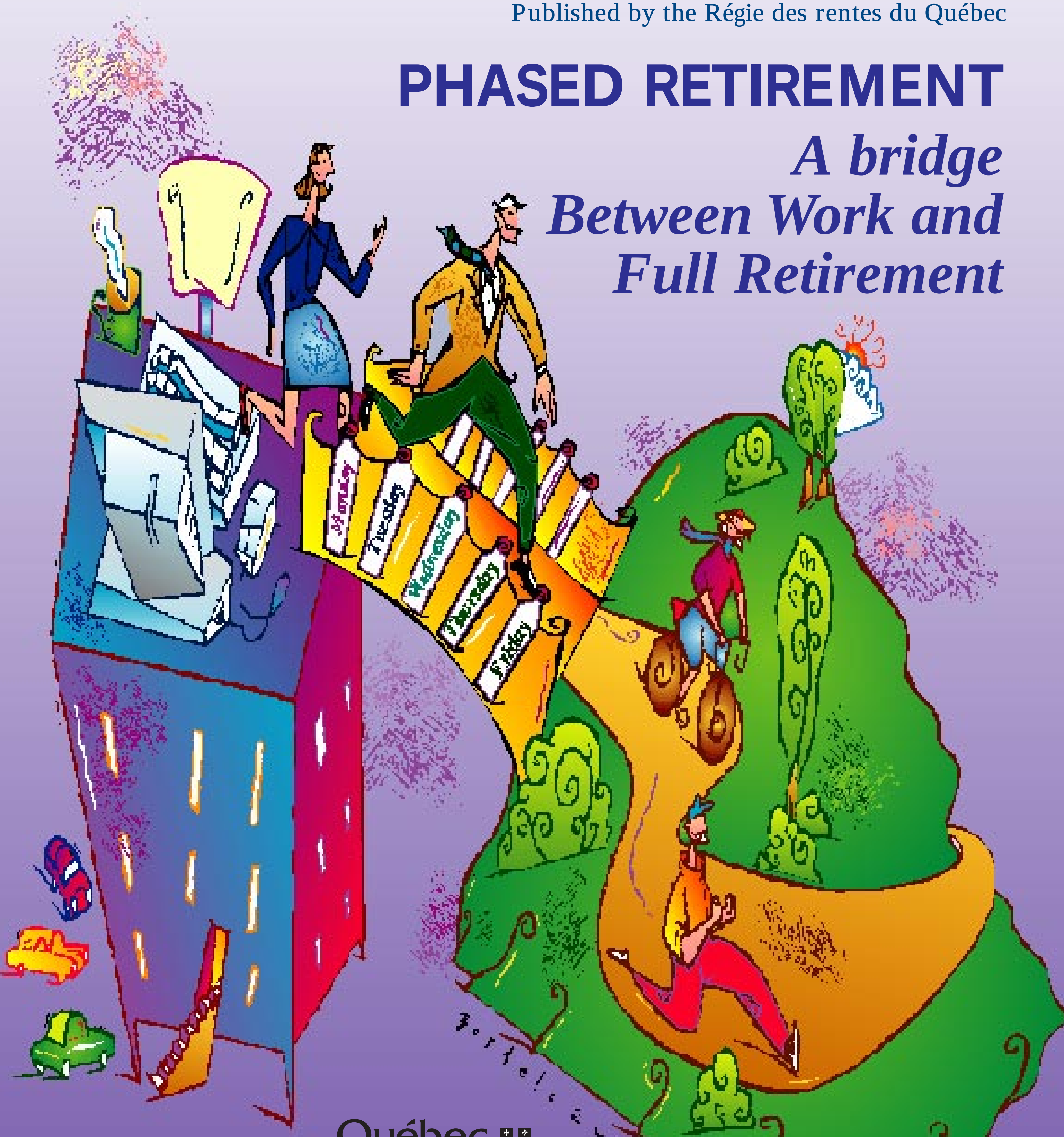
SEPTEMBER 1997

PROSPECTS

Published by the Régie des rentes du Québec

PHASED RETIREMENT

A bridge Between Work and Full Retirement



Québec

Québec pension plan will survive

Spread the news! The survival of the Québec Pension Plan is a sure thing and its major elements will be maintained. Those elements, which some feared would crumble, are retirement at age 65, a retirement benefit equal to 25% of pensionable income for the last years of work, annual indexation of pensions and exclusion of years with little or no earnings.

The planned reform, which is expected to be adopted by the National Assembly in the fall of 1997, has two main objectives. The first is to preserve fairness between generations of contributors by establishing as soon as possible a constant, long-term contribution rate. The second is to guarantee that future generations of contributors, like today's retirees, will be sure to receive a retirement pension.

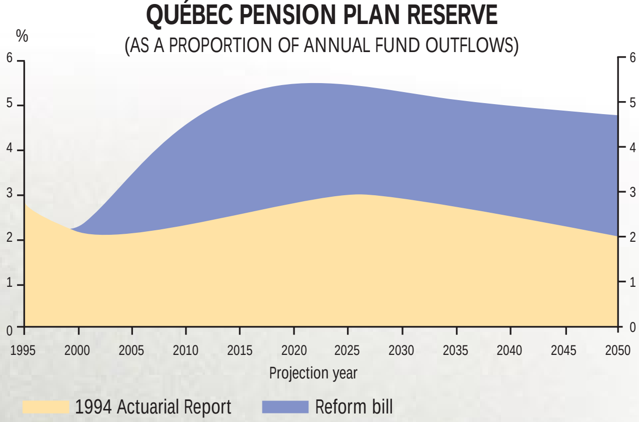
The problem now facing the Plan is mathematical and cries out for an urgent solution. If the contributions paid by workers to the Québec Pension Plan remain at the current rate, the Plan's fund will dry up by the year 2006. In 1966, the year the Plan began, the number of persons aged 65 and over was 12% of the population between ages 20 and 64. It is thought that by 2030, they will represent 46% of the economically active population.

Obviously, the answer is to increase Québec Pension Plan contributions gradually over several years. Does this mean another drain on workers' paycheques? Yes, but considering the guarantee that the increase will give us, perhaps we are getting our money's worth after all. We must not forget that if the problems had gone on, the reform would have cost even more. The Québec Pension Plan is, after all, a huge group retirement savings plan. The money we put into it will come back one day in the form of a pension.

Once the bill to reform the Québec Pension Plan has been adopted, all the details will be published in Prospects.

QUÉBEC PENSION PLAN RESERVE

(AS A PROPORTION OF ANNUAL FUND OUTFLOWS)



PLANNED REFORM HAS SEVEN MEASURES

1. ***Increase in the contribution rate***
   The current contribution rate is 6%, paid fifty-fifty by the worker and the employer. The rate will increase by 0,4% in 1998, by 0,6% in 1999, by 0,8% in 2000, 2001 and 2002 and by 0,5% in 2003, finally reaching a rate of 9,9%. This will enable the Plan to shoulder the massive retirement of the "baby boomers".
2. ***Frozen basic exemption***
   The basic exemption, that is, the earnings on which no contributions can be made, will be frozen at 3 500 $. By doing so, a larger number of low-income workers will be covered by the Plan.
3. ***Change in retirement pensions for disability pension beneficiaries***
   The full retirement pension for beneficiaries of a disability pension will be replaced with an actuarially adjusted pension. It will be calculated in a way similar to an early retirement pension. The adjustment will be a reduction of about 0,5% of the full pension for each month between the ages of 60 and 65 for which a pension is paid. In concrete terms, this means that as of age 65, disabled contributors will find themselves in the same situation as if they had received an early retirement pension instead of a disability pension between ages 60 and 65.
4. ***One death benefit amount for all***
   The death benefit will be the same for all, 2 500 $. Currently, it can be as much as 3 580 $, but because it varies according to the pension paid and the maximum pensionable earnings, only a small number of people are entitled to the maximum. This change will mean a higher death benefit for low-income workers.
5. ***Retirees who work will continue to contribute***
   Like any other worker, a retiree who works (and his or her employer) will have to contribute to the Plan. The worker's retirement pension may be increased to take into account the new contributions.
6. ***A new way to calculate pensionable earnings***
   Benefits under the Plan will be calculated on the average pensionable earnings for the last five years of work instead of the average for the last three years. However, beneficiaries will continue to have fully indexed pensions.
7. ***New way to review the Québec Pension Plan***
   The Plan will be reviewed every three years instead of every five years. In addition, every six years the Government will hold public hearings on possible changes to the Plan.

Interview with Mr. Guy Lachance, Services Commissioner of the Régie des rentes du Québec

Complaints management aimed at fairness and improved service

by Élaine Hémond

In April 1997, the Régie des rentes du Québec (RRQ) overhauled its complaints management policy to better serve the needs of its clients. According to the Services Commissioner, it is not only a matter of respecting the rights of citizens but also of making sure that the law is applied humanely, taking into account our changing society.

Clément Allard

PROSPECTS : ***Mr. Lachance, who can use the recently improved complaints procedure or call upon the Services Commissioner of the Régie des rentes du Québec?***

GUY LACHANCE : Anyone who is dissatisfied with one of the Régie's services or decisions and who believes that their rights have not been respected or that they have been treated unfairly and who have exhausted all other avenues available to them.

The Régie's clients are currently or used to be workers in the labour market. This includes Québec Pension Plan contributors, applicants or beneficiaries of pensions or benefits, or private pension plan members. It also includes beneficiaries of the new family allowance or the allowance for handicapped children. The Régie's clientele therefore includes all beneficiaires or those likely to become a beneficiary of a program administered by the RRQ.

Any client, or his or her representative, can express their dissatisfaction with the programs the Régie administers, how they are run and client service.

PROSPECTS : ***Who do you mean by the client's representative?***

GUY LACHANCE : A representative can be the Public Protector, a member of parliament, a legal adviser, a financial adviser, a relative, an interest group or a community organization such as an ethnic association.

PROSPECTS : ***What exactly is the procedure to follow to file a complaint?***

GUY LACHANCE : A client or his or her representative can make a complaint in writing or by telephone. To facilitate and speed up the process, we urge people to call us. In this way, we can also verify on the spot whether the client has understood our explanation and is satisfied with the response provided.

Any of the Régie's employees can take a complaint by telephone and attempt to solve the problem with the means available to him or her. If a solution cannot be found or if the solution requires special attention, the complaint will be sent to the Services Commissioner. Complaints are generally settled by telephone. However, a written reponse is sent if the client requests one or in certain situations, where a clearer explanation or a complex calculation is required.

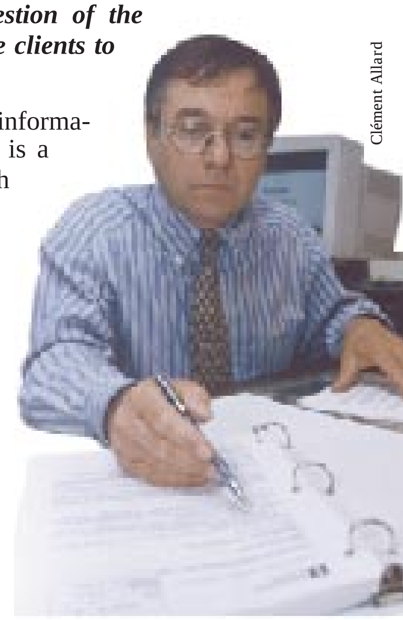
Complaints received at the Régie by mail or by fax are handled by the administrative unit concerned, which contacts the client by telephone. If need be, the complaint is then sent to the Services Commissioner and processed within 20 days.

PROSPECTS : ***In what cases does the Commissioner find in favour of the client?***

GUY LACHANCE : The Commissioner finds in favour of the client in cases where an error occurred requiring a correction, where the client was unduly inconvenienced or where the Client Services Charter was not respected. Charter problems concern, for example, reliability, attention, courtesy and rapidity.

PROSPECTS : ***You say that clients should never hesitate to make a complaint or a grievance, express dissatisfaction or ask a simple question of the Régie. Why do you encourage clients to do this?***

GUY LACHANCE : Because all the information sent to us by our clients is a source of improvement which helps us maintain the quality of our services and stay in tune with the changing needs of our society. For example, client suggestions led to the Régie's implementation of retirement pension sharing between spouses. The concerns of some for fairer taxation resulted in an important change that can be a benefit for everyone.



Clément Allard

A bridge between work and full retirement

Retirement is a subject which often scares people–and with reason. For most of us, retirement means less money. If we stop working before the normal retirement age, will we be able to make ends meet? After age 50, many workers would happily consider working part-time rather than full-time. But who has the means to live on a reduced salary?

There's good news for the growing number of people who believe that retirement should consist of gradually reducing the number of working hours rather than stopping working completely. A series of new measures will make phased retirement easier for workers who are members of a supplemental ("private") pension plan (see p.5, "New law makes phased and early retirement easier").

Being a worker and a retiree at the same time is now possible—but under what conditions? How will such a choice affect workers and businesses? Will this option open up jobs for younger workers?

HOW CAN YOU TAKE PHASED RETIREMENT?

As soon as a worker makes an agreement with his or her employer to reduce the number of working hours, the worker can receive a benefit from his or her pension plan to make up for the reduction in salary. Workers who are ten years or less under the normal retirement age set by their pension plan are eligible for this benefit. If their plan has set the normal retirement age at 65, they can take advantage of this measure at age 55. The benefit cannot exceed the lowest of the following amounts: the value of the benefits that the worker has accumulated in a supplemental pension plan; 70% of the income lost as a result of reduced working hours; or 40% of the Maximum Pensionable Earnings under the *Québec Pension Plan (QPP)*, that is, 14 320 $ (in 1997). Workers must also understand that the amounts paid before age 65 will result in a reduction of the amounts paid to them after age 65.

EXAMPLE

Take the case of John, who is 57 years old and earns 50 000 $ a year. If he decides to reduce his working hours by 50%, his salary will be cut to 25 000 $. As a result, he will be entitled to a maximum phased retirement benefit of 14 320 $. This is because 40% of the Maximum Pensionable Earnings is less than 70% of the lost income (17 500 $ in his case). In total, he will receive an income of 39 320 $, which is significantly higher than the 25 000 $ he would receive if he worked half-time without taking advantage of phased retirement.

WHAT'S NEW FOR THE QPP?

So as not to penalize those who opt for phased retirement, there are provisions in the law to prevent the QPP retirement pension from being lowered because of phased retirement. Between the beginning of phased retirement and the time of full retirement, workers can continue contributing to the QPP on their full salary before reduction, provided the employer agrees. Thus, John can choose to contribute to the QPP on the pensionable earnings that he had before he started working half-time, that is, 35 800 $ in 1997. In this way, the amount to which he will be entitled when he retires will not be affected by the fact that he was working half-time.

OPENING UP JOBS

It is estimated that nearly 40 000 Quebeckers aged 55 and over contribute to a private pension plan (also called supplemental pension plan) and could be interested in the new measures. If thousands of workers opt for phased or early retirement, it is easy to imagine how this will affect job opportunities for younger workers. Many jobs will open up (totally or partially) and most of them will need to be filled.

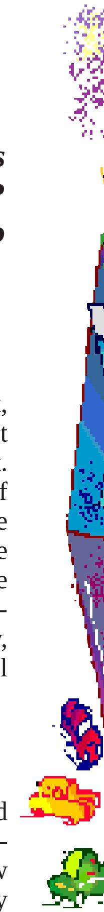
The social consensus on phased retirement is very clear. At the economic and employment summit in 1996, the Québec government, employers and unions agreed that work sharing, on a voluntary basis, must be encouraged. Phased retirement was seen as one way to do this. According to the advisory counsel on labour and manpower, phased retirement can create savings for employers and improve the working conditions and salaries of older workers who choose this option.

ADVANTAGES FOR EMPLOYERS

The representatives of Québec employers recommended that employees have the choice between phased retirement and early retirement. This shows that the employers also expect to see benefits from these options.

Thanks to phased retirement, the employer is less likely to experience the inconveniences caused by the early retirement of a key employee. Employers will avoid certain problems regarding older workers, such as absenteeisme and lower productivity. The transfer of knowledge from the older employees to their replacements can take place under good conditions. Overall, the cost for the employer is less.

Of course, phased retirement requires a certain amount of planning on the employer's part similar to that for early retirement or even normal retirement.



NEW LAW MAKES PHASED AND EARLY RETIREMENT EASIER

To make phased retirement available to the largest number of workers possible, existing laws had to be amended. It is for this reason that the *Act to amend the Act respecting the Québec Pension Plan and the Supplemental Pension Plans Act in order to facilitate phased retirement and early retirement was passed.* The name is long but perfectly clear.

Employees in the public and semi-public sectors as well as those in certain sectors of activity controlled by the federal government (such as banking) are not covered by the Act's provisions for supplemental pension plans ("private" plans).

The new law, introduced in the National Assembly by the Minister of State for Employment and Solidarity, Ms. Louise Harel, was assented to on 5 June 1997. Here are its main points:

WHO CAN TAKE PHASED OR EARLIER RETIREMENT ?

The measures regarding supplemental pension plans apply mainly to workers who are 10 years or less under the normal retirement age. Generally, workers who are aged 55 and over are affected but also younger workers because certain private plans have set the normal retirement age under age 65.

WHAT IS NEW ?

In summary, here are the changes :

1. Phased retirement is easier. At the end of a worker's career, after making an agreement with the employer to work reduced hours, the worker can receive a benefit from his or her private pension plan in compensation for reduced earnings. **(In effect since June 1997.)**
2. Workers who take early retirement, which means that they leave their employment definitively, and who are entitled to a retirement pension from their private pension plan can receive a temporary pension until age 65 but as a result, their retirement pension will be reduced. In certain cases, if the regular retirement pension to be paid by the plan is small, it is possible that no pension will be payable after the temporary pension ends. **(In effect since June 1997.)**
3. Workers who have transferred benefits accumulated under their name in a private pension plan to a life income fund[1] will be able to benefit from phased or early retirement once the conditions have been set by government regulation. **(Effective as of 1 January 1998.)**
4. Workers who choose phased retirement and their employers who agree to it can both continue to contribute to the Québec Pension Plan based on the workers' unreduced salaries so that their QPP retirement pensions will not be reduced. **(Effective as of 1 January 1998.)**

1 *Life income fund: fund resulting from the conversion of retirement capital which, as soon as converted, must be used to pay pension benefits for life according to set rules.*

…ABOVE ALL, ADVANTAGES FOR EMPLOYEES

When it comes time to make a choice, it is always interesting to have several options and phased retirement has definite advantages. For many, it will make the transition between regular work and full retirement easier. Some people react badly to the sudden absence of all contact with the workplace. Workers who take phased retirement can maintain a sufficient level of income and continue to accumulate benefits for an adequate retirement pension.

By being able to share their experience with their replacements, the self-esteem of older workers will be increased and they will avoid the feelings of loss and uselessness that all too often weigh heavily on new retirees and that even can adversely affect their health. Workers who choose to work three or four days a week on phased retirement must realize that their retirement income will be spread out over a longer period of time resulting in a reduced pension after the normal retirement age.

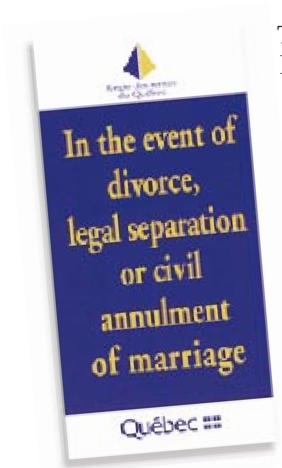
To find out more about this subject, workers should contact their pension committee.

DIVORCE OR SEPARATION

Denis Fillion

Think twice before renouncing partition of the earnings recorded under the Québec Pension Plan

The earnings recorded under the Québec Pension Plan are part of the property that must be divided following a divorce or a legal separation. Only a formality? Not at all! It's something to think about. The financial security of each spouse during their retirement years is at stake and the sums involved can be significant.



The Régie des rentes du Québec has published a folder entitled *In the event of divorce, legal separation or civil annulment of marriage* which clearly gives, in the form of questions and answers, useful information on the matter. Before making a decision regarding a couple's earnings recorded under the Québec Pension Plan, it is better to read the folder in order to understand what is at stake.

Since the traditional role of women often kept them at home, until now they have been less present than men in the work force. Therefore, the right to partition of earnings is especially important for women who spent many years at home taking care of children and who could not accumulate pension credits in their own name under the Québec Pension Plan or a private plan.

This concern for fairness is reflected in amendments that came into force in January 1997, which are meant to better define the right to renounce partition of the earnings recorded under the names of former spouses. The intent was to ensure that such renunciation is made with full knowledge of the facts and respects the will and independance of the spouses. Therefore, renunciation must be expressly mentioned in the judgment of divorce or legal separation, or in an agreement confirmed by the judgment.

WHAT YOU ABSOLUTELY MUST KNOW ABOUT PARTITION OF EMPLOYMENT EARNINGS IN THE CASE OF DIVORCE OR SEPARATION

- Unless there is express renunciation, the employment earnings recorded under the names of both former spouses under the Québec Pension Plan are added together and divided by two for each of the years subject to partition (see example). The result for each year is recorded under the name of each former spouse. The amount of future benefits payable to each may change as a result of the partition.
- The period subject to partition begins in the year of the marriage and ends the year preceding the effective year of the judgment or, if the court so decides, the year preceding the one in which the spouses ceased living together.
- Both former spouses can renounce partition or only the one who would have benefited from it. The judgment or agreement must give notice of an express renunciation.
- In order to make sure that you fully understand the effect of partition on benefits payable under the Québec Pension Plan, you can apply for a simulated partition of earnings. Application forms are available from the Régie des rentes du Québec.

EXAMPLE OF PARTITION

Charles and Julie were married in June 1992; they separated in May 1995 and a judgment of divorce was rendered in June 1997. The employment earnings to be partitioned are those for the year of the marriage, that is, the twelve months of 1992, plus those for all the other years of the marriage, that is, from 1993 through 1996. The months in the year of the divorce are excluded.

The following table compares, for each of the years in the period subject to partition, their employment earnings before and after partition.

Year	Julie (before partition)	Julie (after partition)	Charles (before partition)	Charles (after partition)
1992	0 $	10 000 $	20 000 $	10 000 $
1993	0 $	11 000 $	22 000 $	11 000 $
1994	10 000 $	17 000 $	24 000 $	17 000 $
1995	15 000 $	20 000 $	25 000 $	20 000 $
1996	17 500 $	22 000 $	26 500 $	22 000 $

How private and public plans are integrated

If you are a member of a supplemental ("private") pension plan, you know that you will receive benefits from the plan after you retire. Since you also contribute to the Québec Pension Plan (QPP), you expect benefits from that plan too. But you may not know how the two plans will fit together once you retire.

To correctly estimate retirement income, you must know whether or not your supplemental plan is integrated with a public plan like the Québec Pension Plan or the Old Age Security pension.

An integrated supplemental plan sets targets for total retirement income by taking into account the fact that a portion of after-retirement income will come from public plans (usually the QPP). Take the case of a private plan whose goal is for its members to receive a total retirement income equal to 70% of their pre-retirement earnings. The 70% goal could be met by adding together the private pension (45% of pre-retirement earnings) and the pension from a public plan like the QPP (25% of pre-retirement earnings).

The following information applies only to defined benefit pension plans. These are the only type of plans in which the pension amount is predetermined. It is usually a fixed monthly amount or a certain percentage of the member's salary for each year of credited service.

Integration can be direct or indirect.

DIRECT INTEGRATION

To calculate your pension, your pension plan takes directly into account the pension that you receive from the QPP.

ALINE'S CASE (age 65). Her private plan, which is integrated with the QPP, sets total retirement income at 1 000 $ for each year of service. After 35 years of credited service, Aline can expect to receive a retirement income of 35 000 $ a year. If her QPP pension is estimated to be 6 000 $ a year, Aline will receive a pension of 29 000 $ a year from her supplemental pension plan. In other words, Aline's private plan will pay the difference between the retirement income target (35 000 $) and her QPP pension (6 000 $), that is, 29 000 $ a year.

In a directly integrated plan, the maximum amount that can be deducted from the income target is limited to the number of years of service divided by 35 and multiplied by the amount paid under the QPP.

NORMAN'S CASE. For seven years, Norman has been a member of a private plan integrated with the QPP. Based solely on his years of service, he could count on receiving a total retirement income of 7 000 $ a year since the plan formula provides for 1 000 $ of pension income for each year of service. The contributions that he has made to the Québec Pension Plan entitle him to a retirement pension of 6 000 $ a year. Exactly how much will Norman actually receive?

Norman's private plan can take into account only 20% of his QPP Pension (7 years of service divided by 35 is 20%). This means that Norman's private pension will be determined as follows: 7 000 $ less 20% of 6 000 $ (i.e., 1 200 $) is 5 800 $. Norman's total income will, in fact, be 11 800 $, that is, 5 800 $ from his private plan and 6 000 $ from the Québec Pension Plan.

INDIRECT INTEGRATION

The pension to be paid under an indirectly integrated plan is calculated in two steps.

- First, the income replacement represented by the QPP pension is calculated as a percentage for each year of service (usually 0,7%).
- Then, the difference between the yearly income replacement percentage target of the private plan (for example, 2%) and the QPP replacement percentage (0,7%) is calculated: 2% less 0,7% is 1,3%.

However, the QPP pension only covers the portion of a worker's salary that is no greater than an annual ceiling called the Maximum Pensionable Earnings (MPE), which is 35 800 $ in 1997. Beyond that limit, an integrated supplemental plan pays the entire income replacement for each year of service (2 years in our example).

An indirectly integrated pension plan could calculate the pension to be paid under the plan as follows:

- 1,3% of pre-retirement earnings up to the Maximum Pensionable Earnings under the Québec Pension Plan;
- 2% of the earnings that exceed the Maximum Pensionable Earnings.

Thus, a supplemental plan set up in this way would, for each year of service, pay its members on the portion of their earnings not exceeding the MPE a pension of 1,3% of the retirement income target and not a pension of 2% of the target. It is the sum of the QPP pension (0,7%) and the private pension (1,3%) that make up the total percentage of 2%.

TO FIND OUT MORE

The best souce of information is the pension committee that administers your pension plan or the person who is responsible for fringe benefits where you work.

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Régie des rentes du Québec

What will be the amount of your retirement pension?

To find out, apply for your Statement of Participation!

Complete the form below. Be sure to sign it.
Send the form to:

Régie des rentes du Québec
Service aux cotisants
Case postale 5200
Québec G1K 7S9

A WISE MOVE!

Québec

This is NOT a pension application form.
Please print.

APPLICATION FOR A STATEMENT OF PARTICIPATION IN THE QUÉBEC PENSION PLAN

Family name

Sex — Male M / Female F

Given name

Social insurance number

Address (number, street, boul., apt., etc.)

Date of birth — year 1 9 — month — day

City

Province

Postal code

Telephone number at home — area code

Telephone number at work — area code

Language of correspondence — French F / English E

BE SURE TO SIGN

Date ____________________ **Contributor's signature** ____________________

Did you directly receive in your own name family allowances for children under 7 years old who were born after 31 December 1958?
(If you did, your pension may be higher.)

Child's given name

Date of birth — year 1 9 — month — day

Allowances received for the period from 19 __ to 19 __

If more space is needed, attach another sheet.