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The Association of Canadian Pension Management
L'Association canadienne des administrateurs de régimes de retraite

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Special consultations and public hearings on the Québec Pension Plan consultation document entitled “A plan adapted to the challenges of the 21st century.”

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Foreword

ACPM (ASSOCIATION OF CANADIAN PENSION MANAGEMENT)

ACPM is the leading advocacy organization for plan sponsors and administrators in the pursuit of a balanced, effective and sustainable retirement income system in Canada. We are the voice of retirement plan sponsors, administrators and trustees in the private and public sector and our membership represents retirement income plans that cover millions of 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 mandatory public programs ("First and Second Pillar") and an appropriate mix of voluntary workplace and individual savings arrangements ("Third Pillar").

Empowering Choice in Coverage
Third Pillar arrangements should be encouraged and play a meaningful, ongoing role in Canada's retirement income system.

Harmonization
Canada's pension legislation should always strive for better harmonization across jurisdictions.

Adequacy, Security and Affordability
The components of Canada's retirement income system should ensure a healthy balance between these three objectives to enable Canadians to receive adequate and secure retirement incomes at a reasonable cost and in an efficient way for individuals and organizations.

Innovation in Plan Design
Canada's retirement income system should encourage and facilitate innovation in plan design in all three Pillars.

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

Clarity and Transparency
Legislation, regulations and retirement income arrangements should be clearly defined and pension plan beneficiaries should be appropriately informed of risks, costs and benefits.

Good Governance
Excellence in governance and administration in the retirement income system.

Introduction

ACPM members are pleased to see that the Québec Pension Plan (QPP) is in good financial health, following the release of the December 31, 2021 actuarial valuation results. In light of these results, it is interesting to note a financial margin of flexibility in the order of 0.26% of contributory earnings in the base plan and 0.15% of contributory earnings in the additional plan. However, the economic uncertainty and the volatility of the financial markets following the date of the actuarial valuation dictate that some caution be exercised before adopting additional commitments that would reduce this financial leeway.

We are also sensitive to the fact that the contributions required for the QPP base plan (10.80% of contributory earnings, including a 0.26% leeway in the base plan) are already higher than those required by the Canadian counterpart, the Canada Pension Plan (CPP) (9.90% of contributory earnings, including a 0.34% leeway in the basic CPP plan). For a worker with earnings above the Year's Maximum Pensionable Earnings (YMPE) in 2023, the difference in required contributions represents an additional annual cost of $284 for both the worker and his or her employer (or $568 for a self-employed person).

On the one hand, ACPM does not wish to see changes to the QPP increase the risk that the contribution gap between the two plans may grow in the future. To the extent possible, ACPM recommends that changes made should have no overall impact on long-term costs.

That said, ACPM members are also sensitive to the effects of labour shortages and support changes that would encourage older workers to stay in the workforce longer. They are also in favour of changes that would give Quebecers more flexibility in planning their retirement by considering all their sources of income (retirement savings, company pension plans and public plans).

Finally, ACPM would like to see the greatest possible harmonization between the QPP and CPP provisions.

Our comments on the proposals presented in the consultation document are set out below, corresponding to the structure of the questions posed in the document.

Section 1: Providing greater financial security for future retirees

1.1 Raising the minimum age of eligibility for a retirement pension

The consultation document proposes two options to raise the minimum age of eligibility for a retirement pension: 62 and 65. This change is presented as a way of providing a higher retirement income to a larger proportion of the population. In fact, this change would not improve the retirement income of someone who would otherwise have applied for a pension at age 62 (or 65) and, indeed, would force a delay in the start of pension payments for all, even those who are not able to work past age 60.

While the percentage of people applying to start their pension at age 60 is still high, it is worth noting there has been a significant improvement in this area since 2017; the percentage of applicants at age 60 has dropped from about 60% in 2016 to 36% of women and 31% of men by 2021. QPP actuaries project that this percentage will continue to decline through 2031 to 28% of women and 25% of men. With such a low proportion, we believe that the majority of applicants at age 60 will be people who are no longer active in the labour market and will need this income to support themselves. In some cases, they may be people with reduced life expectancy due to illness who derive no benefit from delaying the start of their pension.

Furthermore, we do not believe that solely raising the minimum age would increase the rate of participation in the labour force of people aged 60-64 and thus help address labour shortages. On its own, the possibility of receiving a retirement income of less than $10,000/year starting at age 60 is not enough to stop working.

We support the concept of flexibility to choose the date on which the pension will be paid, as currently provided by the QPP, as long as the amount is adjusted appropriately. We believe it is necessary to respect individual choices and maintain consistency with the CPP. In addition, many employer-sponsored plans have been designed with age 60 in mind (e.g., for the calculation of a transition benefit from age 60 to 65). Therefore, we do not support raising the minimum age of eligibility for a retirement pension at this time. Instead, we encourage the government to continue education efforts to minimize the percentage of people who would make uninformed choices by applying for their pension at age 60.

1.2 Increasing the maximum age of eligibility for a retirement pension

The consultation document proposes two options for increasing the maximum age of eligibility for a retirement pension: 72 and 75. This change is also presented as a way to provide a higher retirement income to a larger proportion of the population.

We believe this amendment is an excellent tool for managing longevity and inflation risks. It also allows for more flexibility in retirement income planning for those who have accumulated retirement savings by allowing them to prioritize the decumulation of those savings, which also helps manage investment risk over a more limited period of time. To provide a complete toolkit, we encourage the government to follow up on the March 2022 Retraite Québec consultation on decumulation and unlocking retirement savings. In our view, it would be consistent to allow for an acceleration of the unlocking of retirement savings in order to provide Quebecers with a comprehensive solution consistent with the deferral of their QPP pension. As mentioned in our comments provided to Retraite Québec on March 14, 2022 on this subject, greater flexibility in the rules for unlocking retirement savings would allow Quebecers to better consider all of their assets in their retirement decumulation strategy, with the objective of providing a retirement income for life.

We support increasing the maximum age for deferring the start of one's pension from 70 to 75, with a revised adjustment factor to better reflect the actuarial equivalent. We question the current adjustment factor when applied over as long a period as 10 years, from age 65 to 75. To be actuarially equivalent, the pension payable from age 75 onward would have to be approximately double the pension that would otherwise have started at age 65 (excluding adjustments due to increases in average pensionable earnings). Applying the current adjustment factor of 0.7% per month over a 10-year period results in an 84% pension adjustment at age 75, which is actuarially insufficient. We encourage you to review this adjustment factor if the increase in the maximum age is introduced. Given the intention is to encourage individuals to delay further the start of their pension, it is important that the adjustment factor be adequate.

We believe that the increase in the maximum age can be done over a very short period of time, even immediately, as opposed to gradually. In reality, it will take five years after the measure is adopted before the first eligible person can apply for a pension at age 75.

In addition, it is important to consider the increase in the maximum age in conjunction with the changes required to protect the QPP pension amount after age 65 as proposed (see comments in section 1.4).

1.3 Provide an opportunity for beneficiaries who are still working to stop contributing after age 65

The consultation document proposes two solutions to encourage the postponement of the application for a retirement pension and to keep people aged 65 and over in the labour force: make the payment of QPP contributions optional for beneficiaries aged 65 and over AND protect the amount of the pension at age 65.

We applaud these options for better harmonizing the QPP rules with those of the CPP.

However, while it may provide an incentive for some people aged 65 and older to continue working, the proposed measure that makes QPP contributions optional for beneficiaries 65 and older:

- does not encourage the deferral of the application for a retirement pension because the QPP pension must be received to benefit from it, and
- may encourage more workers to apply for their pension at age 65 in order to stop contributing to the QPP. For example, a person who has decided to continue working after age 65 could be encouraged to apply for his or her QPP pension at age 65 and choose to stop contributing to the QPP to increase his or her net income.

In order to achieve the two objectives referred to in the consultation document (to encourage the deferral of the application for a retirement pension and to encourage job retention of people aged 65 and over), and to be fairer to those who decide to defer the start of their pension, we believe that it should be optional for all workers aged 65 and over to contribute to the QPP, whether or not they are receiving a QPP pension.

1.4 Protecting the retirement pension for persons aged 65 or over

The consultation document proposes to change the method of calculating the pension so that years of earnings after age 65 do not affect the average earnings used to calculate the pension. The CPP already has such a mechanism in place.

If properly constructed, individuals who wish to defer the start of their pension after age 65 in order to decumulate their retirement savings first would not be penalized by the calculation of their average earnings due to the years with no or low employment earnings.

We support the adoption of such a measure and believe that it is essential to encourage the deferral of the application for a retirement pension.

1.5 Increase adjustment factors for early pension payments

Currently, the applicable adjustment factor for early pension payments ranges between 0.5% and 0.6%, depending on the amount of the pension, for each month of early payment. The consultation document presents an option to increase these factors by 0.05% to ensure the long-term financial health of the plan and to encourage job retention.

We note that increasing the adjustment factors reduces the long-term costs of the plan. This option could therefore help to offset the additional costs of other changes, as well as providing an additional (albeit modest) incentive to defer applying for the retirement pension.

Under the current rules, only workers who qualify for the maximum pension have an adjustment factor of 0.6% per month. For everyone else, the adjustment factor is between 0.5% and 0.6%. We question the relevance of maintaining adjustment factors that vary based on the amount of the pension, which is not the case for the CPP.

Thus, if it is necessary to increase the adjustment factors to offset the costs of other measures, we would first prioritize the use of a single factor of 0.6% per month. Furthermore, if additional savings are needed, we would be in favour of an additional 0.05% increase in the adjustment factor to 0.65% per month in the event of retirement before age 65.

Section 2: Better recognition of events that affect the careers of certain people

2.1 Improving the recognition of periods of disability and periods when a child is a dependent

We support the proposed changes to the additional plan to provide earnings credits for periods of disability and periods when a child is a dependant and welcome the reconciliation with the CPP in this regard. However, we note that the costs of this measure have not been estimated. It would be important to communicate the financial impact of this measure before it is adopted.

2.2 Recognize periods of assistance provided by family caregivers

We do not take a position on the addition of a measure in the base plan and in the additional plan to support caregivers who have to significantly reduce their working time. For this measure as well, we note that the costs have not been evaluated. It would be important to communicate the financial impact of this measure before adopting it. We also question the future prevalence of reduced working time given the aging population and ongoing challenges in the health care system. These factors should be considered in costing.

Section 3: Conclusion

In conclusion, we would like to thank the Committee members for inviting ACPM to share our comments and suggestions regarding the proposed changes to the QPP. We reiterate that, in the current uncertain economic environment, caution should be exercised before reducing the financial flexibility that was identified in the last actuarial valuation of the plan. It is important not to put at risk the contribution rate of the base plan, which is already higher than that of the CPP and which has a direct impact on the competitiveness of Québec businesses.

However, the time is right to give Quebecers more flexible tools to better plan their retirement and better manage their longevity, inflation and investment risks. The changes that will encourage people to defer applying for a retirement pension (notably the increase in the maximum age, the optional contribution for everyone aged 65 and over, and the protection of the retirement pension amount in the event of deferral after age 65) accomplish this objective and encourage an increase in the active participation of seniors in the labour market.

We also believe in communication and education to achieve the goal of having more Quebecers delay applying for their QPP pension. Thanks to the renewed communication approach that has fostered better financial literacy, we see that the percentage of people applying for their QPP pension at age 60 has dropped drastically from 60% in 2017 to 36% of women and 31% of men in 2021. By allowing pension eligibility to vary between the ages of 60 and 75 as we propose, and by moving away from the concept of a "normal" retirement age of 65 in communications, we believe it would be possible to encourage better financial behaviour by Quebecers in the transition to retirement.