[UNOFFICIAL ENGLISH VERSION]

July 10, 2025

BY E-MAIL

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Subject: Draft Regulation to amend the *Regulation respecting supplemental pension plans* and Draft Regulation to amend the *Regulation respecting voluntary retirement savings plans* published May 28, 2025

Mr. Dufresne,

The Association of Canadian Pension Management ("**ACPM**") is the leading advocacy organization for a balanced, effective and sustainable retirement income system in Canada. Our private and public sector retirement plan sponsors and administrators manage retirement plans for millions of plan members, including both active plan members and retirees.

We are pleased to provide you with the ACPM's comments with respect to the Draft Regulation to amend the *Regulation respecting supplemental pension plans* and the Draft Regulation to amend the *Regulation respecting voluntary retirement savings plans* published May 28, 2025, which set out the rules for the administration of variable payment life pensions (VPLP) in Defined Contribution Pension Plans (DCPPs) and Voluntary Retirement Savings Plans (VRSPs).

The ACPM salutes the efforts of the Quebec government and Retraite Québec in developing innovative solutions to help Quebecers better plan their retirement and decumulate their retirement savings in an orderly fashion. We encourage Retraite Québec to continue playing a leadership role at the national level by encouraging other regulatory bodies to adopt rules that are as uniform as possible across Canada.

The ACPM believes in the variable payment life pension solution as an additional tool to enable individuals to decumulate their retirement savings in an orderly fashion. The success of this solution depends on well-designed products that are well understood by plan members. The ACPM welcomes the flexibility of the rules proposed in the Draft Regulations but, considering the irrevocable nature of this type of contract, encourages Retraite Québec to properly circumscribe certain provisions to ensure the long-term success of this new product.

Unless otherwise indicated, our comments concern both Draft Regulations, since the rules are almost identical. Our comments cover the following topics:

1. Reference rates
2. Pension adjustment
3. Investment policy
4. Communication
5. Fees
6. Periodic increase rate of the pension

1. Reference rate

The Draft Regulations governing variable payment life pension funds ("**VPLP Funds**") offer considerable flexibility in the development of key features, including investment strategies, death benefits and reference rates. The ACPM believes that this flexibility will enable future providers to design products tailored to members' needs, while promoting a degree of financial stability during the decumulation phase.

However, this flexibility, combined with the irreversible nature of the transfer of sums to these funds, requires a clear and unambiguous understanding of potential payment fluctuations. The ACPM believes that it would be appropriate to better define the requirements for illustrations to be provided to members. These illustrations should rigorously reflect the expected returns certified by an actuary, as well as the possible fluctuations in pension amounts. The ACPM is not suggesting additional regulatory measures to this effect, but is encouraging Retraite Québec to issue clear guidelines to plan sponsors.

In addition, we believe that the introduction of a maximum reference rate would be a judicious measure to prevent abusive product design and protect members' interests. Such a measure would help preserve the integrity and transparency of the system, while strengthening members' confidence in the products offered. This reference rate could be linked to the expected return based on the risk profile of the plan's investment policy, for a reasonable decumulation horizon, and determined by an actuary when the fund is registered, as well as in any subsequent actuarial valuation report. The ACPM suggests that a maximum reference rate be set via new guidelines for plan sponsors.

2. Pension adjustments

Pension amounts are adjusted annually based on the return of the VPLP Fund vs. the reference rate. One of the legitimate concerns of members will be the level of variability of these adjustments and how to properly budget for this variability. One way for administrators to reduce this volatility would be to use investments that are not traded on public markets. This type of investment indirectly smoothes the market valuation of investments.

Some of our members believe that it would have been possible to limit the variability of performance-related adjustments by allowing administrators to smooth pension variations over a period of up to three years. Alternatively, the pension adjustment resulting from the return of the VPLP Fund could have been shifted by 12 months to help plan members prepare their budgets. The same principle applies to the adjustment of current service contributions adjustments in the municipal-sector pension plans.

The Draft Regulations also provide for adjustments to pension amounts in the event of a change in actuarial assumptions relating to mortality, and this adjustment must be the same for all pensions payable. Actuarial mortality assumptions have two components: the base mortality table and the future mortality improvement scale. A change in either of these components, but especially a change in the improvement scale, does not affect members of all ages in the same way. We believe that the pension adjustment resulting from a change in actuarial assumptions could be calculated individually according to the change in individual liabilities, rather than applying the same adjustment to all.

3. Investment policy

One of the most significant differentiators between administrators of VPLP Funds in VRSPs will be the risk/return profile of the VPLP Fund. This risk/return profile affects the level of the reference rate that can be offered, but more importantly, the potential for future adjustments. Members who commit to a specific VPLP Fund after comparing several available products will be making an irrevocable choice based on the information known at the time, including the investment policy and the potential for future adjustments. It seems problematic to us that a change in investment policy, which significantly affects the desired risk profile, can be made during the lifetime of a VPLP Fund, since the member has no possibility of withdrawing, even if the potential for future adjustments is significantly affected. We believe that changes to the investment policy of a VPLP Fund must respect the established risk profile, which should be clearly stipulated in the investment policy, and that this risk profile cannot be modified during the Fund’s existence, unless members have the option of transferring the value of their pensions to another VPLP fund (see 5 below).

4. Communication

One of the main communication challenges associated with VPLPs is the need to make it clear to members that the amount of their pension may fluctuate over time, including downwards. To meet this challenge without imposing too rigid a framework, the ACPM suggests that Retraite Québec issue guidelines encouraging the development of at least three distinct illustrations:

- An average return scenario 1%/year below expectations.
- An average return scenario in line with expectations.
- An average return scenario 1%/year above expectations.

These illustrations should also reflect variability around the average that is plausible considering the investment policy (for example, by reflecting return volatility) and enable members to visualize not only the possible trajectories of their pension over the long term, but also potential short-term fluctuations. Such an approach would reinforce their understanding of the risks, while helping them to realistically project the evolution of their retirement income. The return assumptions used in these scenarios should be clearly indicated and certified as reasonable by an actuary. This would enable members to make informed decisions about their financial future.

We also suggest adding an obligation to communicate with plan members when a fundamental provision of the plan is modified (e.g. maximum fee level, investment risk profile and opening or closing the Fund to new members).

5. Fees

The Draft Regulation amending the VRSP Regulation stipulates that the plan text must stipulate the annual limit on fees that may be deducted from returns. This is an important transparency and predictability measure for plan members.

However, in the event that fundamental provisions of the plan - notably those relating to maximum fees - are modified after a member has enrolled, it would be advisable to provide protection mechanisms. More specifically, members should have the option of transferring the value of their pension to another VPLP Fund offering a risk profile and fee level better suited to their needs and risk tolerance. If no available option adequately meets their needs, then transferring the balance to another pension vehicle should be permitted.

More broadly, the Regulations should allow for the transfer of the balance of a VPLP Fund when fundamental characteristics are significantly modified during its lifetime. These characteristics could include, among others, the risk profile of the investments, the fees borne by the fund, and the opening or closing of the fund to new members.

6. Periodic increase rate of the pension

While it may seem appealing to include a periodic increase rate of the pension in the plan text in addition to the reference rate, such an approach could lead to unrealistic expectations or create confusion. In fact, this additional feature could be misunderstood by members, particularly in terms of its interaction with actual investment returns.

In practice, the total annual pension adjustment will result from a combination of the periodic increase rate of the pension and the reference rate vs. the actual realized return. This complexity could hamper overall understanding of the adjustment mechanism, particularly for members less familiar with financial concepts.

To simplify communication and better reflect long-term growth objectives, it might be simpler to offer two separate reference rates. One of these rates, which would be lower than the expected long-term return, could be used as a benchmark to illustrate a scenario in which the member can reasonably expect his or her pension to grow progressively. The illustrations to appear on the statement of estimates would clearly indicate the potential increase.

We understand that the provisions of the legislation governing pensions paid by a VPLP Fund provide for the possibility of a periodic increase and that the above proposed amendment, if considered appropriate, would require a legislative amendment.

We remain available to discuss this at your convenience.

Sincerely,

Marie-Josée Forcier
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ACPM

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