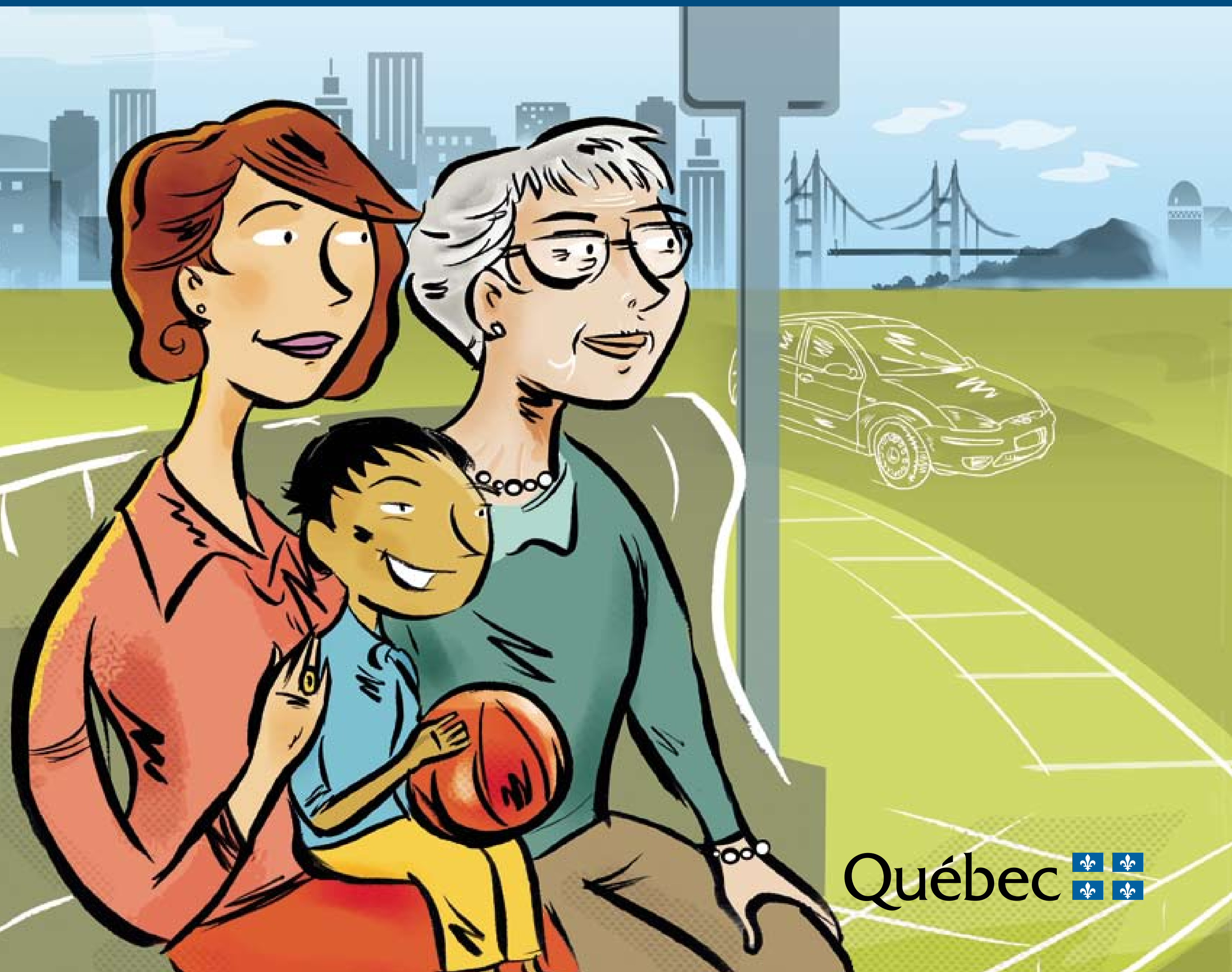
RÉGIE
DES RENTES
DU QUÉBEC

Working Paper

Toward a Stronger and Fairer
Québec Pension Plan



Québec

Legal deposit 3rd quarter 2008
Bibliothèque et Archives nationales du Québec
Bibliothèque et Archives Canada

ISBN 978-2-550-53576-8 (print version)
978-2-550-53577-5 (PDF)

Message from the Minister

Income security after retirement is a societal issue. It comes up in every generation, in every region, from our grandparents to our grandchildren. All today's and tomorrow's Quebeckers will one day have to make the transition from work to retirement.

By bringing together all of Québec's community strengths, we wish to take the opportunity offered by the coming public consultation on the Québec Pension Plan to bring to the fore a shared vision of the major challenges that confront us.

It is our ambition to honour those who implemented this great Québec achievement as well as to those who contribute daily by their work and efforts to its funding.

On the occasion of the public consultation, we wish to work with you to build a social and political consensus around the challenges confronting us and around the orientations to take in order to ensure that our 21st century retirees will have a modern Québec Pension Plan that is commensurate with our collective wealth and that respects the lofty principles of intergenerational fairness and solidarity.

I invite everyone to participate in this collective reflection.

Together, we have the ability to leave to our children a Plan that is better adapted to today's realities and that is financially sound.

SAM HAMAD
Minister of Employment and Social Solidarity

Table of Contents

List of charts

List of tables

Introduction

Since 1998, the *Act respecting the Québec Pension Plan* has provided that the Plan must be the object of an actuarial analysis every three years. Moreover, a public consultation before a parliamentary committee must take place at least once every six years to assess the plan's situation and, if required, propose changes to certain elements of the Plan.

In accordance with the obligation to hold public consultations, a consultation was held in the winter of 2004. It made it possible to consider important societal issues, such as labour force changes and the new realities of families, and to discuss proposals aimed at adapting the Plan to the new environment. Generally speaking, the participants reached a consensus around the major challenges. Their points of view were, however, divergent on the changes to implement in order to reach the objectives sought.

Situation of the Québec Pension Plan (QPP)

The Plan's actuarial report as at 31 December 2003 showed an increase in funding pressures on the Plan. The 2006 report now shows that the QPP is facing high funding pressures. An increase in the contribution rate, to bring it closer to the steady-state rate, would help strengthen Plan funding. However, this solution, by itself, would not be enough to ensure that Quebeckers would have a fair plan. The QPP needs to be renewed but the Plan has been slow to adjust to the new realities of work and family. This delay results in further increases in the pressures on Plan funding.

Challenges facing the QPP

A public plan like the QPP has to adjust to changing societal realities in order to remain fair for all its contributors. There are many important challenges facing the Plan and its beneficiaries. They can be summarized as follows:

- Stabilizing Plan funding;
- Preserving similarities with the Canada Pension Plan (CPP);
- Adapting the Plan to labour market changes;
- Adapting the Plan to changes in family realities.

Avenues of solution

This working paper has five chapters. The first chapter situates the Québec Pension Plan in the overall Québec system of retirement income security. The second chapter lays out the Plan's financial situation according to the actuarial report as at 31 December 2006. It explains why the QPP is in a less advantageous position than that of the CPP. At the end of the chapter, an avenue of solution to strengthen QPP funding is presented. The third chapter shows how the labour environment is becoming more favourable for older workers and proposes a group of avenues to adapt the QPP to labour market changes. The fourth chapter describes changes that have occurred in the realities of families over recent decades. It proposes some more avenues of solution for modernizing the QPP and for adapting it to the needs of today's families. Finally, the fifth chapter proposes two new avenues of solution that can be explored as ways of making future improvements to the QPP.

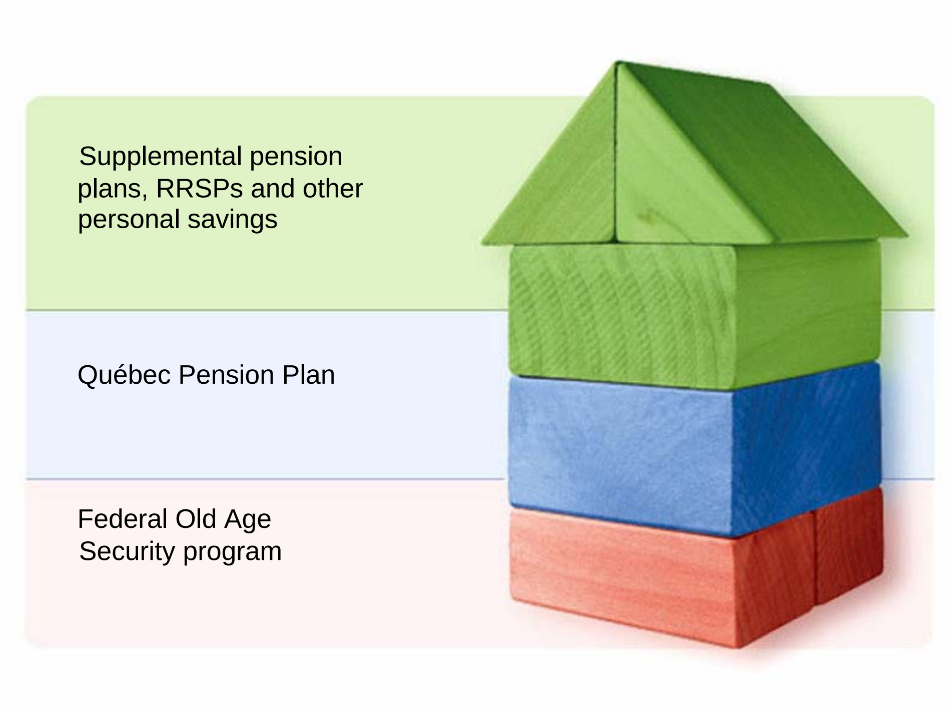
Throughout these chapters, the challenges are described and measures are proposed for meeting the new realities. It is up to the people and concerned groups to make their voices heard on these orientations and avenues of solution.

Chapter I
The QPP's place in the retirement system

1.1 A multi-component retirement system

The Québec system of retirement income security is made up of three levels (Figure 1): the first level includes measures administered by the federal government. The second level is the Québec Pension Plan (QPP), and the third level includes personal savings and in particular, private pension funds.

Figure 1
Québec system of retirement income security



After retirement, people may also receive income from other sources. Among the most important of those sources, we mainly find employment earnings and investment income.

Federal government programs provide a basic income for seniors

The Old Age Security (OAS) pension and the Guaranteed Income Supplement (GIS) are intended to procure a basic income for seniors and thus to provide protection against poverty. They are funded by the federal government's consolidated income fund.

The OAS pension is a uniform allowance, indexed to inflation and paid to all Canadians aged 65 and over who meet certain residency conditions. In 2008, OAS beneficiaries are receiving a benefit of about 500 $ a month. The OAS benefit is subject to gradual recovery by the Canada Revenue Agency when a person's annual income exceeds a certain level (around 65 000 $ in 2008).

The GIS is paid to low-income seniors who are receiving the OAS pension. The amount of the supplement depends on income and the family situation. In 2008, the maximum annual GIS benefit is 7 600 $ for a person living alone and 5 000 $ per spouse if both spouses are receiving the OAS pension.

An allowance is also paid to some people aged 60 to 64. To benefit from the program, the person must have a spouse aged 65 or over who is receiving the OAS pension or must be a widow or widower. Like the GIS, the allowance is granted to low-income people. The amount is based on income and the family situation. Payments are equal to the sum of the OAS pension and the GIS,

The QPP replaces 25% of insurable employment earnings

The QPP provides basic financial protection against a loss of employment earnings resulting from retirement, disability and death. It covers all Québec workers whose annual employment earnings are more than 3 500 $. There is an annual ceiling on pensionable earnings (44 900 $ in 2008). The Plan is funded by contributions paid by workers and employers. Moreover, a reserve is maintained to stabilize Plan funding.

The Plan is intended to replace, at age 65, 25% of career earnings. Although the QPP is an important mainstay of the retirement system, the income replacement that it provides is modest. Most people must count on additional sources of income, especially private pension plans, to maintain a standard of living after retirement that is comparable to what they had before.

The QPP is an insurance plan in which the benefits paid are related to the contributions made to the Plan. It also has several elements of a social nature that ensure a certain measure of income redistribution toward low-income workers. The general exemption of 3 500 $ is an example of this kind of measure. Moreover, the QPP provides financial support to workers who become disabled and to their dependent children. In the event of a contributor’s death, the Plan pays a death benefit and pays survivors’ benefits to the surviving spouse and the contributor’s orphaned children.

Private pension plans provide additional income to meet retirement needs

Private pension plans include supplemental pension plans (SPPs), pension plans for public service workers and other retirement savings schemes, of which the most widespread is the registered retirement savings plan (RRSP).

Somewhat over 40% of Québec workers are covered by an SPP. Those plans are set up on a voluntary basis by companies. Individual and group RRSPs are the main instrument of personal savings for retirement for people who do not have access to a SPP.

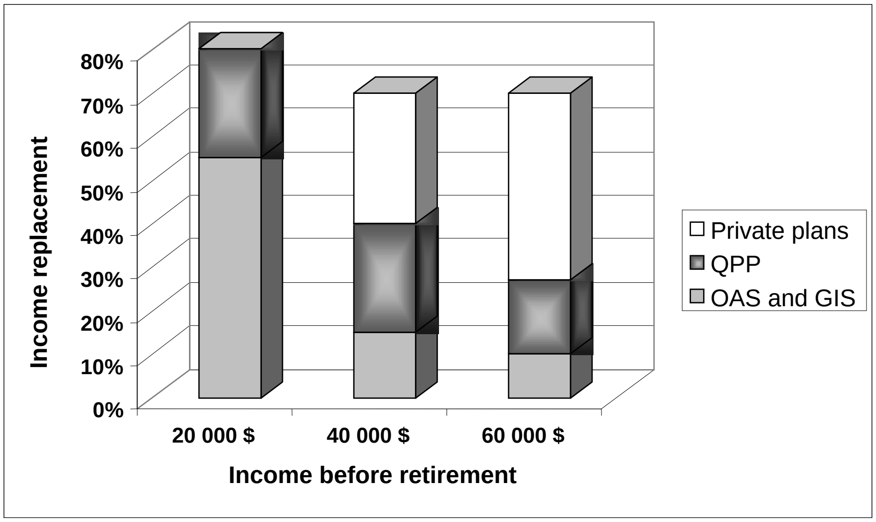
1.2 The proportion of retirement income provided by the QPP varies from one person to another

The relative importance of each of the components of the Québec system of retirement income security varies from one person to another. As employment income goes down, people are increasingly less able to save for retirement and the role of public plans is increasingly greater.

For a large number of low-income workers, the QPP is a major source of retirement income. If they were not covered by a private pension plan, all of their income will come from the OAS pension, the GIS and the QPP. In this context, it would be difficult to envisage a QPP reform whose effect would be to significantly reduce the income replacement rate that it provides.

Moreover, middle and high-income workers cannot count solely on the public plans to provide them with adequate income replacement after retirement. They must also count on private pension plans (Chart 1). In their case, the QPP can be seen as additional income.

Chart 1
Income replacement provided by various programs for a single person at age 65



Chapter II
Strengthening QPP funding

2.1 Increasing funding pressures on the QPP

The actuarial report[1] as at 31 December 2006[2] shows that the QPP's funding situation is increasingly worrisome. At that date, the QPP reserve was 33 billion $. The Plan is ready to face the retirement of the baby boom generation, which will occur from 2010 to 2030. However, the current contribution rate of 9,9% will not ensure stable, long-term funding. According to the projections in the actuarial report, beginning in 2011, a portion of the Plan's investment income will have to be used to cover the difference between cash outflows and contributions. The reserve will begin to drop in 2033 and will be completely depleted in 2051.

If the reserve is completely depleted, the Plan will then have to count entirely on contributions to meet its current obligations. Without a reserve that generates investment income, the contribution rate required to pay benefits would be around 12,5%, which would call into question intergenerational fairness. In other words, future generations would have to pay much higher contributions than those required of current generations for comparable benefits.

The steady-state contribution rate, that is, the rate that would make it possible to maintain a stable reserve is 10,54%. That rate is higher than the rate of 10,30% that was shown in the preceding actuarial report (2003). The difference between the steady-state contribution rate and the current contribution rate of 9,9% is higher than 0,3 percentage points for the second consecutive actuarial report.[3] That observation shows that changes must be made to the Plan to stabilize its long-term funding and avoid creating an imbalance between the burden placed on current generations of contributors and that placed on future generations.

Furthermore, the supplementary actuarial report accompanying Bill 68, which introduces the pension supplement for retirement pension beneficiaries who contribute to the Plan, indicates that the Plan's steady-state rate will increase from 10,54% to 10,62% as a result of the new measure. As of 2011, based on the assumptions used for the 2006 actuarial report, the steady-state rate will increase to 10,70% if none of the changes proposed in this working paper are implemented.

Factors behind this situation

Two main factors explain the increase in funding pressures on the Plan since the last Plan reform: the significant increase in life expectancy of people and slower than predicted rate of increase for salaries.

---

1 The actuarial report is in some respects the Québec Pension Plan's bill of health. It informs the government, contributors and beneficiaries on the Plan's financial changes. Based on the methodology adopted and the demographic and economic assumptions made, the 50-year projection in the report makes it possible to evaluate the Plan's long-term sufficiency of funds and the stability of the Plan's funding.

2 The main results of the actuarial report are shown in Appendix 1.

3 The steady-state contribution rate is an indicator of the "ideal" funding situation for the Plan. It is not necessary for the Plan to be in perfect balance. A certain difference between the contribution rate set by law and the steady-state rate can be tolerated without any Plan adjustments being required. A difference of 0,3 percentage points can be considered to be an acceptable tolerance zone. However, a difference greater than 0,3 point would mean that the reserve would be less than twice the annual cash outflows at the end of the projection period. Plan adjustments would, in that case, be desirable. Ideally, that degree of difference should be observed in two successive actuarial reports before being taken to represent anything more than purely conjunctural phenomena and being by that very fact a reason for changes in the Plan.

– *Life expectancy is improving faster than expected*

There is a direct relationship between life expectancy and the length of the payment period for QPP pensions. In 1998, life expectancy at age 65 was 16,1 years for men and 20,3 years for women. It was expected that life expectancy would increase about 0,5 years between 1998 and 2007. In fact, the improvement has been more than twice what was expected. In 2007, life expectancy at age 65 is 17,8 for men and 21,3 for women. This is good news for Quebeckers but results in significantly higher costs for the QPP.

– *Contributory salaries are not increasing at the expected rate*

During the last decade, salaries have not increased at the expected rate. However, steady growth in employment has made it possible, until now, to keep contributions at a level comparable to that projected in 1997. Employment growth during the period from 1998 to 2006 will not for very much longer offset the slow rate of increase in salaries, particularly because of the limited pool of new workers. Consequently, future contributions, for the entire period beginning in 2007, will be less than projected.

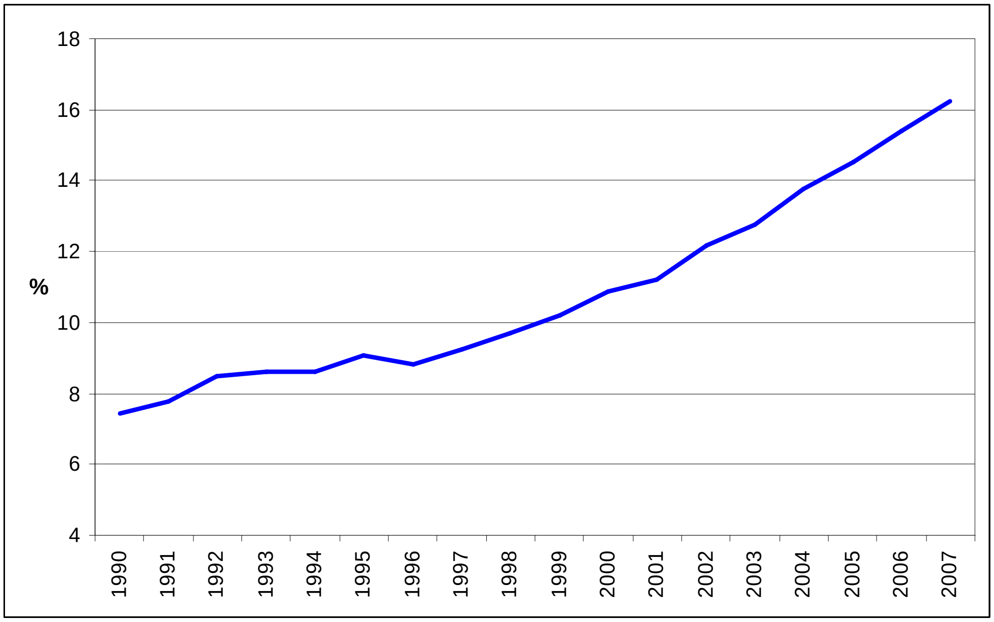
2.2 Preserving similarities between the QPP and the CPP

The Canada Pension Plan (CPP) is a plan similar to the QPP, to which workers in the other Canadian provinces and territories contribute. In 1966, when the QPP and the CPP began, the two governments considered it important to implement two identical plans. They wished thereby to facilitate worker mobility throughout Canada by ensuring that workers' retirement benefits would be protected throughout the country.

Every person who works in Québec contributes to the QPP. If, during his or her working life, a person works elsewhere in Canada, he or she will contribute instead to the CPP during that period. At retirement, to receive his or her pension, that person will apply to the plan in effect in the person's place of residence, as if he or she had always participated in that plan. Benefit rights under the QPP and the CPP are therefore totally transferable. Agreements between the two plans make it possible for them to make the necessary financial adjustments to take into account these worker movements.

The increasing mobility of workers inside Canada has resulted over the years in an increase in the proportion of those who have contributed to both the QPP and the CPP. Between 1990 and 2007, the proportion of new QPP beneficiaries who had contributed to both plans more than doubled, rising from 7% to 16% (Chart 2). The proportion of QPP beneficiaries who had also contributed to the CPP is expected to continue increasing. In 2004, one Quebec worker in four had already contributed to the CPP.

Chart 2
Proportion of new QPP beneficiaries who had contributed to both the QPP and the CPP, 1990-2007

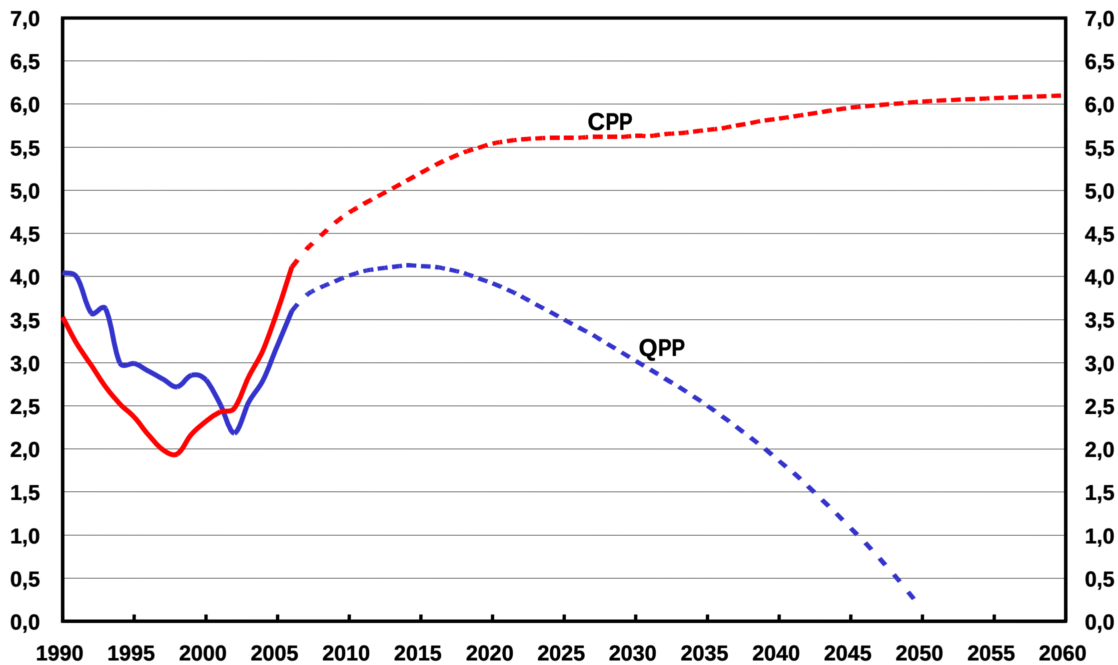


Source: Régie des rentes du Québec

The CPP's funding situation is more favourable than that of the QPP

The CPP's steady-state contribution rate is 9,82%, compared with 10,54% for the QPP. At the end of 2006, the CPP's reserve represented more than four times the cash outflows for the following year. According to the CPP's actuarial report as at 31 December 2006, the relative level of the reserve will steadily increase through the projection period. In 2060, it will be six times the cash outflows for the following year (Chart 3).

Chart 3
Projection of the ratio of the reserve at the end of a year to the cash outflows of the following year, using a contribution rate of 9,9%



Sources: *Actuarial Report of the Québec Pension Plan as at 31 December 2006* and *23rd Actuarial Report on the Canada Pension Plan as at 31 December 2006*

Various factors explain the QPP's less favourable funding situation:

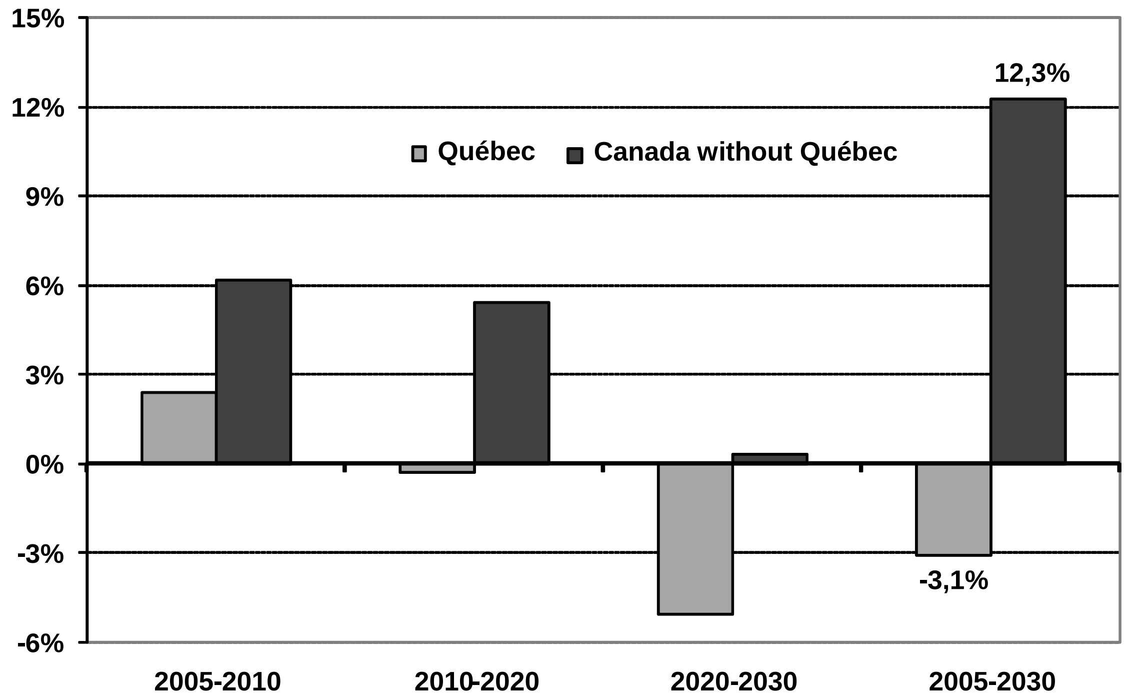
– *Demographic aging is more pronounced in Québec*

The extent of the demographic transformation and the pace at which it is occurring are more pronounced in Québec than in the other provinces. Three important factors explain in part this phenomenon: the baby boom was larger in Québec than elsewhere in Canada. The drop in the birth rate that followed the baby boom was more pronounced in Québec than in the other provinces. Finally, immigration has been higher in neighbouring provinces. An improvement in the situation can, however, be expected, in the light of the new immigration targets set by the Québec government.

When the QPP and the CPP were set up, in 1966, the Québec population was younger. It had proportionally fewer people aged 65 and over than was the case in the other Canadian provinces. Toward the middle of the 1990s, the proportion of seniors, in Québec and elsewhere in Canada, was about the same. Since then, the proportion of people aged 65 and over in the total population is larger in Québec.[4]

Demographic aging has an impact on changes in the working age population. Within a few years, the number of workers leaving the labour force to take retirement will be larger than the number who enter the labour force. Elsewhere in Canada, despite an expected slowdown in the rate of growth, the working age population will continue to increase until around 2025. On a 25-year horizon, the working age population is expected to increase in the rest of Canada but is expected to decrease by 3% in Québec (Chart 4).

Chart 4
Changes in the working age population (ages 20 to 64)



Sources: *Actuarial Report of the Québec Pension Plan as at 31 December 2006* and *23rd Actuarial Report on the Canada Pension Plan as at 31 December 2006*

– *Some QPP benefits are more generous*

At the present time, although the QPP and the CPP are similar plans, they are not identical. In fact, the two plans have several distinct elements,[5] particularly with respect to disability and survivors' benefits. The eligibility requirements for a QPP disability pension are less stringent for contributors aged 60 to 64. Moreover, the QPP has more generous pensions than the CPP for surviving spouses under age 65. Those provisions also place the QPP in an unfavourable funding situation compared with the CPP.

4 Régie des rentes du Québec, *Adapting the Pension Plan to Québec's New Realities*, working paper, 2003, page 12.
5 The main differences between the QPP and CPP are listed in Appendix 3.

– *The QPP's effective contribution rate is not as high as the CPP's*

The QPP and the CPP are two social insurance schemes under which benefits are not based exclusively on the level of contributory earnings. Both plans have various measures of wealth redistribution between people. They include a general exemption of 3 500 $ on which no contributions are made. The exemption reduces the earnings on which a worker must contribute without reducing the earnings on which his or her benefits are calculated.

The existence of that exemption means that the effective contribution rate is lower than the rate set by law. Although the statutory rate is 9,9%, a person whose salary is equal to the maximum pensionable earnings (44 900 $ in 2008) and his or her employer contribute at a combined rate of only 9,1% of the worker's pensionable earnings. In the case of a worker who earns 10 000 $, the combined contributions are only 6,4% of his or her pay (Table 1).

Table 1
Effective rate of contribution, by earnings level

Employment earnings	Contributory salary (Earnings – Exemption)	Statutory contribution rate	Contribution as a % of total earnings (Effective contribution rate)
$	$	%	%
44 900	41 400	9,9	9,1
30 000	26 500	9,9	8,7
20 000	16 500	9,9	8,2
10 000	6 500	9,9	6,4

On average, for QPP contributors as a whole, the effective contribution rate is about 8,60%. In the rest of Canada, where salaries are generally higher, the average effective contribution rate is 8,85%. Therefore, a QPP contributor pays on average 200 $ a year less than a CPP contributor although some QPP benefits are more generous. The lower level of salaries in Québec is thus another factor that puts the QPP in an unfavourable funding situation compared with the CPP.

Different plans but still similar

There are no written rules that specify the exact meaning of "similar plans". There seems, however, to exist a tacit consensus around the key parameters that should not differ between the QPP and the CPP:

- covered risks: retirement, disability and death;
- covered participants: workers whose earnings are higher than the general exemption;
- insurable earnings: earnings up to the maximum pensionable earnings;
- income replacement rate: 25% for the retirement pension;
- normal retirement age: 65.

– *Similarity allows for differences in benefits*

Since 1966, the two plans have often made changes in parallel fashion, so that a change made to one was soon adopted by the other. On some occasions, however, changes have been made to one of the plans without being adopted later by the other plan. That is the case, for example, for several provisions related to disability and survivors' benefits, which are not the same in both plans.

Despite these differences, the principle of similarity has never been challenged. The QPP and the CPP have always respected their agreements to ensure the transferability of benefits for dual contributors.

– *Rate parity is not essential to the operation of the two plans*

Contribution rate parity is not essential to the recognition by either plan of contributory earnings made in the other plan. An increase in the QPP contribution rate would not jeopardize the principle of similarity. The plans' administrative agreements could be adapted accordingly to maintain benefit protection.

The QPP and CPP contribution rates have always been the same since the beginning of both plans. That rate parity serves to protect the competitiveness of businesses rather than to maintain QPP-CPP similarity. Furthermore, the entire fiscal burden of businesses and not merely employers' QPP contributions would have to be considered to assess the real effect on competitiveness of an increase in the QPP contribution rate.

2.3 Avenue of solution to strengthen QPP funding

The Plan is under pressure. The gap between the statutory contribution rate of 9,9% and the projected steady-state contribution rate of 10,7% in 2011 is 0,8 percentage points.

To ensure the sustainability of the QPP, that gap must be filled. The main approach explored in this working paper is two-pronged: one would affect contributions and the other would affect the benefits paid to beneficiaries. The goal is to attain a certain balance in what is required of workers and employers to adjust the QPP without placing too great a burden on future generations.

The effort required to fill the gap could take the form of an increase of 0,5 percentage points in the contribution rate and a reduction of benefits that would result in a savings of 0,3 points. That scenario is considered in the following sections.

Raise the contribution rate

The concern for intergenerational fairness would justify a small increase in the contribution rate so as to minimize the impact on workers and employers. The increase would be 0,5% spread over five years. As of January 2011, for example, the rate would go up from 9,9% to 10,0%, that is, an increase of 0,1 percentage points and on 1 January 2012, from 10,0% to 10,1% and so on each year until 1 January 2015. The increases would be split equally between employers and workers. Each year, the annual contribution for a worker with an annual salary of 15 000 $ would go up 12 $, split equally between the worker and his or her employer. For a worker who earns 30 000 $ a year, the annual contribution would go up 27 $ and for a worker who earns the maximum insurable earnings (44 900 $ in 2008), it would go up 41 $ (Table 2).

Table 2
Additional annual contribution
resulting from a contribution rate increase of 0,1%

Insurable earnings	Total contribution (worker and employer)		Increase		
	Before the increase	After the increase	Worker	Employer	Total
15 000 $	1 138,50 $	1 150,00 $	**5,75 $**	**5,75 $**	**11,50 $**
30 000 $	2 623,50 $	2 650,00 $	**13,25 $**	**13,25 $**	**26,50 $**
44 900 $ (maximum in 2008)	4 098,60 $	4 140,60 $	**20,70 $**	**20,70 $**	**41,40 $**

Avenue of solution to strengthen QPP funding:

1. Increase the contribution rate from 9,9% to 10,4%, beginning in 2011, by 0,1% a year, for a total increase of 0,5 percentage points.

Increasing the contribution rate to 10,4% would make it possible to reduce the gap between the statutory rate and the steady-state rate in 2011, which is projected to be about 10,7%. The avenues of solution with respect to benefits, which are presented in the following chapters, could also play a role in reducing the gap between the two rates and thus ensure the Plan's long-term funding stability.

Intergenerational fairness and solidarity

The generations of beneficiaries who are currently receiving a retirement pension under the QPP have profited from substantial advantages in the light of the contributions that they paid. The same is true for the generation that is now approaching retirement age. Those advantages are the result of rules put into place when the Plan was created, of benefit increases and of keeping the contribution rate at a relatively low level until the end of the 1990s.

People who retired at age 60 in 1990 (i.e., who were born in 1930) have realized a 14,5% rate of return on their contributions. However, those who will retire after 2030 will have to make do with a return on contributions of only around 5%.

Table 3
QPP rate of return on contributions, by year of birth

Year of birth	Rate of return (%)
1930	14,5
1950	8,4
1970	5,5
1990	5,1

Source: Régie des rentes du Québec, 2008

Since 1966, the QPP has been based on the principle of intergenerational solidarity, that is, the contributions of those who are working are used to pay the benefits of those who are retired. In 1998, the Plan, while not abandoning solidarity, sought to incorporate a larger degree of fairness to avoid a disproportionate effort from those who fund the Plan. The rapid increase in the contribution rate to its current level of 9,9%, which was implemented at that time, made it possible to increase fairness without abandoning solidarity.

In fact, the rapid increase in the contribution rate resulted in the accumulation of a large reserve that generates investment income. That income is added to contributions and makes it possible for the QPP to meet its obligations without saddling workers with an excessive burden.

Intergenerational solidarity is easy to maintain if the population structure is relatively stable, that is, if the ratio of the number of workers to the number of retirees stays about the same. A public plan that operates in such an environment can count on successive generations of contributors to fund the pensions of successive generations of retirees. However, the QPP, like most public plans in industrialized countries, has not experienced such stability. In 1986, the QPP had seven contributors for each retiree. Today, the number of contributors per retiree has dropped to three. In 2020, there will be only two contributors per retiree. For a QPP funding solution to be viable, it will be necessary to avoid saddling future generations of contributors with an excessive burden that would lead them to call into question the implicit solidarity agreement between the generations.

The 2006 actuarial report projects that the QPP reserve will be completely depleted in 2051 and that the contribution rate will, at that time, have to be about 12,5% if no changes are made to the Plan. That would be a considerable contributory effort for a plan that replaces 25% of career earnings. It appears that an immediate increase in contributions will be necessary to bolster Plan funding, maintain a reserve and preserve intergenerational fairness. However, changes should not be limited to changes in contributions since increasing the contribution rate would only affect future workers and would not bring into play those who are already retired or on the verge of retirement. The changes to be considered must extend to all groups in our society.

Chapter III
Adapt the QPP to labour market changes

Québec society is rapidly changing and the labour market is in a period of rapid mutation. The QPP has lagged in adjusting to these changes, which has put upward pressure on the cost of the benefits paid under the Plan. The Plan's financial situation does not allow us to let this problem continue.

This chapter explains how the labour market has evolved and proposes a group of changes intended to adjust the QPP to current realities and thus curb increases in the cost of benefits.

3.1 Bring about a better balance between the number of years in the active life and in retirement

In past decades, life expectancy has increased and until recently, people were retiring earlier and earlier from the labour force. The result has been a decline in the active life to retirement ratio (Table 4). For example, a man who retired in 1980 after 42,8 years of work could expect to live another 16,7 years, for a ratio of 2,6. In 2005, the ratio was 1,9. Although the early retirement trend has levelled off, the ratio continues to fall because life expectancy continues to increase.

Table 4
Changes in the active life to retirement ratio

Year	Active life (years)	Retirement (years)	Active life/retirement ratio
		MEN	
1980	42,8	16,7	**2,6**
1990	41,7	19,4	**2,2**
2005	41,9	21,7	**1,9**
		WOMEN	
1980	42,5	21,9	**1,9**
1990	41,2	24,3	**1,7**
2005	40,7	26,0	**1,6**

Source : *Actuarial Report of the Québec Pension Plan as at 31 December 2006*.
For each year, the above results pertain to the 58-62 age group population. This population therefore has an average age of 60 in the year indicated. It is assumed that labour market entry occurs at age 20.

Retirement costs will become increasingly difficult to bear if the length of the active life (the period during which retirements are funded) does not increase. An increase in the activity rates of working-age people, especially those aged 55 to 64, is necessary to bring about a better balance between the length of the active life and the length of retirement.

The proportion of people aged 55 and over who are working has, in fact, increased in recent years (Table 5).

Table 5
Activity rates for men and women aged 55 to 69

Year	Activity rates for men		
	Ages 55-59	**Ages 60-64**	**Ages 65-69**
	%	%	%
1998	66,0	40,6	15,4
2007	74,1	43,8	18,3
Year	**Activity rates for women**		
	Ages 55-59	**Ages 60-64**	**Ages 65-69**
	%	%	%
1998	42,5	18,0	4,9
2007	60,2	31,8	10,6

Source: Statistics Canada, *Labour Force Historical Review*, 2007

The increase has been particularly marked by the increase in atypical employment among older workers:

- among those aged 55 to 59, the percentage of workers with an atypical job is almost one in three for men and two in five for women;
- among those aged 60-64, the proportion is somewhat more than one in two for both sexes.

A part-time job or a temporary job may better suit workers nearing the end of their working life who no longer are able to do their usual work or who prefer to remain at work but wish to have free time for other activities.

Despite the increased activity of older workers, Quebeckers continue to retire from the labour force earlier than other Canadians or Americans, as well as earlier than what is observed overall in the G-7 countries (Table 6). We must thus continue our efforts to increase the age at which people retire.

Table 6
Average age of retirement from the labour force, men

	1998	2006
Québec	**61,8**	**62,0**
Canada (without Québec)	63,4	64,0
United States	64,4	65,0
The G-7 countries*	63,9	64,1

* Canada, United States, Japan, Germany, France, United Kingdom and Italy.
Source: Calculations made by the Régie des rentes du Québec on the basis of activity data, using a cohort methodology.

3.2 The labour environment is becoming more favourable for the employment of older workers

Québec's labour market is in a period of rapid mutation. The profile of workers is changing and the demographic transition makes it necessary to find ways to keep workers in the labour force for a longer period. Fortunately, changes in worker characteristics could facilitate the transition.

Higher level of schooling among workers

The rate of school attendance among young Quebeckers aged 15 to 24 began moving upward in the mid-1970s. The overall increase in the level of schooling is observed among older workers as a result of the aging of younger generations. In 1990, only a third of the population aged 55 to 64 had completed secondary school. Around 2010, more than three fourths of the people in that age group will have at least a secondary school diploma.

More schooling is an important factor in adjusting to labour market changes.[6] Workers with more schooling have skills that are more easily transferred. In general, they are more mobile and can more easily adapt to change. Older workers, because they have more schooling, will thus find it easier to remain employed.

A new dynamic for the transition from work to retirement

We have already noted among employers a concern about labour scarcity. They are more attentive and more open to restructuring the work environment to ensure the retention of qualified workers.

The perception of early retirement held by workers is also changing. There is an increasing number of workers who are ready to continue working if they are given advantageous conditions. They seem more and more to want to maintain their ties to the labour force beyond the age of retirement eligibility. A growing proportion of workers aged 60 and over receives both employment earnings and a retirement income. In 2006, 110 000 QPP retirement pension beneficiaries also had employment earnings and made contributions to the Plan.

The proportion of QPP beneficiaries who work has been increasing since 1998. In 1998, around 15% of men aged 60 to 65 who were receiving a QPP retirement pension also had employment earnings. The proportion rose to 23% in 2006. Among women, the proportion of QPP beneficiaries aged 60 to 65 who had employment earnings rose from 6,5% in 1998 to 13% in 2006.

Table 7
Proportion of QPP retirement pension beneficiaries aged 60 to 65 with employment earnings over 3 500 $

	Year		
	1998	**2002**	**2006**
Men	14,6%	20,1%	22,7%
Women	6,5%	10,2%	13,1%

Source: Régie des rentes du Québec

6 Setting up continuing training programs in the workplace is another essential factor for making it possible for workers to maintain and improve their skills.

The interest in phased retirement is confirmed

Recent surveys[7] confirm that an increasing number of workers want to have some kind of paid employment after retirement. One of those surveys, carried out by the Investors Group[8] shows that almost 60% of all Canadian workers expect to work during their retirement years.

The majority of workers (60%) aged 40 and over is contemplating a period of partial retirement before making the big leap to full retirement. They want to continue paid employment for some period of time after retirement, before withdrawing completely from the labour force.

Provisions to favour phased retirement are in place

Following discussions between the Québec government and the federal government, the latter recently agreed to remove the main taxation roadblocks to phased retirement. Bill 68, which was passed by the National Assembly in June 2008, amends the *Supplemental Pension Plans Act* by introducing measures to facilitate phased retirement in Québec.

Employers will have more latitude to offer phased retirement programs. People nearing the end of their careers will thus be encouraged to stay at work longer.

Phased retirement is beneficial for both employers and workers. Employers will be able to retain key employees longer, ensure better skills transfers and thereby increase productivity. Workers will be able to live a more harmonious transition from work to retirement, accumulate an adequate pension while reducing their work hours and simultaneously receiving earnings from both their work and their retirement pension.

---

[7] SOM survey carried out for Desjardins Financial Security in 2005 and 2006.
Decima survey using the eVox panel and carried out for the Investors Group in 2006.
"AXA Retirement Scope", an international study on people's attitudes about retirement, 2007.

[8] Decima survey using the eVox panel and carried out for the Investors Group in 2006.

3.3 Avenues of solution to adapt the QPP to labour market changes

For a certain number of retirees, a QPP retirement pension represents only a modest portion of their retirement income. By itself, that pension cannot be a determinant factor in a person's decision as to whether it is preferable to retire immediately or to continue working for some time to come. The Plan can, however, give a signal to indicate which option would be desirable.

The current Plan provisions do not give the right signal. They do not encourage older workers to take advantage of the new labour force environment. On the contrary, the QPP facilitates instead early retirement. It poses problems for people who want to continue working after age 60. Thus:

- To be entitled to a pension at age 60, a person must stop working or reach an agreement with his or her employer in view of phased retirement. A worker nearing the end of his or her career who chooses, for example, to take a less demanding job or to reduce his or her work hours without reaching a formal agreement is not entitled to an early pension.
- The number of years taken into account in calculating average earnings depends on a person's age when he or she begins receiving a pension. For a person aged 65 when the application for a retirement pension is made, average career earnings are calculated on the basis of earnings accumulated from his or her 18th birthday[9] to age 65 (47 years). The seven years of lowest earnings (15% of 47 years) are excluded from the calculation. The pension is therefore based on the <u>40 best years</u> of earnings. In the case of a person who applies for his or her pension at age 60, the Plan takes into account only the period from age 18 to age 60 (42 years), from which are excluded six years (15% of 42 years) of low earnings. The pension is therefore based on the <u>36 best years</u>. A worker who applies for his or her pension at age 60 can be entitled to the maximum pension with only 36 years of contribution while a worker who applies at age 65 has to have 40 years of contributions to be entitled to the maximum pension.

Offer more flexibility in the rules for taking retirement

Currently, it often happens that a person phases in his or her retirement instead of immediately taking definitive retirement. Thus, the current requirement to have stopped working in order to be entitled a retirement pension can be a problem for QPP contributors. A number of people believe that this requirement should be reviewed.

One proposal is to **allow a worker to apply for a retirement pension before age 65 even if he or she continues to work**. The worker would no longer be required to stop working or to reach a phased retirement agreement with his or her employer to be entitled to a pension as of age 60. The measure would be advantageous for everyone who wants to work fewer hours or take a less demanding job and still be able to receive a pension, thus partially offsetting a reduction in employment earnings.

Change the calculation used for the retirement pension

The QPP retirement pension is equal to 25% of average career earnings. Career earnings are those included in the period from a person's 18th birthday to the time when a retirement pension begins to be paid. However, 15% of the years when earnings were lowest are excluded from the average. To be fair, the number of years taken into account should be the same for everyone, regardless of a person's age when he or she applies for a pension.

---

[9] A person aged 65 in 2008 was over 18 in 1966, when the QPP began. Thus he or she necessarily has less than 47 years of Plan contributions. It is only as of 2013 that a person aged 65 will have had a contributory period of 47 years.

Therefore, it is proposed that **the calculation of a retirement pension be changed so as to always use the 40 best years of earnings, regardless of the age of the beneficiary when the payment of the pension begins**. This approach respects the thinking about the pension when the QPP began.[10]

Retirement pension = 25% of average earnings for the 40 best years

The new calculation method would encourage experienced workers to continue working and would reduce Plan costs. It would be gradually implemented, beginning in 2011. The new formula would not significantly change the pensions of people close to taking retirement. Moreover, younger workers would have enough time to adjust their retirement planning to take the new rules into account.

The following table shows how the 40-best-years method would be gradually implemented in calculating the retirement pension of a person who applies at age 60 (Table 8).

Table 8
Number of years taken into account in the proposed pension formula, for a person who applies for a retirement pension at age 60

Year	Number of years taken into account
2011	36,5
2012	37,0
2013	37,5
2014	38,0
2015	38,5
2016	39,0
2017	39,5
2018	40,0

When fully implemented, the new formula would therefore affect the initial pension of everyone who applies for a retirement pension before age 65 and who has not had stable career earnings for 40 years (Table 9).

[10] For a person who applies for a pension at age 65, the calculation formula takes into account 85% of the difference between the age at retirement (65) and the age when the person began to contribute to the Plan (18), that is, 40 years. See: Québec Pension Plan Committee. *The Québec Pension Plan*, white paper on the QPP, Department of Finance, 1965, page 19.

Table 9
Comparison of the monthly retirement pension, according to the current Plan and the proposed Plan (at ages 60 and 65)

	Current Plan	Proposed Plan		Difference	
		2011*	2018	2011*	2018
Contributor A[11] (low earnings)					
Pension beginning at age 60	219	219	219	**0**	**0**
Pension beginning at age 65	313	313	313	**0**	**0**
Contributor B (moderate earnings)					
Pension beginning at age 60	424	421	404	**-0,7%**	**-4,7%**
Pension beginning at age 65	613	613	613	**0**	**0**
Contributor C (high earnings)					
Pension beginning at age 60	604	599	563	**-0,8%**	**-6,8%**
Pension beginning at age 65	874	874	874	**0**	**0**

*2011: Year in which the transition period begins.

The actuarial reduction factor would continue to apply to take into account the beneficiary's age at the time payment of the pension begins. Thus, the pension would be reduced 6% for each year preceding the beneficiary's 65th birthday. However, **so as not to penalize someone who postpones his or her pension beyond age 65, the actuarial augmentation factor would increase from 6% to 8,4% for each year of postponement, up to the beneficiary's 70th birthday**.[12]

If a person goes back to work after his or her retirement pension begins to be paid, each additional year of contribution to the QPP gives him or her a pension supplement equal to 0,5% of the new contributory earnings.[13]

The supplement is based entirely on new **contributory earnings** after the payment of a person's retirement pension begins whereas the main pension was calculated on **insurable earnings**, which includes the annual basic exemption. The supplement is added to the initial retirement pension and allows a beneficiary to receive a total pension that is greater than the maximum allowed for an initial pension under the Plan.

Recently, during the debate on Bill 68, numerous questions were raised because the new pension supplement is not taken into account in the calculation of a surviving spouse's pension. The upcoming consultation will provide the opportunity to continue the discussion in a broader context.

[11] Contributor A's employment earnings correspond to 15 000 $ in today's dollars throughout his or her career.
Contributor B's employment earnings correspond to the average earnings of QPP contributors throughout his or her career.
Contributor C's career earnings are close to the Plan's maximum pensionable earnings (MPE), based on the following employment earnings scenario:
- 20% of the MPE during the first 4 years
- 50% of the MPE during the next 4 years
- 100% of the MPE for the rest of his or her career.

[12] Régie des rentes du Québec, *Adapting the Pension Plan to Québec's New Realities,* working paper, 2003, page 29.

[13] Contributory earnings are pensionable earnings less the basic exemption.

Why not increase the QPP retirement age?

For some time now, some people have been suggesting that the QPP retirement age be increased. Several countries have taken that approach to meet the problem of demographic aging.[14]

Although the “normal” retirement age under the QPP is 65, almost two thirds of contributors take their pensions at age 60, either because of the Plan’s early retirement provisions or the less stringent definition of disability that applies between ages 60 and 65. The actual retirement age is thus generally well below 65.

The age at which a person retires depends on several factors, including his or her state of health, access to employment after age 60 and especially his or her available sources of income. Such sources include personal savings, a pension under a supplemental pension plan and benefits paid by public plans. These various sources of income are not all available at the same age. Income from a supplemental pension plan may be available between ages 55 and 65, income under the QPP as of age 60 and the Old Age Security pension is paid only as of age 65.

In Québec, the diversity of income sources means that raising the normal retirement age would not be feasible by changing only one component of the retirement system, for example, the QPP. Debate on the question would have to take place in a perspective that engages the various levels of government, employers and workers.

Several countries, including the United States of America, have decided to raise the normal retirement age for their public pension plans. In the U.S., the age of retirement from the labour force oscillates around age 65. The increase in the normal retirement age to 66 or 67 seems to be an adequate approach to meet the increase in life expectancy. The average age at which Quebeckers retire from the labour force is well below 65. It is in fact around 62. Thus, before raising the retirement age, it seems preferable to seek a better balance between the length of the active life and the length of retirement by encouraging older workers to continue working.

Adapt the support measure for people with young dependent children

When someone applies for a QPP retirement pension, the employment earnings for the years during which that person was caring for children under the age of 7 can be excluded from the calculation of the person’s average career earnings, if those earnings were low. The result of applying this measure is to increase the person’s retirement pension. The intent is to avoid penalizing people when retirement comes because they temporarily left the labour force or reduced their work hours to take care of young children.

The support measure for people with young dependent children will be maintained. However, adjustments will have to be made to adapt it to the new calculation rules for the retirement pension. Instead of excluding years, earnings related to the other years will be credited to each of the years during which a person was taking care of a young child. The earnings thus credited will increase the retirement pension that can be paid to the same extent as the current measure.

[14] The strategies adopted abroad are summarized in Appendix 4.

Insure more fairness between less severe disability and early retirement

In the 1970s, a slowdown in economic growth and an increase in the unemployment rate convinced several countries, especially the G-7 countries, to implement various mechanisms to facilitate the retirement of older workers from the labour force and to encourage the hiring of younger workers.

In Québec, in 1984, two measures were added to the QPP to make it possible for workers aged 60 to 64 to retire from the labour force before the normal retirement age:

- early retirement; and
- a disability pension for people who are no longer able to do their usual work (less stringent definition of disability).

At that time, older workers generally had less schooling than younger workers seeking employment, which made older workers vulnerable. Those whose state of health had deteriorated and who had to quit their jobs found it very difficult to retrain for a less demanding occupation. In that context, an older worker who had become unable to pursue his or her usual occupation was deemed to be unable to do any other work. Paying benefits for these cases of partial disability was well suited to the labour conditions in the 1980s.

The job market has changed since that time. Workers have more schooling and their skills are more easily transferred to other work. In general, they are more mobile and have a greater capacity for adaptation to change. The baby boomers, who are now approaching or who have already reached age 60, are without question better educated than older workers in the past.

Furthermore, new forms of work have emerged. In Québec, from 1976 to 1996, part-time employment and self-employment have counted most in the creation of jobs. These new forms of work will likely create new employment opportunities for older workers.

Generally, employers have tended to have unfavourable prejudices about older workers. Often, they believed that older workers were unable to adapt to a changing work environment. Employers have not been eager to develop training programs for older workers, believing that the returns on such an investment would be low. They have not shown much interest in programs intended to retain older workers. The opinion of employers with respect to older workers is beginning to change. The attitude of workers who are nearing retirement age is changing too. There are an increasing number of them who say that they would be ready to work longer, especially if they had, among other conditions, more flexible work schedules.

Because of the new environment, a worker who becomes unable to do his or her usual work is more likely than before to find another job that would better suit his or her situation. There is no longer as much justification for having two types of benefits for workers aged 60 to 64. To be fair to all workers, the Plan should **abolish the special, less stringent definition of disability for workers in that age group and offer only one type of benefit for all workers in that group who retire from the labour force.**

A contributor aged 60 to 64 whose state of health has deteriorated would be eligible for an early retirement pension under the same conditions as another worker in that age group who has to retire for other reasons beyond his or her control. Such a contributor would have the possibility of taking a job better suited to his or her situation and would thus have an overall income equivalent to what he or she would have received in the form of a disability pension.

Cover the disability risk for retirement pension beneficiaries who work

Currently, the beneficiary of a retirement pension is required to contribute to the QPP if he or she works, just like all other workers. However, that beneficiary is no longer eligible for a disability pension. A growing number of workers aged 60 to 64 find themselves in this situation, which is inherently unfair. To remedy the problem, **the QPP should provide protection in the event of total disability of beneficiaries of a retirement pension who are aged 60 to 64 and who work**. Such a measure would be coherent with the whole range of proposals intended to encourage workers to stay in the labour force longer.

Avenues of solution to facilitate continued work after age 60:

2. Eliminate the requirement to stop working in order to be able to apply for a retirement pension before age 65.
3. Calculate the retirement pension by taking into account the 40 best years of career earnings (after a transitional period).
4. Increase from 0,5% to 0,7% a month (6,0% to 8,4% a year) the actuarial augmentation factor applied to the pension of a person who postpones applying for a retirement pension until after age 65.
5. Have only one definition of disability, which would apply up to age 65, by eliminating the less stringent definition that currently applies to contributors aged 60 to 64.
6. Cover the risk of total disability for beneficiaries of a retirement pension who are aged 60 to 64 and who continue to work and to contribute to the QPP.

Revise the calculation for the disability pension

Under the provisions currently in effect, the QPP disability pension is made up of a fixed portion (414 $ a month in 2008) and a variable portion that is equal to 75% of the contributor's basic retirement pension.[15]

To strengthen QPP coherence and ensure a more stable income for disability beneficiaries throughout their lives, new calculation rules for the disability pension are proposed.

A disabled contributor would be entitled to a pension with two components:

(a) **a fixed portion equivalent to the Old Age Security (OAS) pension (502 $ in 2008);**
(b) **a variable portion equivalent to the contributor's retirement pension (with an actuarial adjustment).**

At age 65, payment of the fixed portion would end because the beneficiary would than be eligible for the OAS pension. He or she would continue to receive the variable portion as a retirement pension.

These new calculation rules would have the effect of increasing the amount of the disability pension paid but of reducing the benefits payable as of age 65. Overall, the value of the benefits payable would be comparable to what is paid under the current rules (Table 10).

[15] A disabled contributor's basic retirement pension is the pension that would be payable if he or she was age 65 at the time as of which he or she becomes disabled.

Table 10
Comparison of income before and after age 65 as a result of new disability pension calculation rules

	Current Plan	Proposed Plan	**Difference**
Contributor A* (low income)			
Income before age 65 (QPP disability pension)	648	**721**	+ 11,2%
Income at age 65 (QPP retirement pension and OAS pension)	721	**721**	0,0%
Contributor B (moderate income)			
Income before age 65 (QPP disability pension)	868	**906**	+ 4,3%
Income at age 65 (QPP retirement pension and OAS pension)	926	**906**	- 2,2%
Contributor C (high income)			
Income before age 65 (QPP disability pension)	1 062	**1 065**	+ 0,3%
Income at age 65 (QPP retirement pension and OAS pension)	1 106	**1 065**	- 3,7%

* Contributors A, B and C are the same as in Table 9.

Avenue of solution concerning the amount of the disability pension

7. Raise the fixed portion of the disability pension to the level of the OAS pension and set the variable portion to the amount of the actuarially adjusted retirement pension.

Overall, the measures presented in this chapter, which concern the retirement pension and the disability pension, would generate savings that would make it possible to reduce the gap between the statutory contribution rate and the steady-state contribution rate by 0,15 percentage points.

Chapter IV
Adapting the QPP to family realities

4.1 Family realities have changed

Conjugal and family realities have changed in a variety of ways since the Québec Pension Plan came into force.

- A family made up of a father, mother and children remains the primary model, but other types of families are appearing.
- We see a change in the roles traditionally played by family members. More and more often, both spouses make a financial contribution to the household.
- Unions are less stable than they were previously.
- One out of four children lives with only one of their parents (in a single-parent family or blended family).

  In the event of a contributor's death, the QPP provides financial protection to the surviving spouse and to the deceased contributor's children. At the time the Plan was created, the surviving spouse and the orphaned children lived together, so that assistance paid to the spouse was used to provide for the family's needs. Today, because of family breakdown, the person who qualifies as a surviving spouse is not always the other parent of the deceased contributor's children. It is also possible that there is no spouse eligible for a pension and that the only assistance provided is the orphan's pension.

  Each year, the Régie begins paying approximately 18 000 new surviving spouse's pensions and 2 500 new orphan's pensions. For close to one-third of the new orphan's pensions, there is no surviving spouse eligible for a surviving spouse's pension. In general, the children are already of school-age when they become orphans.

More women are participating in the labour market

In 1976, women living with a spouse were much less likely to participate in the labour market compared to women living alone. Today, the reality is different: women living with a spouse are just as likely to work as those living alone.

Activity rates for women with dependent children have also increased in the last few decades (Table 11).

- In 1976, 3 out of 10 women with children under age 6 were in the labour market.
- In 2006, more than 3 out of 4 women with preschool-age children were working.

Table 11
Changes in the activity rates for women aged 25 to 44, by the presence of children and the age of the youngest child, Québec, 1976-2006

Year	With children				Without children under age 16
	Under age 3	Age 3 to 5	Age 6 to 15	Under age 16	
	%	%	%	%	%
1976	28,6	31,5	44,9	37,1	72,6
1986	58,1	58,0	63,3	60,6	83,6
1996	64,9	66,4	73,9	69,7	85,0
2006	76,5	77,7	84,3	80,6	87,7

Source: Statistics Canada, Labour Force Survey, compilation: Institut de la statistique du Québec

4.2 The surviving spouse's pension is still designed for the needs of a traditional family

When the Québec Pension Plan came into force in 1966, the surviving spouse's pension, called the widow's pension, was paid to widows age 35 and over following the death of the contributor, or, if she was under age 35, if she was disabled or had a dependent child. A widower could be entitled to the pension if he was disabled and was his spouse's dependent at the time of her death. The pension ended if the beneficiary remarried. A de facto (common law) spouse was entitled to the pension if she had lived with the contributor for at least the 7 years immediately preceding his death, if the contributor had provided for her needs, and if he had represented her publicly as his spouse.

The eligibility requirements for the pension reflected the social values of the time and the traditional view of the different roles within the family, that is, the wife was responsible for the children and their education, and the husband acted as head of the family and income earner. The widow's pension was primarily designed to provide the spouse with basic protection following the loss of income resulting from the death of the breadwinner.

Entitlement to the surviving spouse's pension has changed several times since 1966:

1975: The conditions for payment become the same for widows and widowers.

1984: The clause regarding remarriage as a reason to end payment of the pension is eliminated.

1985: A de facto spouse can qualify as the surviving spouse after living with the contributor for 3 years (1 year if a child is born of their union).

1994: The pension becomes payable regardless of the age of the surviving spouse.

1999: The pension becomes payable to a same-sex spouse under the conditions provided for de facto spouses.

2002: The pension becomes payable to a person in a civil union with the deceased contributor.

Entitlement to the surviving spouse's pension has moved toward the elimination of various forms of discrimination which is in itself positive. Nevertheless, the pension is still designed according to the needs of a traditional family, in which one of the spouses (generally the woman) remains in the home and cares for the children while the other works to provide for the needs of the family. This model no longer reflects the reality of the majority of Québec families, as is shown in Table 11.

Family realities have changed, and because the QPP has not kept pace with these changes, the type of protection provided by the Plan must now be adapted. The challenge is to maintain the provisions of a social nature while at the same time planning for the reorganization necessary to adapt the Plan to Québec's new realities and, in this way, avoid excessive pressure on the costs of the Plan.

4.3 Avenues of solution to modernize survivors' benefits

Under the current Plan, when a contributor dies:

- The surviving spouse is entitled to a life pension calculated on the basis of the deceased contributor's retirement pension. A surviving spouse under age 65 also receives a monthly amount which varies depending on his or her age, whether or not there are dependent children and whether or not the surviving spouse is disabled.
- Each orphan receives a monthly pension which is paid until age 18.
- Finally, a death benefit, which has been a lump-sum payment of 2 500 $ since 1998, is paid in priority to the person who paid the contributor's funeral expenses.

The surviving spouse who is also a retiree under the QPP receives 2 pensions. However, the payment received by the surviving spouse is rarely equal to the sum of the 2 pensions. The rules applying to those pensions often result in a reduction in the surviving spouse's pension, even when the amounts paid are low. The rules are complex, and the individuals affected by those rules have difficulty making sense of them.

Adopting a new approach

Adapting the Plan to the new family realities was one component of the public consultation carried out in 2004, and it generated a great deal of interest. The majority of groups participating in the consultation recognized that changes were necessary. The idea of directing assistance directly to children, and in this way adapting the way financial support is delivered to the diversity of family models was well received. The groups were generally favourable to the proposal to:

- **Significantly increase the orphan's pension payable to the child of a deceased contributor**, from 66 $ to 209 $ a month (2008 dollars).

The participants were also in agreement with 2 other proposals, that is, to:

- **Pay the spouse aged 65 or over at the time of the death a pension equal to 60% of the retirement pension of the deceased contributor.** The pension paid to the spouse would be calculated taking into account the age of the contributor when he or she began receiving a retirement pension. Currently, the surviving spouse's pension is equal to 60% of the pension the contributor would have received if he or she had retired at age 65, even if, in fact, the contributor retired earlier.
- **Allow the retirement pension and the surviving spouse's pension to be cumulated (added together), up to the amount of the maximum retirement pension.** Currently, a beneficiary who is entitled to a combined retirement/survivors' pension receives a payment that is always less than the total of the 2 pensions.

These proposals are intended to simplify the Plan and make it more coherent.

Table 12 shows the effect on future beneficiaries of the new calculation of the surviving spouse's pension after age 65.

Table 12
Effect on future beneficiaries of the new calculation of surviving spouse's pension after age 65

Survivors who are not entitled to a retirement pension (surviving spouse's pension only)

Effect on the pension	Beneficiaries		Total average monthly pension			
	Number	Distribution	Current Plan ($)	Proposed Plan ($)	Difference ($)	Difference (%)
Increased	1 200	1,4%	273	304	**+31**	**+11**
Unchanged	62 100	70,5%	322	322	**0**	**0**
Decreased	24 800	28,1%	398	323	**-75**	**-19**
Total	**88 200**	**100,0**%	**342**	**321**	**-21**	**-6**

In 2005 dollars

Survivors who are entitled to a retirement pension (combination of the retirement pension and the surviving spouse's pension)

Effect on the pension	Beneficiaries		Total average monthly pension			
	Number	Distribution	Current Plan ($)	Proposed Plan ($)	Difference ($)	Difference (%)
Increased	91 600	58,7%	496	541	**+45**	**+9**
Unchanged	19 600	12,6%	654	654	**0**	**0**
Decreased	44 800	28,7%	572	515	**-57**	**-10**
Total	**156 000**	**100,0**%	**538**	**548**	**+10**	**+2**

In 2005 dollars

A temporary pension for surviving spouses under age 65

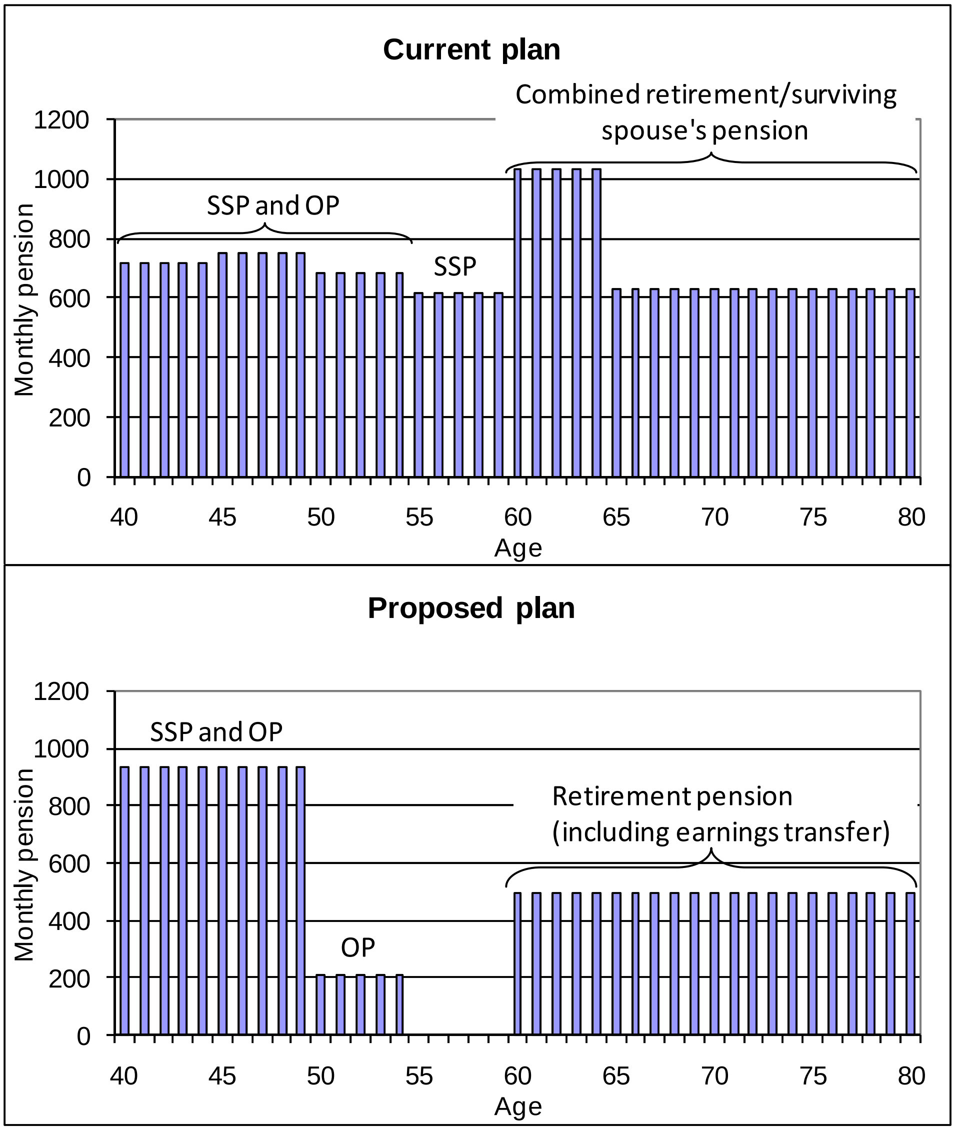
During the 2004 public consultation, it was suggested that a temporary pension of 3 years be paid to surviving spouses under age 65. Several groups expressed concerns with regard to this proposal. In their opinion, a pension of 3 years could be too short a time period for a surviving spouse with dependent children. In addition, a pension of 3 years might not be appropriate for someone who no longer had dependent children at the time of their spouse's death, but had had children previously, since the fact of having had children often has an effect on a person's working life and on his or her ability, following the death of his or her spouse, to re-enter or increase his or her participation in the labour market.

The initial proposal was therefore amended to take into account those concerns. The new proposal suggests:

- **Paying a temporary pension for a maximum of 10 years** rather than 3 years, **to all surviving spouses under age 65. The pension would be equal to 60% of the pension that the deceased contributor would have received if he had instead become disabled.**
- **Transferring to the surviving spouse 60% of the earnings entered under the deceased contributor's name, for each of the years that they lived together.** For a given year, the sum of the amount of earnings transferred and the amount already entered under the surviving spouse's name could not exceed the maximum insurable earnings for that year.

Chart 5 compares the total benefits paid to a spouse aged 40 under the current plan and the proposed plan.

Chart 5
Total benefits paid to a surviving spouse aged 40[16]



SSP: Surviving spouse's pension
OP: Orphan's pension

[16] The chart is based on an example including the following elements:
- the earnings of both spouses correspond to the average earnings by age of contributors to the QPP;
- both spouses (deceased contributor and surviving spouse) are aged 40 at the time of the contributor's death;
- the spouses began living together at age 20;
- at the time of the death, the couple had 2 children ages 3 and 8;
- the surviving spouse applies for her own retirement pension at age 60.

Financial assistance for life for spouses aged 50 and over

Women participate more and more in the labour market. There has been an increase in the activity rate for the group of women aged 20 to 64. The difference between activity rates for men and women has decreased significantly over the last few decades, but it is expected that the family responsibilities assumed by women will prevent the complete elimination of that difference.[17]

We also observe that women over age 55 participate less in the labour market than men of the same age group or than younger women. While close to 80% of men ages 55 to 59 worked in 2004, less than 60% of women in that age group had a job.[18]

Even if an increase in the activity rates for women ages 55 to 64 is expected, there is reason to believe that they will remain less involved in the labour market than men of the same age or younger women. In addition, women aged 55 and over who work generally have lower incomes. In the event of their spouse's death, these women would likely have greater difficulty returning to the labour market than younger women.

A temporary pension paid for a maximum of 10 years and the transfer of earnings that would accompany it ensure that all surviving spouses age 50 and over would have financial assistance for life through a surviving spouse's pension or a retirement pension as of age 60. In addition, widowers and widows with low incomes will be able to receive benefits under the federal government's Allowance Program for people aged 60 to 64. As of age 65, they will be eligible for the Old Age Security pension (OAS) and the Guaranteed Income Supplement (GIS).

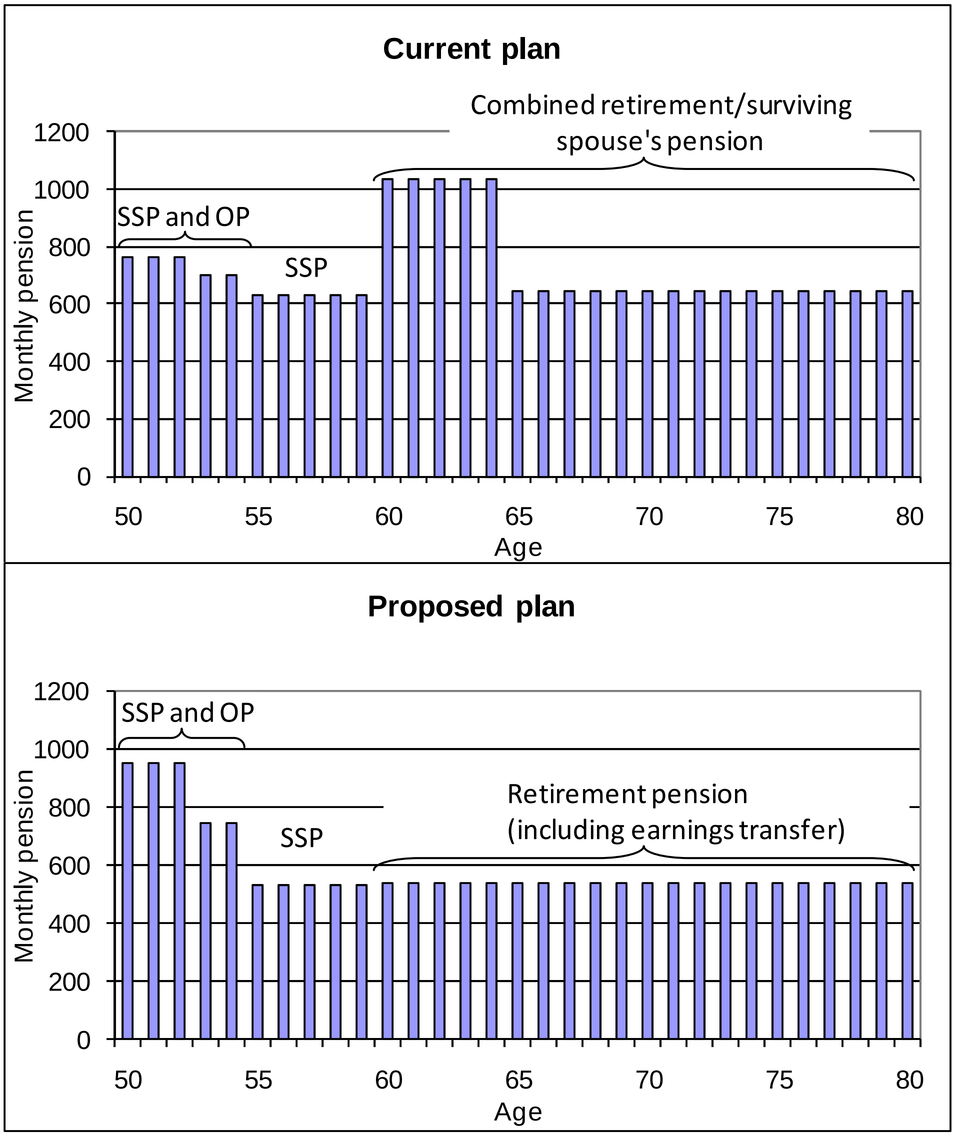
Loss of a spouse primarily affects women. Each year, approximately 80% of the new beneficiaries of a surviving souse's pension are women. Moreover, loss of a spouse usually occurs later in life. On average, for a given year, less than 15% of the new beneficiaries are under age 55 and barely 8% are under age 50. Thus, in spite of the proposed changes, the Plan will continue to provide protection for life for a large majority of future surviving spouses.

Chart 6 compares the total benefits paid to a spouse aged 50 under the current plan and under the proposed plan.

[17] Régie des rentes du Québec, *Actuarial Report of the Québec Pension Plan as at 31 December 2006*, page 82.

[18] Régie des rentes du Québec, *Régime de rentes du Québec - Statistiques de l'année 2006*, Tableau 8 – Pourcentage de travailleurs parmi la population du Québec selon le sexe et le groupe d'âge et âge moyen – 1985 à 2005, page 20.

Chart 6
Total benefits paid to a surviving spouse aged 50[19]



SSP: Surviving spouse's pension
OP: Orphan's pension

[19] The chart is based on an example including the following elements:
- the employment earning of both spouses correspond to the average earnings by age of contributors to the QPP;
- both spouses (deceased contributor and surviving spouse) are aged 50 at the time of the contributor's death;
- the spouses began living together at age 20;
- at the time of the death, the couple had 2 children ages 13 and 15;
- the surviving spouse applies for her own retirement pension at age 60.

Fair treatment for contributors who die without eligibility for a death benefit

A contributor's death gives entitlement to a surviving spouse's pension, an orphan's pension and a death benefit, if the deceased made contributions to the Québec Pension Plan for at least one-third of the years in his or her contributory period, and a minimum of 3 years. A person can also give his or her family entitlement to survivors' benefits if he or she contributed to the Plan for 10 years.

Taking these eligibility requirements into account, it is possible that a person could die without giving his or her family entitlement to the death benefit, despite the fact that the deceased made contributions adding up to several thousand dollars.

This situation is deemed to be unfair. To correct it, the contributions that the person made to the QPP could be reimbursed, up to 2 500 $, if the person died without giving his or her family entitlement to the death benefit and without having received other benefits under the Plan.

Avenues of solution to modernize survivors' benefits

8. Triple the orphan's pension by increasing it from 66 $ to 209 $ a month.

9. For a spouse under age 65, replace the surviving spouse's pension, currently paid for life, with a temporary pension paid for a maximum of 10 years and equal to 60% of the pension the deceased contributor would have received if he or she had instead become disabled.

10. In addition to the temporary pension, transfer, to the account of the surviving spouse under age 65, 60% of the earnings entered under the deceased contributor's name, for each of the years they lived together.

11. Change the calculation of the surviving spouse's pension after age 65 to provide a pension equal to 60% of the retirement pension that was paid to the deceased contributor (i.e. including the actuarial adjustment) rather than 60% of the unadjusted pension.

12. Allow the retirement pension and the surviving spouse's pension to be cumulated (added together), up to the maximum amount of the retirement pension.

13. Reimburse the contributions that a person made to the QPP, up to 2 500 $, if the person dies without giving his or her family entitlement to the death benefit and without receiving other benefits under the Plan.

The new measures would not affect beneficiaries who are already receiving a pension.

All of the proposals presented in this chapter, which relate to survivors' benefits, would, on the whole, generate savings making it possible to reduce by 0,15 percentage points the difference between the contribution rate and the steady-state rate.

Chapter V
Two avenues to explore for improving the QPP

An income replacement rate at retirement of 70% of pre-retirement earnings is the general standard. The OAS and the QPP ensure this level of protection to workers whose career earnings are low (20 000 $ a year). Public retirement plans replace approximately 40% of the income of a worker who earned 40 000 $ a year and 27% of the income of a worker who earned 60 000 $ a year. Some people believe that the QPP should provide a greater portion of the retirement income for middle or high income earners, while also allowing lower income workers to improve their retirement.

Two avenues to improve the QPP in this regard could be explored: an increase in the maximum pensionable earnings and an addition to the Plan that would allow Quebeckers to make voluntary contributions. These two avenues would not put into question the similarity of the QPP and the CPP.

5.1 An increase in the maximum pensionable earnings (MPE)

One avenue to explore would be to maintain the basic QPP (similar to the CPP) and in addition to establish a second level of pensionable earnings above the current MPE (44 900 $ in 2008). The new maximum insurable earnings, called MPE2, could be set, for example, at 60 500 $, like the Québec Parental Insurance Plan (QPIP), or the plan managed by the Commission de la santé et de la sécurité du travail (CSST). Employment earnings between 44 900 $ and 60 500 $ could then be subject to contribution at the same rate as other contributory earnings.

In return, the beneficiary would receive an additional retirement pension based on the contributions made to this second tier of earnings. It would be equal to:

$$\frac{25\%\ \text{X Earnings included in the 2nd tier}}{40}$$

In addition to improving Plan funding in the long-term, this measure would increase the protection provided to workers earning between 44 900 $ and 60 500 $. Employees with incomes below the current MPE could also benefit from the Plan’s improved funding. In addition, the measure would reduce employers’ obligations to supplemental pension plans, the majority of which are integrated with the QPP, and would also lead to a reduction in the members’ required contributions.

5.2 Voluntary contributions to the QPP

Another approach to consider that would encourage Quebeckers to save would be to add the possibility of capital accumulation to the QPP. In this scenario, Quebeckers could make voluntary contributions to the QPP, without a concurrent contribution by the employer. The contributions could be deducted at source or made in conjunction with the income tax return. The amounts would accumulate in an account under the person’s name and would give entitlement to an additional pension paid at retirement by the Régie des rentes du Québec. The amounts would be managed in a secure manner by a public agency. Depositors could thus limit the fees associated with fund management and benefit from the expertise of a qualified investment manager. If the person dies, the account would be transferred to the successors.

With respect to the tax treatment of voluntary contributions, it would be interesting to take advantage of the new Tax-Free Savings Account (TFSA) recently introduced in income tax legislation. The fact, for example, that benefits earned within the TFSA would not be taxable would mean that the savings, made up of voluntary contributions to the QPP, would not affect the amount of the GIS paid to those with low incomes.

This addition to the Plan, available to everyone but especially for those with no other retirement savings vehicle, would provide an additional tool for saving for retirement.

Avenues of solution to explore

14. Increase the maximum pensionable earnings (MPE) under the QPP.
15. Allow Quebeckers to make voluntary contributions to the QPP.

Should the QPP's place in the retirement system be expanded?

Most international studies consider that Québec is among the leaders with regard to indicators on the adequacy of senior's income. Québec succeeds in this area while maintaining its public expenses for pensions at levels that are relatively low in comparison with other countries in the OECD. Until now, Québec has chosen to maintain a retirement system which is based on a series of public and private measures, some of which are required, and others being optional. This makes it possible for workers to build their financial security at retirement using the tools that are best suited to them.

The QPP provides basic financial protection and is intended to replace, at age 65, a modest income, that is, only 25% of insurable earnings. At retirement, most Quebeckers must count on other sources of income in addition to the public retirement plans in order to maintain their standard of living. Moreover, the majority of Québec workers do not have access to private pension plans provided by employers (supplemental pension plans) to ensure a sufficient retirement income; overall, only 40% of Québec workers have this benefit. However, membership in a supplemental pension plan (SPP) varies greatly according to income.

According to a recent SOM survey carried out for the Régie des rentes du Québec and Question Retraite, 60% of employees who do not have a private pension plan would prefer to have one than receive a salary increase. In other words, the majority of workers are aware of the need to have retirement savings. Thus, a number of them have raised the question of enlarging the coverage provided by the QPP.

The question is worth considering. To do so, we must target the groups for whom we wish to provide better protection:

1) workers earning between 20 000 $ and 45 000 $?[20]
2) workers with incomes over 45 000 $?

Raising the maximum insurable earnings under the QPP, as was previously proposed, would be suitable for the second group of workers (those who earn over 45 000 $). Yet this group has a greater access to SPPs. In many cases, the public coverage would only be a substitute for the private coverage.

Providing an income replacement rate over 25% would be another approach to explore in order to improve the protection provided by the QPP. This solution would be advantageous for both groups of workers. However, the increase in the replacement rate would also have the effect of increasing the coverage of workers at lower income levels, who are already well-protected by all of the public plans (QPP, OAS, GIS).

Like the question of raising the age of retirement, the QPP's place in the system of retirement income security must be considered from a broad perspective which includes workers and employers as well as the various levels of government.

[20] Note that the MPE is 44 900 $ in 2008.

Conclusion
Changes that concern all generations

The Québec Pension Plan is confronted with significant challenges. The Plan's funding must be consolidated, and the Plan must be adapted to changes in society. The avenues of solution presented in this document would make it possible to meet these challenges while at the same time preserving a degree of fairness between generations.

Changes to benefits would make it possible to reduce the steady-state contribution rate by 0,3 of a percentage point, bringing it from 10,7% to approximately 10,4% in 2011. The proposed contribution rate of 10,4% would allow the Plan to regain its financial equilibrium. Thus, the effort required to reach this goal would come from both a reduction in benefits and an increase in contributions.

A public pension plan is based on solidarity between generations and on the implicit agreement according to which workers assume the responsibility for the costs of pensions of those who are now retired. Thus, we must avoid imposing too heavy a burden on future generations of workers, which would lead them to call into question the agreement. The proposals in this document were developed with a view to asking each generation to contribute to strengthening the QPP.

The benefits of people who are already retired will not be changed. However, these retirees will be able to participate in the collective effort by accepting that the surviving spouse's pension, payable at their death, be adjusted according to the age at which they retired. Moreover, the proposed method for calculating a retirement pension would require that future retirees work longer in order to be entitled to a pension equivalent to that which is currently provided. Nevertheless, their pension would be increased by the supplement included in Bill 68 if they return to work after retiring.

Young surviving spouses would also do their part, since they would be entitled to a temporary pension, rather than a life pension. Providing financial assistance for a limited period of time is well justified, considering the changes in women's participation in the labour market and in family realities. Younger surviving spouses are generally better able than those of previous generations to ensure their own financial self-sufficiency. It must also be remembered that, in the event of a contributor's death, the new provisions would provide for an increase in the protection granted to children. Overall, families would be better protected during the period in which the children are under age 18.

Of course, contributors to the Plan, both workers and employers, would be affected by the increase in contributions. This additional effort on their part would be unavoidable and would make it possible to reduce the effort required by future generations.

We therefore believe that the avenues of solution proposed in this document, approaches that will be the subject of a consultation conducted by a parliamentary committee, would make it possible to attain a certain balance in the effort required of everyone to obtain a Plan that is both better funded and better adapted to the Québec society that exists today.

It is up to Quebeckers, during the consultation, to express their points of view on the choices made and on the solutions proposed to ensure that in the future, the Québec Pension Plan remains balanced and fair.

Summary of the avenues of solution

The avenues of solution presented in this document are the following:

Avenue of solution to strengthen QPP funding:

1. Increase the contribution rate from 9,9% to 10,4%, beginning in 2011, by 0,1% a year, for a total increase of 0,5 percentage points.

Avenues of solution to facilitate continued work after age 60:

2. Eliminate the requirement to stop working in order to be able to apply for a retirement pension before age 65.

3. Calculate the retirement pension by taking into account the 40 best years of career earnings.

4. Increase from 0,5% to 0,7% a month the actuarial augmentation factor applied to the pension of a person who postpones applying for a retirement pension until after age 65.

5. Have only one definition of disability, which would apply up to age 65, by eliminating the less stringent definition that currently applies to contributors aged 60 to 64.

6. Cover the risk of total disability for beneficiaries of a retirement pension who are aged 60 to 64 and who continue to work and contribute to the QPP.

Avenue of solution concerning the amount of the disability pension

7. Raise the fixed portion of the disability pension to the level of the OAS pension and set the variable portion to the amount of the actuarially adjusted retirement pension.

Avenues of solution to modernize survivors' benefits

8. Triple the orphan's pension by increasing it from 66 $ to 209 $ a month.

9. For a spouse under age 65, replace the surviving spouse's pension, currently paid for life, with a temporary pension paid for a maximum of 10 years and equal to 60% of the pension the deceased contributor would have received if he or she had instead become disabled.

10. In addition to the temporary pension, transfer, to the account of the surviving spouse under age 65, 60% of the earnings entered under the deceased contributor's name, for each of the years they lived together.

11. Change the calculation of the surviving spouse's pension after age 65 to provide a pension equal to 60% of the retirement pension that was paid to the deceased contributor (i.e. including the actuarial adjustment) rather than 60% of the unadjusted pension.

12. Allow the retirement pension and the surviving spouse's pension to be cumulated (added together), up to the maximum amount of the retirement pension.

13. Reimburse the contributions that a person made to the QPP, up to 2 500 $, if the person dies without giving his or her family entitlement for the death benefit and without receiving any other benefits under the Plan.

Avenues of solution to explore

14. Increase the maximum pensionable earnings (MPE) under the QPP.
15. Allow Quebeckers to make voluntary contributions to the QPP.

Appendix 1
Main results of the Actuarial Report of the Québec Pension Plan

Actuarial report as at 31 December 2006

The Actuarial Report of the QPP as at 31 December 2006 shows that the contribution rate of 9,9% that is prescribed in the *Act respecting the Québec Pension Plan*, is sufficient to pay future benefits until 2050. However, that contribution rate will not be enough to ensure the Plan's long-term financial stability. In fact, the projections show total depletion of the reserve in 2051.

As at 31 December 2006, the reserve represents 3,6 times the cash outflows of the following year. Contributions are greater than cash outflows until 2010, which will make it possible to increase the reserve. As of 2011, a portion of the investment income will have to be used to cover the shortfall between contributions and cash outflows. Between 2011 and 2017, the reserve will remain at a level of 4,1 times the Plan's cash outflows. Thereafter, due primarily to the growing number of retirees, this ratio will decrease. Investment income will have to be used to bridge the gap between income from contributions and cash outflows until 2032. As of 2033, the investment income plus contributions will be insufficient to fund cash outflows, and therefore the reserve will begin to gradually decline. In 2040, the reserve will reach a level less than twice the cash outflows. In 2051, the reserve will be nil. If no change is made to contributions or to benefits by that time, the total depletion of the reserve will make it necessary for future generations to assume a contribution rate of around 12,6% after 2050, that is, the pay-as-you-go rate.

The steady-state contribution rate, that is, the rate that would ensure the long-term stability of the ratio between the reserve and cash outflows, is 10,54%. The rate is higher than the 10,30% calculated in the previous actuarial report (2003). The difference is attributable in large part to a more rapid than expected increase in the life expectancy and by a slower progression in wages than expected.

The difference between the steady-state contribution rate and the prescribed 9,9% contribution rate is higher than 0,3 percentage points for the second consecutive actuarial report. The results of the actuarial report as at 31 December 2006 therefore confirm the necessity to make changes to the Plan in order to stabilize long-term funding.

Supplementary actuarial report accompanying the 2008 bill

A supplementary actuarial report[21] was published in 2008 to assess the effects of the amendments made to the QPP by Bill 68 on the results of the actuarial report as at 31 December 2006. The bill, called the *Act to amend the Supplemental Pension Plans Act, the Act respecting the Québec Pension Plan and other legislative provisions* contains, among other things, a measure introducing a pension supplement which will be paid to all retirement pension beneficiaries who work and contribute to the Plan.

According to the supplementary actuarial report, the Plan's steady-state contribution rate is now set at 10,62%, 0,08 percentage points higher compared with the rate in the actuarial report as at 31 December 2006. The financial projections of the QPP presented in the 2008 supplementary report are show in Table 10. Chart 5 compares changes in the Plan's reserves according to the 2006 actuarial report and the 2008 supplementary report.

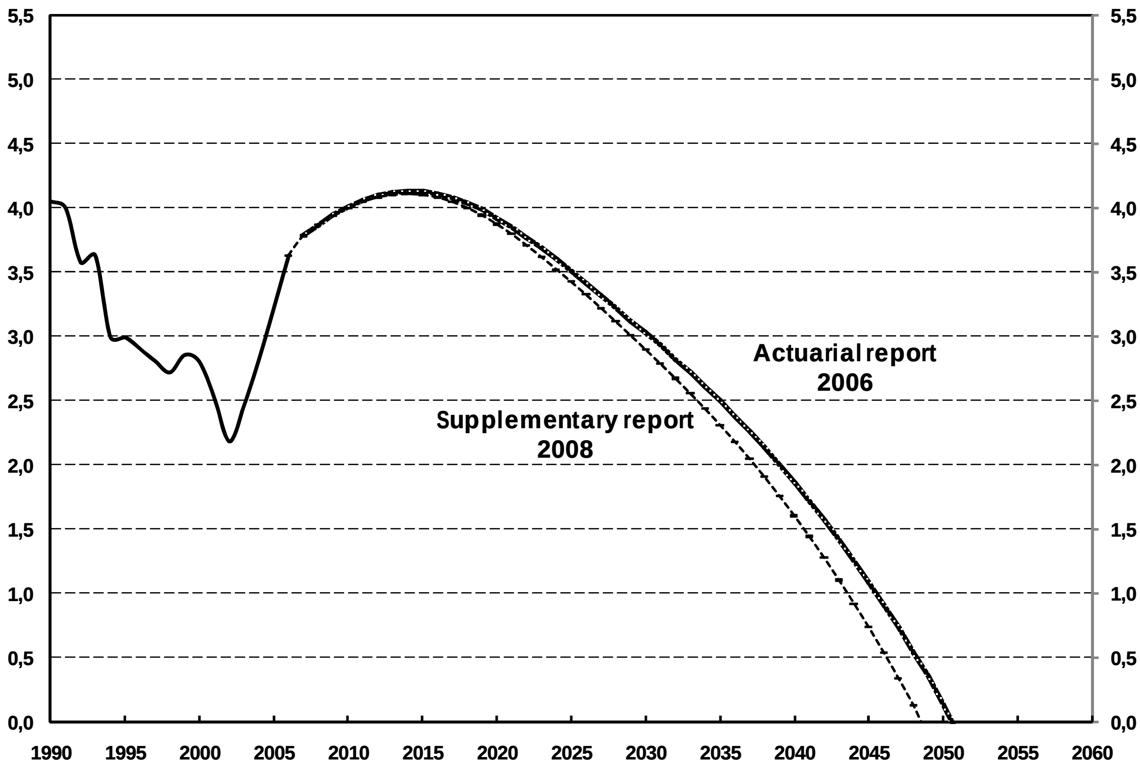
[21] Régie des rentes du Québec, *Rapport actuariel modifiant l'analyse actuarielle du Régime de rentes du Québec au 31 décembre 2006* (April 2008), 19 pages (French only).

Table 13
Projection of cash inflows and outflows and of the QPP reserve according to the 2008 supplementary actuarial report
(in millions of current dollars)

Year	Cash inflows			Cash outflows			Reserve		
	Contributions	Investment income	Total	Benefits	Administration fees	Total	In dollars and in proportion to cash outflows of the following year		Pay-as-you-go contribution rate
	($)	($)	($)	($)	($)	($)	($)		(%)
2007	9 278	2 185	11 463	8 737	103	8 840	35 132	3,8	9,4
2008	9 620	2 392	12 012	9 183	105	9 288	37 856	3,9	9,6
2009	9 978	2 611	12 589	9 679	108	9 787	40 658	3,9	9,7
2010	10 360	2 799	13 158	10 214	111	10 325	43 492	4,0	9,8
2011	10 762	2 989	13 751	10 756	114	10 870	46 373	4,0	10,0
2012	11 192	3 229	14 421	11 338	118	11 457	49 338	4,1	10,1
2013	11 641	3 479	15 120	11 966	122	12 088	52 370	4,1	10,3
2014	12 118	3 739	15 858	12 648	126	12 774	55 453	4,1	10,4
2015	12 634	4 009	16 643	13 371	130	13 502	58 595	4,1	10,6
2016	13 140	4 267	17 406	14 156	135	14 290	61 711	4,1	10,8
2017	13 662	4 465	18 126	14 980	139	15 120	64 717	4,0	10,9
2018	14 202	4 652	18 853	15 849	144	15 992	67 578	4,0	11,1
2020	15 319	4 986	20 305	17 671	152	17 823	72 753	3,9	11,5
2025	18 402	5 649	24 051	22 637	173	22 810	81 571	3,4	12,3
2030	22 063	5 864	27 928	27 746	195	27 941	83 971	2,9	12,5
2035	26 639	5 668	32 307	33 327	226	33 553	80 483	2,3	12,4
2040	32 143	4 875	37 018	40 400	264	40 664	67 812	1,6	12,5
2045	38 482	2 929	41 411	48 990	298	49 289	37 632	0,7	12,7
2050	45 887	*	*	58 853	343	59 196	*	*	12,8
2055	54 714	*	*	70 733	389	71 122	*	*	12,9
2060	65 430	*	*	84 356	440	84 796	*	*	12,8

Source: *Rapport actuariel modifiant l'analyse actuarielle du Régime de rentes du Québec au 31 décembre 2006* (April 2008).

Chart 7
Comparison of the ratio of the reserve to annual cash outflows according to the 2006 actuarial report and the 2008 supplementary actuarial report



Appendix 2
Comparison of the provisions of the Québec Pension Plan and the avenues of solution

RETIREMENT PENSION	
Current provisions	**Avenues of solution**
Eligibility: From age 60 to 64: a) if the contributor has stopped working, or b) if the contributor expects to earn, in the 12 months following the application, less than 25% of the MPE* (less than 11 225 $ in 2008); or c) if the contributor has reduced his or her pay by at least 20% following an agreement with the employer, as part of phased retirement. As of age 65, the contributor can apply for a pension, even if he or she is working. *MPE: maximum pensionable earnings	**Eligibility:** As of age 60, without any other conditions related to earnings.
Method for calculating the pension: The pension paid is equal to 25% of the average earnings in the contributory period, after excluding, from the calculation of the average, 15% of the years in which earnings were lowest. The ***contributory period*** begins when the contributor reaches age 18 and ends when he or she begins receiving a retirement pension. When the Plan is mature, a person's contributory period is from 42 to 52 years, depending on the contributor's age at retirement. After the exclusion of 15%, the pension will be calculated on the basis of 36 to 44 years of contribution.	**Method for calculating the pension:** The pension is calculated on the basis of career earnings. It is equal to 25% of the average earnings of the 40 best years of earnings in the reference period. The **reference period** begins when the contributor reaches age 18 and ends when he or she begins receiving a retirement pension.
Years caring for children: Years in which earnings were low that correspond to the years during which the person was caring for children under age 7 can be excluded from the calculation of average career earnings. This results in an increase in the pension.	**Years caring for children:** Earnings can be credited for each of the years during which a person was caring for children under age 7. The credited earnings will result in an increase in the earnings for those years to the level of the average earnings for the rest of the person's career, and thus increase the pension. This proposal is equivalent to the current provision.

<table>
<tr><th colspan="2">RETIREMENT PENSION (continued)</th></tr>
<tr><th>Current provisions</th><th>Avenues of solution</th></tr>
<tr><td>Actuarial adjustment factor:
An actuarial adjustment factor (AAF) is applied to take into account the payment period of the pension. This factor corresponds to a reduction in the beneficiary’s pension of 0,5% for each month before his or her 65th birthday or, conversely, an increase in the pension of 0,5% for each month after that birthday, until age 70.</td><td>Actuarial adjustment factor:
The retirement pension is reduced by 0,5% for each month before the contributor’s 65th birthday. It is increased by 0,7% for each month after that birthday.</td></tr>
<tr><th colspan="2">DISABILITY PENSION</th></tr>
<tr><th>Current provisions</th><th>Avenues of solution</th></tr>
<tr><td>Coverage
Workers under age 65 who are not beneficiaries of a retirement pension.</td><td>Coverage
Workers under age 65 who are not beneficiaries of a retirement pension;
beneficiaries of a retirement pension aged 60 to 64 who are working and contributing to the Plan.</td></tr>
<tr><td>Definition of disability:
A contributor can be eligible for a disability pension if he or she has a serious and prolonged disability which makes him or her unable to do any type of substantially gainful work.
A person aged 60 to 64 can also be eligible for a disability pension if, due to health reasons, he or she is unable to do his or her usual work.</td><td>Definition of disability:
A contributor can be eligible for a disability pension if he or she has a serious and prolonged disability which makes him or her unable to do any type of substantially gainful work.</td></tr>
<tr><td>Calculation of the pension:
414 $ (in 2008) + 75% BRP*
*BRP: The basic retirement pension of a disabled contributor is the amount payable as if he or she had been age 65 at the time of the disability.</td><td>Calculation of the pension:
502 $ (in 2008) + RPP*
The fixed portion of the pension is increased to the amount of the Old Age Security pension (OAS)
*RPP: The retirement pension payable is
• The pension payable at the time the contributor becomes disabled; or
• The retirement pension payable at age 60, if the contributor has not reached that age at the time of the disability.</td></tr>
</table>

DISABILITY PENSION (*continued*)	
Current provisions	**Avenues of solution**
Calculation of the retirement pension of a disabled beneficiary at age 65: The disability pension stops being paid when the beneficiary reaches age 65 and is replaced by a retirement pension. That pension is calculated as if the beneficiary had retired at the time he or she became disabled, and is then indexed according to the increase in wages. An actuarial adjustment factor is applied to the amount of the pension to take into account the number of months during which the beneficiary received a disability pension between ages 60 and 65.	**Calculation of the retirement pension of a disabled beneficiary at age 65:** The fixed portion of the disability pension ends since the beneficiary becomes eligible for the OAS pension from the federal government. The variable portion (RPP) continues to be paid and is indexed according to inflation.
SURVIVING SPOUSE'S PENSION	
Current provisions	**Avenues of solution**
Calculation of the pension: **Spouse under age 65:** Fixed portion + 37,5% BRP* Fixed portion Under age 45, without children: 106 $ Under age 45, with children: 384 $ Under age 45, disabled: 414 $ Aged 45 to 64: 414 $ *BRP: The basic retirement pension of the deceased contributor is the pension payable as if the contributor had retired at age 65.	**Calculation of the pension:** **Spouse under age 65:** Temporary pension paid for a maximum of 10 years and equal to 60% of the pension that the deceased contributor would have received if he or she had instead become disabled; and transfer to the spouse's account 60% of the earnings entered under the name of the deceased contributor during the years they lived together.
Spouse age 65 and over: 60% of the deceased contributor's BRP (without actuarial adjustment).	**Spouse age 65 and over:** 60% of the deceased contributor's RPP (with actuarial adjustment)
ORPHAN'S PENSION	
Current provisions	**Avenue of solution**
Pension payable to the minor child of a deceased contributor. Monthly pension of 66 $ (in 2008), indexed to inflation.	Pension payable to the minor child of a deceased contributor. Monthly pension of 209 $ (in 2008), indexed to inflation.

<table>
<tr><th colspan="2">COMBINED PENSIONS</th></tr>
<tr><th>Current provisions</th><th>Avenues of solution</th></tr>
<tr><td>Combined retirement/survivors' pension for beneficiaries aged 60 to 64:
The beneficiary can cumulate the two pensions. However, the sum of the variable portion of the surviving spouse's pension and the retirement pension cannot exceed the maximum retirement pension calculated according to the beneficiary's age at retirement.</td><td>Cumulation of the retirement pension and the temporary pension:
The surviving spouse who is receiving a temporary pension can apply for a retirement pension, if eligible. However, the sum of the variable portion of the surviving spouse's pension and the retirement pension cannot exceed the maximum retirement pension calculated according to the beneficiary's age at retirement.</td></tr>
<tr><td>Combined retirement/survivors' pension after age 65:
A beneficiary can receive a retirement pension and a surviving spouse's pension. The 2 pensions are not cumulated: the beneficiary does not receive his or her own retirement pension and 60% of the deceased contributor's pension.
Instead, the beneficiary receives the higher of the following combinations:
1) 100% RP + 37,5% of the deceased contributor's RP;
2) 60% RP + 60% of the deceased contributor's RP.
The combined pension is subject to a ceiling; it cannot exceed the maximum retirement pension calculated according to the beneficiary's age at retirement.</td><td>Cumulation of the retirement pension and the surviving spouse's pension:
A beneficiary can cumulate a retirement pension and a surviving spouse's pension.
However, the total amount paid cannot exceed the maximum retirement pension calculated according to the beneficiary's age at retirement.</td></tr>
<tr><td>Combined disability/survivors' pension:
The disability pension and the survivors' pension both include fixed portions. The beneficiary receives the higher of the two.
The beneficiary also receives the sum of the variable portions of the 2 pensions. The total of the variable portions cannot exceed the maximum retirement pension.</td><td>Cumulation of the disability pension and the temporary pension:
A disabled surviving spouse cumulates the temporary pension and the disability pension he or she was receiving at the time of the death.
The sum of the variable portions of the pensions cannot exceed the maximum retirement pension calculated according to the beneficiary's age when he or she began receiving a disability pension.</td></tr>
</table>

DEATH BENEFIT	
Current provisions	**Avenue of solution**
A lump sum of 2 500 $ paid at the time of the death, if the deceased contributed to the Plan for at least one-third of the period he or she could have contributed and for at least 3 years, or for 10 years.	A lump sum of 2 500 $ paid at the time of the death, if the deceased contributed to the Plan for at least one-third of the period he or she could have contributed and for at least 3 years, or for 10 years. If the person died without contributing for the required number of years and without receiving other benefits, the death benefit is equal to the contributions made, up to 2 500 $.

Appendix 3
Main differences between the Québec Pension Plan and the Canada Pension Plan

Measures		QPP	CPP
Retirement	Beneficiaries of a retirement pension who are working	Beneficiaries of a retirement pension who are working make contributions and the pension is recalculated annually to take into account new contributions.	Beneficiaries of a retirement pension who return to work do not contribute to the CPP.
	Amount for the beneficiary of a disability pension at age 65	Retirement pension reduced by 0,5% for each month in which the person received a disability pension between ages 60 and 65.	Retirement pension calculated according to earnings at the time the disability begins and indexed according to the CPI between the beginning of the disability and age 65.
	Retroactive payment after age 65	If the application is filed after age 65, the new beneficiary can receive a retroactive payment covering up to 5 years.	If the application is filed after age 65, the new beneficiary can receive a retroactive payment covering up to 5 years.
Disability	Eligibility	Contributed for at least: – 2 of the last 3 years, or – 5 of the last 10 years, or – half of the years in the contributory period.	Contributed for at least: 4 of the last 6 years, or 3 of the last 6 years and 25 years (on earnings representing at least 10% of the MPE).
	Definition of disability for persons aged 60 to 64	Inability to do their usual work.	Inability to do substantially gainful work (no relaxed definition of disability as of age 60).

Measures		QPP	CPP
Surviving spouse	Definition of spouse	– Married or – lived with the contributor for 3 years, or – lived with the contributor for 1 year if a child is born of the union Priority is given to the married spouse	– Married or – lived with the contributor for 1 year Priority is given to the de facto spouse
	Age	The surviving spouse's pension is payable regardless of the age of the spouse.	The surviving spouse's pension is paid before age 35 only if there is a dependent child. The pension is reduced by 1/120 for each month before the 45th birthday if there is no dependent child.
	Amount of the fixed portion before age 65	– Under age 45 without children and not disabled: 106,04 $ – Under age 45 with children and not disabled: 384,43 $ – 45 to 64 or disabled: 414,05 $ (Note: the maximum variable portion is 331,72 $)	Any age: 161,56 $ (Note: the maximum variable portion is 331,72 $)
Orphan or child of a disability pension beneficiary	Age	Pension payable until age 18	Pension payable until age 18, or age 25 if the person is still a student.
	Amount	66,29 $	208,77 $
	Two pensions	A child cannot receive 2 pensions at the same time.	A child can receive 2 pensions at the same time.
Death benefit	Amount	2 500 $	6 times the monthly retirement pension, for a maximum of 2 500 $.

Appendix 4
Strategies chosen by other countries

Countries in the OECD have adopted various strategies to confront the challenges faced by retirement systems. The following summary lists the principal measures.

Increase contributions

- **Japan** has instituted a schedule of increases in the contribution rate until 2025, in order to reach a rate that will be stable in the long-term. The legislation provides for an adjustment in benefits every 5 years to maintain the Plan's financial equilibrium.
- In **Germany**, the combined contribution rate for workers and employers went from 17,7% to 19,5% between 1991 and 2004. The rate will continue to increase between now and 2020, but will not exceed the limit of 20%.

Encourage people to work longer

- In the **United States**, the normal age of retirement is being increased from 65 and will reach 67 in 2022.
- In **Japan**, the normal retirement age will increase, for men, from 60 to 65 between now and 2025. For women, retirement at age 65 will be reached in 2030.
- **Germany** will raise the age of retirement from 65 to 67 between 2012 and 2029. It has also established a program encouraging the employment of seniors.
- The **United Kingdom** projects a gradual increase in the age of retirement, from the current age of 65 to age 66 in 2026, 67 in 2036 and 68 in 2046.
- **Denmark** plans to change the age of pre-retirement from 60 to 62 and that of retirement from 65 to 67, as of 2019.
- **France** has chosen to keep the same age of retirement, but has increased the period of contribution required giving entitlement to a full pension, both for the standard private sector plan and special plans.
- **Spain**, **Finland** and **Sweden** have implemented systems to encourage workers to stay in the labour market.
- **Sweden**, **Belgium**, the **United States, Germany**, **France**, **Portugal**, **Norway, Italy** and the **United Kingdom** allow workers to add their retirement income and employment earnings.

Reduce benefits

- In **Germany**, the income replacement rate provided by a retirement pension was reduced.
- In the **United States**, factors making it possible to adjust past earnings were lowered, which reduced the amount of new pensions.
- In **Germany**, the indexation of pensions to the cost of living was reduced.

Shift towards public defined contribution plans

- The 1998 reform in **Sweden** replaced the public defined benefit plan by a notional defined contribution plan in which the pension varies according to the life expectancy of the person's cohort.
- Chile established, in the beginning of the 1980s, a compulsory public capital accumulation plan.