

Québec's Retirement System: An Overview and the Challenges

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Supplemental Pension Plans

Overview

- Breakdown of pension plans under our supervision
- Defined benefit plans
- Differences in treatment under pension plans
- Current initiatives

Breakdown of pension plans under our supervision as at 31 December 2016

	DB	DC	VRSP	SIPP	Total plans
Number of SPPs	742	236	10	11	999
Number of active members	564 000	66 000	71 500	80 000	781 500
Number of members and beneficiaries	1 234 000	82 000	71 500	80 000	1 423 000
Estimated number of separate employers	30 648	904	9733	2148	43 433
Assets (billions of dollars)	\$157.5	\$3.8	\$0.06	\$2.6	\$163.9

DB: Plan with a defined benefit component

DC: Defined contribution plan

VRSP: Voluntary retirement savings plan

SIPP: Simplified pension plan

Defined benefit plans: Changes since 2002

YEAR	NUMBER OF PLANS	NUMBER OF PLANS WITH A DC COMPONENT	ASSETS FROM THE DC COMPONENT (BILLIONS OF DOLLARS)	PLAN LIABILITIES (BILLIONS OF DOLLARS)	% OF PLANS WITH A DC COMPONENT	% OF ASSETS FROM DC COMPONENT
2002	941	123	\$0.2	\$55.6	13.1%	0.4%
2005	879	162	\$2.0	\$68.4	18.4%	2.9%
2008	834	172	\$3.3	\$81.8	20.6%	4.1%
2011	760	191	\$3.4	\$96.0	25.1%	3.6%
2014	704	233	\$4.4	\$115.0	33.1%	3.8%
2015	693	240	\$4.6	\$118.5	34.6%	3.9%
2016	660	242	\$4.9	\$121.2	36.7%	3.8%

* The data in this table excludes the Supplemental Pension Plan for Employees of the Québec Construction Industry.

Differences in treatment under pension plans

- What are differences in treatment?

This refers to a provision that grants an employee differences in treatment based on the date on which the employee was hired compared with an employee who performs the same tasks in the same workplace.

Differences in treatment under pension plans

Differences in treatment under pension plans can be reflected, among other things, by:

- the transfer of risk to members;
- the implementation of a defined benefit component based on the date on which employees were hired.

Differences in treatment under pension plans

Number of defined benefit plans, in May 2018, based on the benefit type and the number of members indicated in the Annual Information Return as at 31 December 2016.

Type of benefit	Number of plans	% of plans	Total number of active members (1)
DB for all service	415	63 %	236 942
DC closed for past service and DB for future service for all members	31	5 %	50 481
DB with DC component for all members	17	3 %	21 420
DB closed for past service and DB for future service for all members	60	9 %	9 392
DB for long-standing members and DC for new members	105	16 %	48 362
DB for certain members and DC for other members	29	4 %	27 168
	657		393 465

(1) Participation data is updated each year in November. The data above was taken from the 2016 Annual Information Return.

Bill 176 — Differences in treatment

An Act to amend the Act respecting labour standards (Bill 176) came into force on 12 June 2018.

Differences in treatment based solely on the date the employee is hired are not permitted.

However, employers that have already implemented different retirement pension plans based on the hiring dates are not required to change them.

Current initiatives

Four actions are being developed:

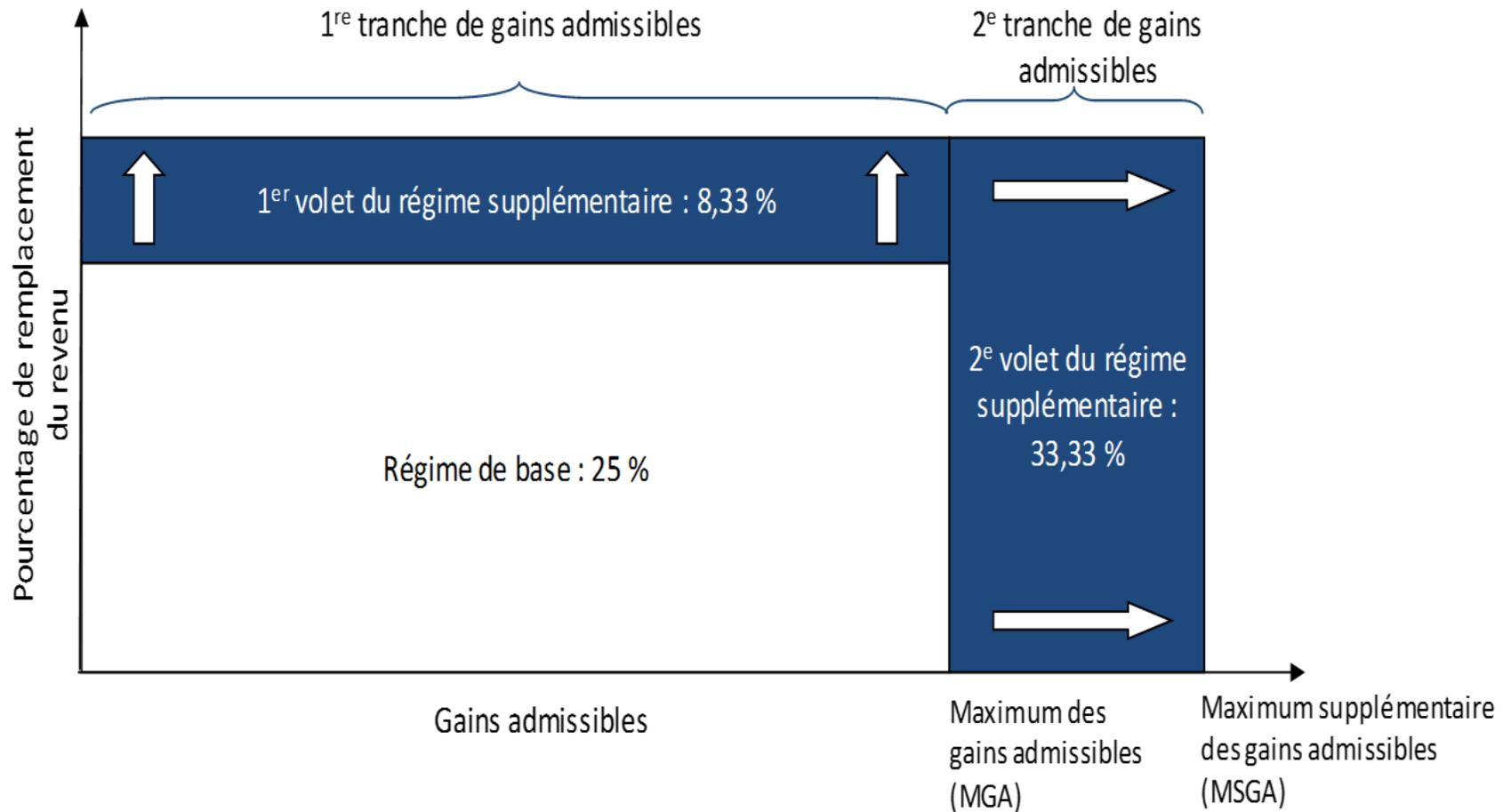
- A consultation on the rules for withdrawals will be held in the autumn.
- The establishment of a regulation concerning target benefits is being discussed.
- Discussions are under way to establish a new agreement concerning multi-jurisdictional pension plans.
- Development of an electronic annual information return.

Québec Pension Plan

Overview

- New provisions of the Québec Pension Plan (QPP)
- Special actuarial valuation
- Announcement of recent changes to the Canada Pension Plan (CPP)
- The changing environment
- Challenges for public plans

New QPP provisions – Enhancement



New QPP provisions – Enhancement (continued)

The Plan's new structure: 2 separate plans

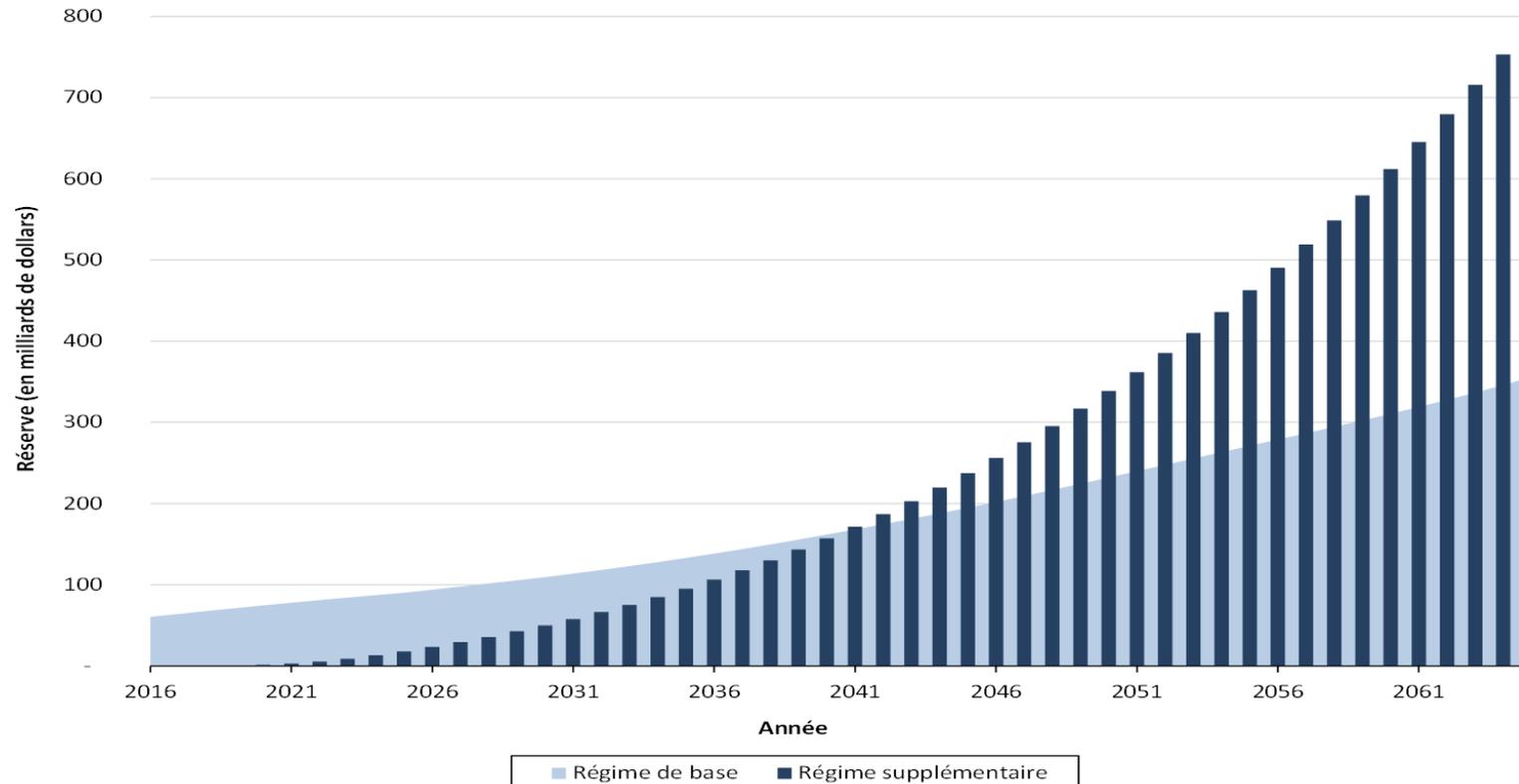
Basic plan	Additional plan
Pay-as-you-go funding with a stabilization reserve to maintain balance	Funding devised so that benefits are closely linked to the contributions received and the returns obtained
The Plan is funded based on intergenerational solidarity	Funded mainly through the accumulation of financial assets
Main risk factors: 1. Salary trends 2. Return 3. Mortality	Main risk factors: 1. Return 2. Salary trends

New QPP provisions – Stabilization mechanisms

- Obligation to fund future improvements to the QPP (both the basic and additional plan) by an increase in contributions.
- Defining a reference contribution rate to be used to evaluate the funding of the additional plan:
 - a rate that, at the end of the 20th year of projection, allows for a reserve that can cover future cash outflows relative to contributions paid before that period.
- **Implementation of an automatic adjustment mechanism to be applied to the additional plan**
 - possible changes to contributions and benefits
 - conditions to be determined by regulation

Special actuarial valuation

Projected reserves (basic and additional plan)



The additional plan's reserve will exceed the basic plan's reserve in 2041.

Special actuarial valuation (continued)

Reference contribution rate = 1.88%

- This rate makes it possible to reach a reference value of \$90 billion in 2035.
 - The **reference value** is the amount required to cover future cash outflows without new plan contributions.
- The rate is slightly lower than the rate of 2.0% provided for in the Bill.

Sensitivity of the results

- A rate of return assumption 0.2% lower over the entire projection period bears a reference contributions rate of 2.0%.

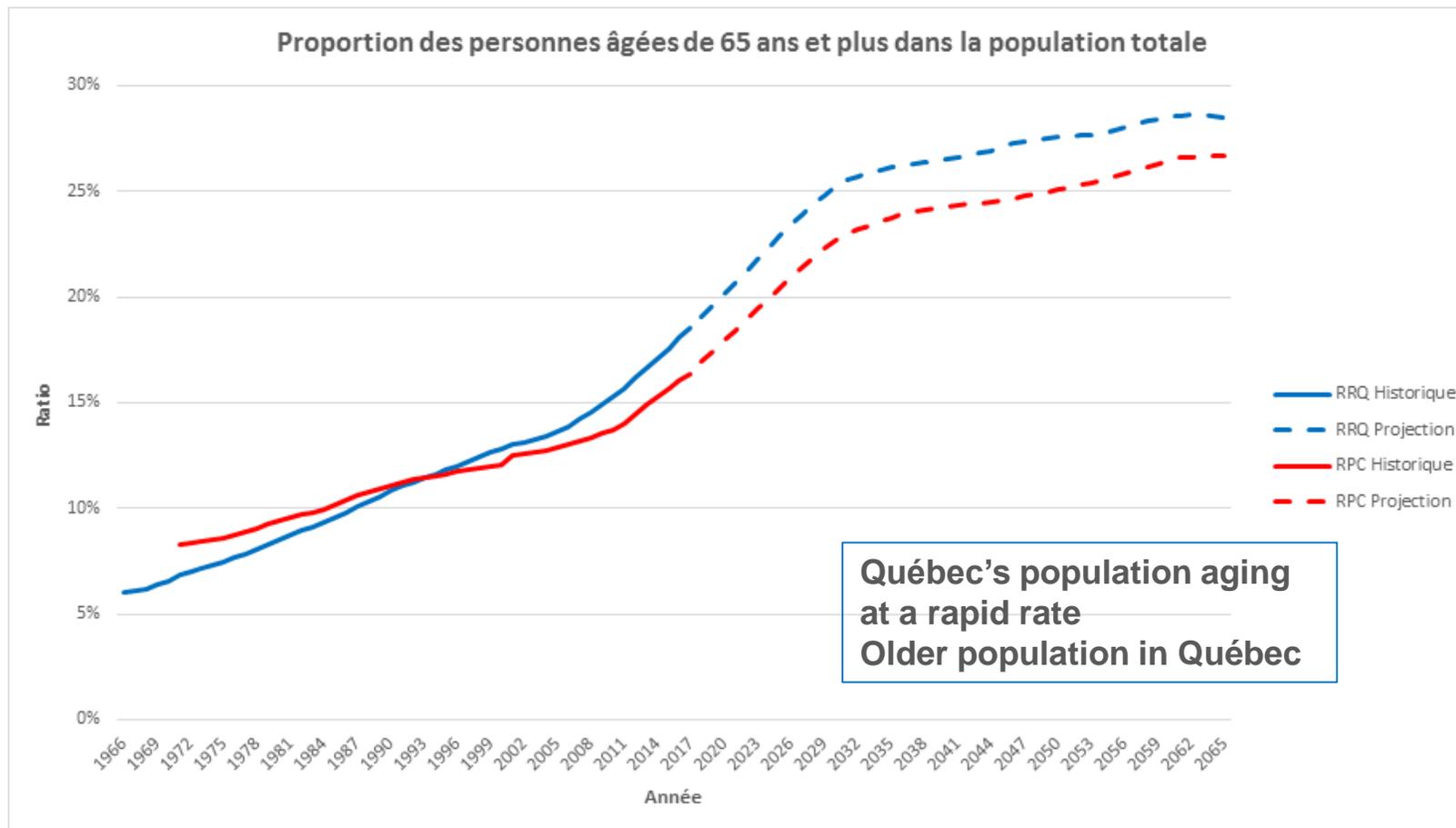
However, the contribution rates provided for in the Bill (2.0% for the first component of the additional plan) are adequate.

Announcement of recent changes to the CPP

- In the context of CPP enhancement, increased support for parents and disabled persons:
 - Child rearing drop-in provision
 - Disability drop-in provision
- Questions concerning harmonization with the QPP.

Environnement en changement

Demographic picture



Changing environment

Retirement age in various countries

Normal retirement age by sex in public plans in various OECD countries with which Canada is usually compared

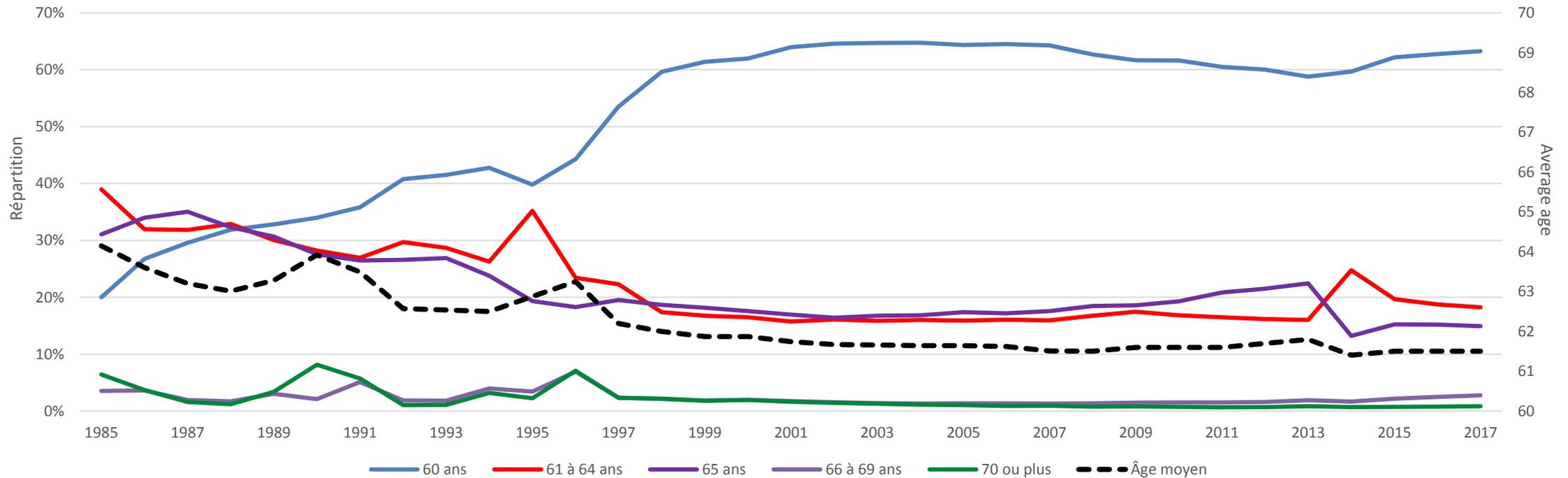
Country	Before the reform	After the reform
Austria	60 (women) and 65 (men)	65
Canada	65	65
Japan	60	65
New Zealand	65	65
Sweden	65	65
Switzerland	63 (women) and 65 (men)	65
Germany	65	67
Australia	64 (women) and 65 (men)	67
United States	66	67
France ^a	65	67
Iceland	67	67
Norway	67	67
Denmark ^b	65	67+
Italy ^b	59 (women) and 66 (men)	67+
Netherlands ^b	65	67+
Ireland	65 (women) and 66 (men)	68
United Kingdom	60 (women) and 65 (men)	68

- a. In France, people generally apply for their retirement pension as soon as they reach the minimum age for eligibility, which is 62 (early retirement). This situation result in a decrease in the amount of the pension paid.
- b. After the reform, the retirement age in these countries will be adjusted according to life expectancy.

Changing environment

Age at starting date of pension — QPP

Breakdown of new retirement pension beneficiaries based on age when payment of the pension begins — QPP



Source: 2017 statistics on the Québec Pension Plan (French only), Retraite Québec.

Challenges for public plans

- Longer working life
- Need for a greater labour force is expected
- Emergence of a work-retirement transition period
- Retirement age increased to 67 for several public-sector plans in other countries
- Gradual implementation of the enhanced Plan:
 - in conjunction with private savings;
 - needs to meet before maturity of the new Plan.