?

To better account for events that affect the careers of certain individuals (Section 4), do you support:

– allowing for the addition of earned credits in both plans to recognize periods of reduced income when a person has to care for a dependent child or in the event of disability?

– the addition, in both plans, of a measure to support caregivers who have to significantly reduce their work time?

You can also address other issues and propose other changes as part of this consultation.

Conclusion

This consultation is simultaneously aimed at improving the retirement income of future retirees and retaining the experienced workforce.

The purpose of the reflections and suggested changes is to adapt the Plan to the realities and challenges of the 21st century, which are largely related to the demographic changes taking place in Québec.

In order to meet the needs of future generations, it is now up to the public to make their views known on the content of this consultation document.

Appendix 1 - Glossary

ACT: Act respecting the Québec Pension Plan (RLRQ, chapter R-9).

ADDITIONAL PLAN: A plan added to the Québec base plan in 2019 in which additional contributions are made by workers and employers at a rate that gradually increases from 2019 to 2023. Furthermore, effective 2024, new contributions will be made to the plan for any portion of income between the MPE and a new contribution-eligible salary limit. This new ceiling will be 107% of MPE in 2024 and 114% of MPE starting in 2025.

BASE PLAN: The Plan has been in place since 1966 and workers and employers contribute to it for the portion of work income between the general exemption of $3500 and the maximum pensionable earnings (MPE).

EARNED CREDITS: The amount of pensions varies according to the contributor's earnings record. The earned credits are an additional amount added to the income actually earned to compensate for a loss of salary caused by certain situations (e.g.: period of disability or period when a child is dependent). They are based on the difference between the average income before the event and the average income during the period of wage decrease or loss.

GENERAL EXEMPTION: Amount on which no contribution is made. For work earnings eligible under the QPP, it is set at $3500.

INCOME REPLACEMENT RATE: Percentage of income that retirement income represents in relation to income received as an active worker.

INFLATION RISK: Inflation risk means that the cost of living rises more than the growth in income and assets, which decreases purchasing power in retirement. It is important to ensure that there is enough retirement income to maintain a good standard of living.

LONGEVITY RISK: The longevity risk is associated with the possibility of living longer than expected and experiencing a significant drop in income before death due to the depletion of accumulated funds. It is aimed more at retirees who derive a significant portion of their income from investments. Therefore, the challenge is to provide enough savings to secure a good level of income until death.

MAXIMUM PENSIONABLE EARNINGS (MPE): With respect to QPP-eligible work earnings, the maximum amount on which contributions are made. In 2022, the amount is set at $64 900.

QPP RESERVE: Accumulated assets in the QPP fund. This fund is managed by the Caisse de dépôt et placement du Québec according to the investment policy in effect for this fund.

RATE OF RETURN RISK: The rate of return risk is related to the uncertainty of investment income. It increases when a significant proportion of the retirement assets are managed by the retiree themselves until death, without providing a guaranteed life income.

REFERENCE CONTRIBUTION RATE: Estimate of the contribution rate that will result in the accumulation of assets for the additional plan at least equal to the value of future expenses that relate to contributions made before the end of the twentieth projection year.

RETIREMENT PENSION ELIGIBILITY AGE: Age at which it is possible to start receiving your pension under the QPP. For the QPP, it is between the ages of 60 (minimum eligibility age) and 70.

STEADY-STATE CONTRIBUTION RATE: Estimate of the contribution rate needed to keep the accumulated assets under the QPP base plan stable in relation to the benefits paid out over a very long period of time. It is an indicator that allows us to assess the stability of the QPP base plan's funding over the long term.

Appendix 2 - Description of the Québec Pension Plan's benefits[1]

1) PRESENTATION OF QUÉBEC PENSION PLAN BENEFITS

RETIREMENT	
ELIGIBILITY	
Age of eligibility	From the age of 60 to 70; you do not need to have stopped working.
Required contributions	Must have contributed for at least one year to the QPP[2].
CALCULATION	
Basic retirement pension under the base plan	It represents 25% of the individual's average monthly base plan (adjusted) pensionable earnings. The adjustment is made based on the average MPE for the year of retirement and the previous four years.
Basic retirement pension under the additional plan	It represents 8.33% of the individual's average monthly eligible earnings (adjusted) under the additional plan. The adjustment is made based on the average MPE for the year of retirement and the previous four years.
Low earnings deduction (base plan)	Under the base plan, career average earnings are calculated by excluding 15% of the months in which earnings are lowest (periods of unemployment, education, illness, etc.). This corresponds to almost 7 years for a retirement starting at the age of 65.
Adjustment factor for early payment (before the age of 65, non-disabled beneficiary)	The adjustment factor varies between -0.5% and -0.6% per month of anticipation, in proportion to the level of the base plan pension.
Adjustment factor for postponed retirement (after the age of 65)	The factor is +0.7% per month of postponement.
Retirement pension supplement	The beneficiary of a pension who works makes contributions to the Plan regardless of his or her age. As of the following 1 January, the following supplements will be paid: • 0.58% of the income on which the person contributed in 2022; the maximum supplement paid is $28.08 per month; • 0.66% of the income on which the person has contributed for 2023 and subsequent years.

1 The measures and amounts shown are those that apply in 2022.

2 In general, all that is required is that the income earned is above the general exemption of $3500.

DISABILITY	
ELIGIBILITY	
Definitions of disability	Total disability (ages 18-64): • inability to engage in any substantially gainful occupation. Flexible definition of disability (ages 60-64): • inability to perform his or her regular job.
Additional amount for disability paid to the retirement pension beneficiary	When the beneficiary (aged 60 to 64) is unable to engage in any substantially gainful occupation and has been receiving a retirement pension for more than 6 months.
Age and contribution period required to receive disability benefits	In the event of total disability (ages 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. In the case where the more flexible definition of disability applies (age 60-64) or for the additional amount for disability: • 3 of the last 6 years.
Duration of payment of the pension for a disabled person's child	Pension payable until the child reaches age 18.
CALCULATION	
Disability pension	Corresponds to the flat rate + the variable portion: • the flat rate is $524.61 per month; • the variable portion is 75% of the base pension, or a maximum of $939.62 per month. Pension paid after a 3-month waiting period.
Additional amount for disability	Flat monthly amount of $524.61.
Pension for a disabled person's child	Flat monthly amount of $83.99.

SURVIVAL	
ELIGIBILITY	
Beneficiary of the surviving spouse's pension	If the deceased was married or in a civil union: • his or her spouse at the time of death (if there was no legal separation). In all other cases, the person who was living in a conjugal relationship (as defined under the Act) with the deceased on the day of death.
Duration of the orphan's pension	Pension payable until the child reaches age 18.
Contribution period required from the deceased	One-third of the contributory period (at least 3 years) or 10 years.
CALCULATION	
Surviving spouse's pension before the age of 65	Corresponds to the flat rate + the variable portion: • the flat rate varies depending on the age of the surviving spouse and other factors: · under age 45, without children and not disabled: $134.37 per month; · under age 45, with children and not disabled: $487.12 per month; · aged 45 to 64 or disabled: $524.61 per month. The variable portion of a maximum of $468.49 per month is: • for the base plan, 37.5% of the deceased contributor's basic retirement pension; • for the additional plan, to 50% of the basic retirement pension under that plan.
Surviving spouse's pension at or after the age of 65	The variable portion of a maximum of $746.65 per month is: • for the base plan, 60 % of the deceased contributor's basic retirement pension; • for the additional plan, to 50% of the basic retirement pension under that plan.
Orphan's pension	Flat monthly amount of $264.53.
Death benefit	Flat amount of $2500 or the sum of contributions made to the base plan (to a maximum of $2500), if the deceased did not contribute for the required number of years, but contributed at least $500 and never received a pension or disability benefit under the Plan.

2) PRESENTATION OF CLIENTS AND AMOUNTS PAID

2.1) MONTHLY PENSIONS PAID AS OF 31 DECEMBER 2021

Type of pension	Average pension		Maximum pension
	Women	Men	
Retirement	$459.45	$632.50	At age 60 = $773.29. At age 65 = $1208.26. At age 70 = $1715.73.
Additional amount for disability	n/a	n/a	$510.82
Disability	$931.32	$966.24	$1416.45
Surviving spouse(1)	$419.82	$228.91	Not disabled: • under 45 years old: · without children = $578.42, · with children = $921.89; • 45 to 64 years old = $958.40. Disabled: • under age 65 = $958.40; • 65 years or over = $714.78

(1) The average monthly combined pension (surviving spouse's pension + retirement pension) is $756.12 for women and $877.28 for men.

2.2) NUMBER OF BENEFICIARIES AND AMOUNTS PAID IN BENEFITS AS OF 31 DECEMBER 2021

Type of pension	Number of beneficiaries	Amounts paid (in millions of dollars)
Retirement	2 001 078	13 357.9
Additional amount for disability	999	9.7
Disability	54 717	692.8
Surviving spouse	379 337	1750.3
Death	n/a	132.9
Children	18 333	47.8
Total	**2 159 968(1)**	**15 991.4**

(1) In the total, beneficiaries whose pensions are combined are counted only once.

Appendix 3 - Retirement Eligibility Ages of OECD Member Countries

Country	First age of eligibility	Normal age in 2022	Recent reform
Germany	63 years old.	65 years and 10 months.	Gradual increase of the normal retirement age to 67 until 2031.
Australia (Employer-funded retirement benefit: *Superannuation guarantee*)	Between the ages of 55 and 60 depending on the year of birth. Possibility of withdrawing a bridging pension that represents between 4 and 10% of what has been saved since the first contribution. • 55 if born before July 1960; • 56 if born before July 1961; • 57 if born before July 1962; • 58 if born before July 1963; • 59 if born before July 1964; • 60 if born after June 1964.	66 years and 6 months.	Gradual increase of the normal retirement age to 67 until 2023.
Austria	• Men: 62 years old. • Women: 60 years old.	• Men: 65 years old. • Women: 60 years old.	Increase for women: • first age of eligibility: age 62 in 2033; • normal retirement age at 65 in 2033.
Belgium	Between the ages of 60 and 63 depending on the number of years of service.	65 years old.	Increase the normal retirement age to 66 in 2025 and 67 in 2030.
Canada (Québec)	60 years old.	65 years old.	
Chile	Allowed at any age as long as the accumulated contributions are sufficient to fund retirement above a certain level and the pension is greater than or equal to 70% of the average income declared in the last 10 years prior to the application.	• Men: 65 years old. • Women: 60 years old.	
Colombia (RPM: Prima Media Regimen)	• Men: 62 years old. • Women: 57 years old. Excludes: disabled and single parents with dependent children.	• Men: 62 years old. • Women: 57 years old.	Suggested raise of the retirement age to 65 for men and to 62 for women.
Korea	Possible 5-year advance to normal retirement age for "unemployed" with 10+ years of participation.	62 years old.	Gradual increase of the normal retirement age to 65 until 2033.
Costa Rica	• Men: 62 years old. • Women: 60 years old.	65 years old.	
Denmark (additional pension)	64 years old.	67 years old.	Gradual increase of the normal retirement age to 69 until 2035.

Country	First age of eligibility	Normal age in 2022	Recent reform
Spain	2 years before the normal retirement age and many exceptions.	Age 65 if 37 years and 6 months or more of contributions. 66 years old if less than 37 years old and 6 months of contributions.	• Starting in 2027, the age of 65 if 38 years and 6 months or more of contributions • Otherwise, 67 years old if less than 38 years old and 6 months of contribution
Estonia	3 years before the normal retirement age.	64 years and 3 months.	Gradual increase of the normal retirement age to 65 until 2026 and then evolve according to life expectancy.
United States	62 years old.	66 years and 4 months.	Increase the normal retirement age to 67 in 2027.
Finland	• Partial pension of 25% or 50% of accrued benefits at age 61 for contributors born before 1964 and at age 62 for those born in 1964. • For those born in 1965 and later, this age will be determined according to the life expectancy.	64 years old.	Gradual increase of the normal retirement age to 65 until 2027 to then evolve according to life expectancy as of 2030.
France	• 62 years old. • 60 years old if you have a difficult job.	62 years old.	• Pension reform planned for 2023, which would raise the normal retirement age to 65 by 2031. • The minimum age increased from 60 to 62 in the 2010 reform.
Greece	62 years with or without penalty depending on the length of participation.	67 years old.	
Hungary	Having worked 40 years for women, no possibility for men.	65 years old.	
Ireland	66 years old.	66 years old.	Cancellation of the increase that was to raise the retirement age to 68 in 2028. Currently under review.
Iceland	65 years old.	67 years old.	
Israel	• Men: 67 years old. • Women: 62 years old.	• Men: 67 years old. • Women: 62 years old.	Gradual increase to the age of 65 for women, over an 11-year period (law passed in 2022).
Italy	62 years with a long participation.	67 years old.	Future increase based on life expectancy.
Japan	60 years old.	65 years old.	

Country	First age of eligibility	Normal age in 2022	Recent reform
Latvia	• 2 years before normal retirement age if 30 years of participation. • 5 years before normal retirement age if 25 years of participation and having raised for 8 years at least 5 children or a disabled child.	64 years and 3 months.	Gradual increase of the normal retirement age to 65 until 2025.
Lithuania	• 5 years before normal retirement age if you have contributed at least 31 years and 6 months or • mother of a family of 5 or more children or • mother who has cared for a disabled child for at least 15 years or • caregiver for at least 15 years.	• Men: 64 years and 4 months. • Women: 63 years and 8 months.	Gradual increase of the normal retirement age to 65 until 2026 for both men and women.
Luxembourg	At age 57 or 60 depending on the number and type of years of participation.	65 years old.	
Mexico	• 60 years old with 24 years of participation and no employment for those employed in the private sector. • For others, at any age, provided the capital deposited in the account can purchase a life annuity >= 30% of the minimum pension and has 24 years of participation.	65 years old.	
Norway	• 62 years old. • The pension decreases with life expectancy at the time of application.	• 67 years old. • Can be requested between 62 and 75 years of age without penalty. • The contributor can choose from different pension levels (20, 40, 50, 60, 80 or 100%).	
New Zealand	65 years old.	65 years old.	
Netherlands	66 years and 7 months.	66 years and 7 months.	Gradual increase of the normal retirement age to 67 until 2024 and 2025. Thereafter, the legal age will be linked to the remaining life expectancy and will be increased by 8 months for each year of increased life expectancy.

Country	First age of eligibility	Normal age in 2022	Recent reform
Poland	• Men: 65 years old. • Women: 60 years old.	• Men: 65 years old. • Women: 60 years old.	A reform was underway in 2013 and the normal retirement age was increased, but the election of a new government brought the age back to its original level in 2017.
Portugal	55 years old with at least 30 years of participation.	66 years and 7 months.	The age will be 66 years and 4 months in 2023 due to a decline in life expectancy at the age of 65 because of COVID-19.
Slovakia	2 years before the normal retirement age with conditions on the number of years of participation and the level of the pension.	• 64 years old. • May be less depending on the number of children raised.	
Czech Republic	• 3 years before normal retirement age if 25 years of participation. • Will gradually increase to 5 years before normal retirement age with 35 years of participation.	Varies as follows: • 63 years and 10 months for men and women without children; • 63 years and 2 months for women who have raised a child; • 62 years and 2 months for women who have raised 2 children; • 61 years and 2 months for women who have raised 3 or 4 children; • 60 years and 2 months for women who have raised 5 or more children.	Will vary with life expectancy.
United Kingdom	66 years old.	66 years old.	Increase the normal retirement age to 67 from 2026 to 2028 and to 68 between 2044 and 2046 (study underway to advance this last scenario).
Slovenia	60 years with 40 years of participation.	65 years old.	

Country	First age of eligibility	Normal age in 2022	Recent reform
Sweden General scheme (pension paid by the State) which is divided into four parts: 1-Income Pension 2-Income Pension Supplement 3-Premium pension 4-Guaranteed pension (not based on earnings, similar to OAS pension in Canada)	For Income Pension and Premium Pension: • 61 years old if born in 1957 and 1958; • 62 years old if born in 1959 and 1960; • 63 years old if born in 1961 and 1962; • 64 years old if born in 1963 and 1964. Earliest Age for Guaranteed Pension and Income Pension Supplement: • 65 years old if born in 1957; • 66 years old if born in 1958; • 66 years old if born in 1959; • 67 years old if born in 1960.	No real legal retirement age for the income pension and the bonus pension, but a minimum age.	Starting in 2026, a target age, based on life expectancy, will determine when pensions can be collected.
Switzerland	Men: 63 years old. Women: 62 years old.	• Men: 65 years old. • Women: 64 years old.	The age will increase to 65 for women (accepted by referendum in October 2022, awaiting details).
Turkey	None, except for people with disabilities and employees in certain industries (mining).	• Men: 60 years old. • Women: 58 years old.	Starting in 2036, the retirement age will be gradually increased to 65 in 2048 for both men and women.

Appendix 4 - Main automatic adjustment mechanisms for public pensions in OECD countries

Country	Determining variables	Adjusted parameters	How the mechanism works
Who is affected: Contributors and all beneficiaries			
Germany	Dependency ratio (number of retirees to number of contributors) and average salary level	Benefits and contributions	A first sustainability index links benefit increases to wages and changes in the dependency ratio. When this ratio increases, because the increase in the number of retirees is not matched by an equivalent increase in the number of contributors, the increase in average gross earnings is only partially passed on, thus limiting the increase in benefits. A second viability index relates to a funding objective. On 1 January of each year, the law requires an increase in the contribution rate in the event that, at a constant rate, the projected year-end reserves fall below 0.2 months of expenditures. However, the contribution rate must remain below 20% until 2020 and 22% until 2030.
People affected: new beneficiaries			
Finland	Life expectancy	New benefits and retirement age	The basic benefit is adjusted by a life expectancy factor (smoothed over 5 years) for the year in which the beneficiary reaches age 62 (pension multiplied by the factor). The coefficient is determined for each cohort at the age of 62. Starting in 2030, the eligibility age will also be linked to life expectancy, and the coefficient will be calculated from the new eligibility age if it has increased. Two-thirds of the increase in life expectancy will affect retirement age.
Italy	Life expectancy, gross domestic product (GDP)	Benefit calculation and retirement age	In the notional defined-contribution plan, for contribution periods accrued on or after 1 January 2012, the amount of contributions is revalued annually by the average rate of increase in GDP over the last five years. The benefit amount is calculated by dividing the total amount of accumulated contributions by an actuarial factor that varies depending on the retirement age (between the ages of 62 and 70) and life expectancy at that age. The normal retirement age is currently 67 years and evolves according to life expectancy.

Country	Determining variables	Adjusted parameters	How the mechanism works
People affected: all beneficiaries			
Portugal	Life expectancy, GDP, consumer price index (CPI)	Basic pension calculation, retirement age and indexation	A sustainability factor, taking into account the average life expectancy at the age of 65, is included in the calculation for benefits starting before the age of 65. Between one-half and two-thirds of the increase in life expectancy will affect the retirement age, depending on the years of contribution. The indexation of benefits to the national minimum wage has been replaced by a new mechanism for indexing benefits: "indexing of social supports". The latter indexation is updated annually based on GDP growth and the average change in the CPI over the last 12 months. It depends on the level of the retirement pension for each person and penalizes less low-income annuitants, again depending on the evolution of the GDP.
Japan	Life expectancy, dependency ratio, CPI	Basic benefit calculation and indexation	The amount of benefits is adjusted by a demographic factor that takes into account life expectancy and the change in the number of people in the workforce relative to the number of retirees. However, the life expectancy factor has been set at 0.3% since 2004. The important criterion in the adjustment mechanism remains the number of active persons. The demographic factor is deducted from the indexation calculated from the CPI. If the CPI goes down, benefits remain unchanged. The replacement rate cannot fall below 50% of the average after-tax income of the working population.
Netherlands	Life expectancy, funding ratio (reserve/liability)	Retirement age, indexation and current benefit levels	The retirement age increases at two-thirds the rate of increase in life expectancy. If funding ratios (reserve/liability) fall below a certain measure (above 100%), pension indexation is reduced and pension levels are potentially cut, depending on the level of ratios for defined-benefit plans in the country, which cover nearly 90% of the population. The criteria for funding the plans are quite strict (no indexation if below 110%).

Country	Determining variables	Adjusted parameters	How the mechanism works
United States	Reserve level	Level of benefits	Since the public plan cannot borrow from the United States (Antideficiency Act), it must reduce benefits if its reserve falls to zero in order for benefits to be covered by contributions. There is no condition for the mechanism to be triggered (making it a potentially very steep adjustment in the future). It should be noted that there is nevertheless a legal uncertainty due to a conflict between two laws. In theory, retirees would still be entitled to their full pension, which could open the door to lawsuits or catch-up of unpaid amounts.
Sweden	Wages, GDP, life expectancy, funding ratio	Basic benefit calculation and indexation	The automatic balance mechanism is activated according to the following ratio: $$\frac{\text{Contribution assets + stabilization reserve}}{\text{Accumulated plan liabilities}}$$ When liabilities exceed assets (ratio less than 1), notional accounts and benefits are indexed at a rate lower than average earnings growth (extended 3-year decline since 2017). The conversion of notional accounts into annuities takes into account the increase in life expectancy, although this is not an adjustment mechanism in the strict sense of the word, but rather a characteristic of such schemes (as in Norway or Poland). The pension is obtained by dividing the account balance by a conversion factor that depends on the life expectancy of the generation to which the insured person belongs and the expected average length of retirement. Sweden is also planning to introduce a parameter to adjust the retirement age according to future life expectancy.

Source: OECD Report (2021): Chapter 2. Automatic adjustment mechanisms in pension systems | Pensions at a Glance 2021 : OECD and G20 Indicators | OECD iLibrary (oecd-ilibrary.org).

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