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# ACPM Submission to the Public Consultation on the Québec Pension Plan

## ACPM CONTACT INFORMATION

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## FOREWORD

### ACPM (THE ASSOCIATION OF CANADIAN PENSION MANAGEMENT)

ACPM (The Association of Canadian Pension Management) is a national, non-profit organization acting as the informed voice of plan sponsors, administrators and their service providers in advocating for improvement to the Canadian retirement income system. Our membership represents over 400 companies and retirement income plans that cover more than 3 million plan members.

ACPM believes in the following principles as the basis for its policy development in support of an effective and sustainable Canadian retirement income system:

***Diversification through Voluntary/Mandatory and Public/Private Options***
Canada’s retirement income system should be comprised of an appropriate mix of voluntary Third Pillar and mandatory First and Second Pillar components.

***Third Pillar Coverage***
Third Pillar retirement income plan coverage should be encouraged and play a meaningful ongoing role in Canada’s retirement income system.

***Adequacy and Security***
The components of Canada’s retirement income system should collectively enable Canadians to receive adequate and secure retirement incomes.

***Affordability***
The components of Canada’s retirement income system should be affordable for both employers and employees.

***Innovation in Plan Design***
Canada’s retirement income system should encourage and permit innovation in Third Pillar plan design.

***Adaptability***
Canada’s retirement income system should be able to adapt to changing circumstances without the need for comprehensive legislative change.

***Harmonization***
Canada’s pension legislation should be harmonized.

## Introduction

Many Québecers have access to a workplace retirement plan that, in conjunction with the Québec Pension Plan (QPP), provides adequate income at retirement. For Québecers without workplace retirement plans, those with lower incomes are already achieving satisfactory retirement income replacement levels thanks to Pillars 1 and 2 of the retirement income system, i.e., Old Age Security (OAS) benefits, the Guaranteed Income Supplement (GIS) and QPP benefits, while most higher income earners without access to a workplace plan appear to be saving adequately on their own. However, there seems to be a consensus that many middle income earners working in the private sector without access to a workplace plan are not adequately saving for their retirement.

Therefore, ACPM believes that the main point of having discussions on improving the Québec retirement income system is to address the problem of inadequate retirement savings by middle income earners who do not have access to a workplace retirement plan.

## Status quo or enhancement?

Some say that the current retirement income system should stay as is. Keeping the status quo means we need to keep relying on a whole range of voluntary retirement savings vehicles to address the problem of inadequate retirement income for middle income earners. Middle income earning Québecers would therefore be encouraged to use the options currently available to boost their retirement income (i.e., save more while they are working) or work for a longer period.

ACPM believes the current retirement income system (including the voluntary retirement savings vehicle offer) has not made much headway to address the problem of inadequate retirement income for middle income earners and that is very unlikely to change in the future if no changes are made.

Several ACPM members have expressed their concerns that enhancing the QPP would generate another increase in payroll taxes for employers in Québec and that it is not necessary for those eligible to participate in a workplace pension plan. Employees of ACPM members generally do not fall into the category of workers who require more support from public plans. With this in mind, our members would likely be satisfied maintaining the status quo.

That being said, most of our members are aware that a large segment of the Québec workforce is not eligible to participate in a workplace pension plan and that enhancing the QPP would benefit Québecers in general. Even if their employees likely do not require it, several of our members believe they can absorb the proposed contribution increases under the Québec and federal proposals or they have the option of amending their existing pension plans to take into account the enhanced benefits from the public plan and thereby mitigate the impact of additional contributions. However other members are concerned by the proposed hike in the contribution rate and the difficulty they may encounter in amending their pension plans to absorb this hike, especially for unionized employees.

Although ACPM is in favour of enhancing the QPP, we believe the solution to the problem of inadequate retirement income in Québec needs to be properly targeted. Changes to the Québec retirement income system must be devised to meet the needs of a target group, i.e., middle income earners not participating in a workplace pension plan.

**<u>Québec or federal proposal?</u>**

**(i) Observations and comments on the federal proposal**

One of ACPM's Guiding Principles is harmonizing the pension legislation in Canada. It follows that ACPM generally prefers solutions that can be applied to each Canadian jurisdiction in a harmonized fashion. As such, the federal proposal certainly has the advantage of already being approved by nine provinces in addition to the federal government.

Adopting the federal proposal would allow employers with operations in Québec and outside Québec to maintain a more consistent overall compensation program for their workforce and to simplify its administration. Coordinating pensions between the public and private plan would, for example, be the same for all employees. Only one communication regarding the Canada Pension Plan (CPP) and the QPP would be required for all employees so fewer resources would be dedicated to adjusting the compensation for Québec employees and non-Québec employees.

Unfortunately, the federal proposal would require low income earners to make additional contributions that would result in no (or almost no) additional income at retirement.

The rules pertaining to the GIS stipulate that if a pensioner receives income other than the OAS and an employment income of up to $3,500 (including supplementary QPP and CPP benefits), the GIS must be reduced by 50% of that other income. For pensioners receiving a GIS because their retirement income is low enough, it follows that enhanced QPP/CPP benefits under the federal proposal would have the effect of reducing the GIS amount. This interaction between the GIS and QPP would result in the pensioner receiving a combined retirement income that has not been enhanced enough in light of the additional contributions paid throughout his or her working years.

The proposed increase to the working income tax benefit (WITB), a refundable tax credit that provides tax relief for working low-income individuals, can help them pay additional contributions required by the federal proposal. However, it is still not clear to us if a tax credit during the work period would address the problem related to the GIS reduction at retirement. Moreover, this benefit would be paid to some individuals who will not receive the GIS and will not be paid to others who will receive the GIS. On the other hand, one advantage of increasing the WITB in the short term, which is funded by the government's current budget, is that the current generation of taxpayers would bear the cost of funding the future costs of the GIS upon retirement, which fosters intergenerational equity.

### (ii) Observations and comments on the Québec proposal

One of the advantages of the Québec proposal is that it better targets middle income earners than the federal proposal.

Excluding low-income individuals could mitigate the negative effects of the GIS reduction that would otherwise apply, as in the federal proposal. In this regard, Québec proposes that the federal government exempt additional QPP benefits for the purposes of calculating the GIS. As we still do not know whether the federal government would accept such a request, it is difficult to determine whether the Québec proposal is preferable.

We also note that the needs of future Québec pensioners are no different from those of other Canadians that it would justify a different enhancement to the QPP. One major difference in the Québec proposal compared to the federal proposal is that by excluding the first half of the maximum pensionable earnings (MPE) from the enhancement and by applying the same supplemental accrual rate as in the federal proposal (i.e., 8.3%) to the second half of the MPE, the final result for the worker who earns an income equal to the MPE during his or her career would be a supplemental benefit that only represents 50% of the benefit under the federal proposal. The enhanced benefits under the Québec proposal seem too low to actually address the problem of inadequate retirement income for middle income earners not participating in a workplace pension plan.

The Québec proposal could also somewhat complicate the design and administration of the federal GIS program if changes were only to be applied to Québecers. It would produce undesirable administrative complexities for employers with operations in Québec and outside Québec. However, ACPM does admit that these complexities are manageable.

### (iii) Conclusions

ACPM believes both proposals are viable, but considering the difficulty of accurately assessing the impact of increasing the WITB and of the potential exemption of enhanced benefits for the purposes of calculating the GIS, it is difficult to favour any one proposal.

ACPM is of the opinion that a better solution may be to exclude the first half of the MPE from the enhancement and to apply an accrual rate that is higher than the one in the federal proposal, over half the MPE. We believe an additional accrual rate of 16.6% for the second half of the MPE (i.e., double the rate under the federal proposal) would achieve a supplemental benefit comparable to that under the federal proposal (for workers who earn an income equal to the MPE) while avoiding the problem of reducing the GIS for low income earners.

Another comparable solution is to apply a new accrual rate of 40% (instead of 33.3%) for the portion of income between 50% of the MPE and 114% of the MPE (i.e., the new limit). This solution would make it easier to harmonize multi-jurisdictional pension plans that cover workers who earn more than the MPE. It should also be noted that the OAS amount is about 12.5% of the MPE or 25% of the first half of the MPE. A worker earning half the MPE would get 25% of his or her income from the QPP plus 25% of income from the OAS, for a total of 50% from these public plans (not including the GIS), which would be higher than the 40% suggested above for income above half the MPE.

If the legislator believes either proposal needs to be chosen as is, ACPM would lean towards the federal proposal due to the fact that such a solution would help harmonize the Canadian retirement income system, further improve (by about double) the financial position of middle income earners without a pension plan (i.e., those who would make up the target group of this reform), national employers may adjust and standardize their plans and the GIS (and WITB) would be consistent for all provinces.

It should also be noted that several ACPM members in Québec prefer implementing the Québec proposal as it better targets the group of middle income earners not participating in a pension plan and it would harmonize the cost between the QPP and CPP.

**Comments on QPP changes**

**1. Increasing the minimum eligible age (age 60)**

- We support the idea of flexibility in choosing a date on which the pension would be paid as currently provided under the QPP, as long as the amount is adjusted accordingly. The recent change to the adjustment factor before age 65 from 6% to 7.2% per year was welcomed and could be revised again in the future, as needed. Although the high percentage of those who opted for age 60 in the past may be worrisome (many could have made a misinformed decision), we believe we must respect the individual choices and keep it consistent with the CPP. Moreover, several employer plans were designed with that age 60 in mind (e.g., for calculating a bridge benefit from age 60 to 65). We therefore do not support increasing the eligible minimum age at this time.

**2. Survivor benefits**

- We support the proposals on survivor benefits as they are more in line with CPP benefits and reflect the changes in female workers in the labour market.

**3. Disability benefits**

- We have no position on the proposals concerning disability benefits, but we noted that they seem to simplify administration and eliminate some current inconsistencies.

**4. Full funding of improvements**

- We support the principle of future improvements needing to be fully funded. However, full funding needs to be well defined, as a number of variations and designs are conceivable.

**5. Stabilizing contribution rates**

We support the principle of an automatic adjustment mechanism whenever there is a cost increase. We note that the federal government has approved such a mechanism that shares the financial responsibility between contributors and pensioners. As the burden on pensioners is higher in Québec, the contribution rate is also higher and the risk of an increase in the contribution rate is also higher, we recommend that the government consider a scheme where contributors would absorb a portion of the increases and varying the pension indexation rate would absorb another portion of the increases. We believe pensioners should bear part of the risk of varying the contribution rate.

**6. Reducing pensions based on longevity factor**

- We believe, as with the CPP, the combined effect of all assumptions should be partially reflected in the contributions and partially reflected in the pension indexation, and not in the normal retirement age or pension calculation at retirement. We do not believe it is necessary to separately address the effect of improved longevity. However, should the longevity risk be considered apart, the longevity improvement already assumed for the future (i.e., already accounted for in current contributions) needs to be differentiated from the future improvement that deviates from expectations (which would later result in experience loss and lead to potential contribution hikes).

**7. Indexing based on Québec inflation**

- It seems to us that the few advantages (or maybe even disadvantages) of a "Québec indexation" cannot justify the change and complications of using a different indexation rate. We therefore prefer that the rate remain harmonized with the CPP (like the MPE hikes, which, in theory, could also be calculated separately).

**8. Other recommendations**

- We suggest gradually raising the age to which the start of the pension can be deferred from 70 to 75, adjusted on an equivalent basis. This change would be very helpful to the many workers using defined contribution (DC) retirement savings vehicles or RRSPs and would allow them to better manage the longevity risk, much like the "longevity pension" that had been proposed by the D'Amours Committee.

- As the QPP represents Pillar 2 of the pension system and is supplemented by Pillar 3 (including ACPM-member employer plans), we recommend further improving the legislative framework for employer-sponsored plans. We would like to highlight the recent excellent initiative abolishing solvency funding, but we would like the *Supplemental Pension Plans Act* to be amended to allow for other types of plans, particularly target benefit plans.

In conclusion, we would like to thank the Committee on Public Finance for inviting ACPM to share its comments and suggestions on this important QPP reform project. We encourage the National Assembly and the government to continue a dialogue on this matter with all the various stakeholders in the next few months and we will be available to keep supporting them in that process.