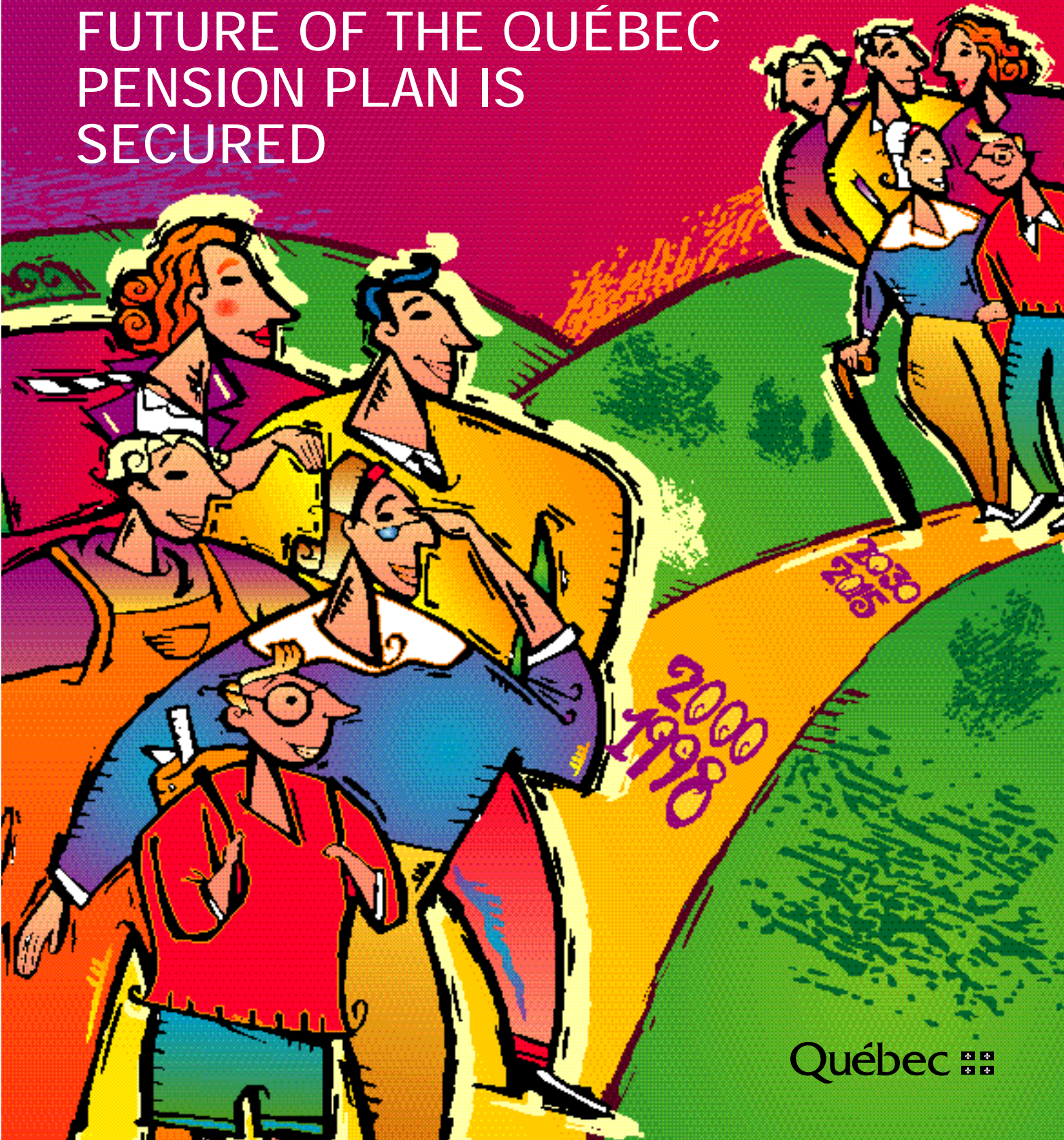


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PROSPECTS

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FUTURE OF THE QUÉBEC PENSION PLAN IS SECURED



Québec 

REFORM OF THE QUÉBEC PENSION PLAN, A NECESSITY

The bill on the reform of the Québec Pension Plan was adopted by Québec's National Assembly on 10 December 1997. Quebeckers who were worried about the plan's future, doubting its ability to meet future obligations, can be reassured.

Fairness between generations of contributors will be preserved by increasing the contribution rate gradually from now until 2003. This will make it possible to maintain thereafter a constant, long-term rate. Future generations, like today's retirees, will be sure to receive a retirement pension.

Of course, an increase in the contribution rate is not necessarily good news for workers. However, we must keep in mind that this reform was not only necessary, but urgent for preserving the Plan and ensuring that it is fair for future generations. Since 1966, the year in which the Plan was created, much has changed.

DEMOGRAPHIC CONTEXT

Like other industrialized countries, Québec has to come to terms with a new demographic reality: an aging population. In 1966, people over 65 years of age represented 12% of the population of working age (those between 20 and 64 years old). In 1996, they had reached 20% and it is estimated that they will make up 46% in the year 2030. In other words, whereas thirty years ago there were five workers for each retiree, the ratio will progressively reach two workers for each retiree! In terms of the Plan's pension fund, this means that there will be proportionately fewer contributors and therefore less money coming into the Plan.

ECONOMIC CONTEXT

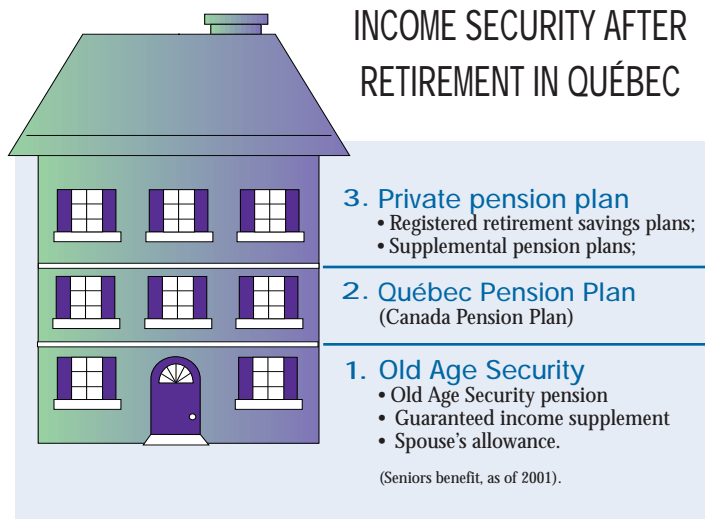
The rather difficult economic context over the past two decades also explains the Plan's current under-funding. The value of contributions is connected to changes in the total contributory payroll, which has been hard hit by the slow increase in the number of jobs and wages. The 1960s and 1970s were quite different. The number of workers was constantly on the rise, due largely to the massive entry of women in the labour force. Wages also increased steadily, rising at a faster pace than inflation.

INADEQUATE RESERVE

If the current means of funding had not been corrected, the pension fund's reserve would have been inadequate for meeting the Plan's financial commitments. When baby boomers reach retirement age, those commitments will be at their peak.

QUEBECKERS VALUE THE PLAN

Most people surveyed on the Plan's future were categorically and unanimously in favour of maintaining the Plan. They even consented to measures for ensuring adequate funding for benefits.



IT'S UNDERSTANDABLE...

The Québec Pension Plan holds an important place in our system of income security for retirement. If it is compared to a three-storey house (see illustration), it is the second level of protection after the assistance measures provided by the federal government to low-income seniors. For all participating Québec workers, it provides basic financial protection against the loss of employment income resulting from retirement, disability or death. They are covered whether they work full-time or part-time, and whether they are employees or self-employed, regardless of their sector of activity. Moreover, workers who change employers several times continue to accumulate benefits under the Plan with no loss or other negative impact.

Upon retirement, 70% of workers can now count on the Québec Pension Plan in addition to federal programs and, in many cases, private pension plans. However, **36% of workers will have only the Québec Pension Plan and the federal government's assistance plans to live on.** Only six out of every ten workers will have the third level of protection because they have contributed either to a supplemental (private) pension plan, or a registered retirement savings plan, or both. Not everyone among them will be entitled to an adequate pension upon retirement (that is, a total pension income including QPP benefits of at least 70% of employment earnings) because private pension plans differ from one company to another, the amounts accumulated in an RRSP vary depending on the person's income, and RRSPs can be withdrawn before retirement. That is why it was so important for the Québec government to adopt measures to preserve the Plan, thus guaranteeing a basic pension for retirees.

INTERVIEW WITH LOUISE HAREL, MINISTER OF EMPLOYMENT AND SOLIDARITY

by Claude Grégoire

“THE FUTURE OF THE PENSION PLAN HAS BEEN SECURED FOR DECADES TO COME”

Minister Louise Harel piloted the reform of the Québec Pension Plan from its inception to the adoption of the bill that made the project a reality. She explains the importance of the reform for Quebecers of all ages.



PROSPECTS ❖ *Madam Minister, for a long time now we have been hearing people, especially young people, say that they will not be able to count on the Pension Plan when they retire. Now that the act reforming the Québec Pension Plan has been adopted, can you reassure Québec workers once and for all?*

LOUISE HAREL ❖ Absolutely. The projections of the experts prove it: the future of the Plan has been secured for decades to come. That means that like your grandparents, you, your children and even your children's children will benefit from basic coverage when they retire or in the event of disability or death. To keep on track, we will be reviewing the Plan every three years instead of every five years as was the case until now. Public consultations will also be held every six years. The first objective of the reform has therefore been achieved: guaranteeing the Plan's future. The Québec government knew that this was a basic concern of its citizens. People were worried about the Plan's future, but they were categorical: it offers basic financial coverage that has to be maintained at all cost. The 40 or so groups that participated in the public consultation on the reform bill in the fall of 1996 were in full agreement, whether they represented labour unions, employers' groups, retirees or the retirement industry.

PROSPECTS ❖ *Did younger workers also want to preserve the Plan?*

LOUISE HAREL ❖ At least as much as older workers. In fact, the reform was designed with coming generations in mind. The second objective, as you will

remember, was to reestablish fairness between generations. If we had allowed the situation to evolve as it had been over the past few years, the contribution rate would have risen to at least 13% over the next 25 years. Imagine! During the first 20 years, that is, from the Plan's creation in 1966 until 1986, workers and employers only made combined contributions of 3,6%. A gap of almost 10% for the same advantages! So we decided to speed up the rate of increase while baby boomers are still working. In this way, a ceiling for the contribution rate can be set at 9,9% in 2003. There is still a gap, but at least it has been contained. In my view, that was the most important aspect of the reform.

PROSPECTS ❖ *So the future of the Plan has been secured. Fairness between generations has been reestablished, at least in part. But what is the importance of the Plan for Québec workers?*

LOUISE HAREL ❖ It must first be remembered that the Québec Pension Plan is an insurance plan, meaning that only those who contribute can reap the benefits it offers. It is the only plan that offers coverage to all Québec workers and to the more than 1 075 000 beneficiaries to whom the Plan paid nearly 5 billion \$ in 1996. That is why we had to maintain the Plan with its main features, which we succeeded in doing. These features are a 25% rate of retirement income replacement, a normal retirement age of 65, full annual indexation of benefits and the possibility of excluding 15% of the months in the contributory period in which earnings are low or nil. The latter enables a woman who has

stopped working temporarily to have children or to raise them, or a worker who has had periods of unemployment, to be entitled to a satisfactory level of benefits. As we can see, the Québec Pension Plan basically remains the same for young workers in 1997 as it was for workers in the 60s when the Plan was created. That is a major achievement for us all!

THE REFORM'S **7** MAIN MEASURES

- Faster increase in the contribution rate
- Freeze on the basic exemption
- Change in retirement pensions for disability pension beneficiaries who are 65 years of age or over
- One death benefit amount for all
- Retirees who work will continue to contribute
- Changes in the calculation of retirement pensions
- A new way to review the Québec Pension Plan

WHAT EFFECT WILL THE REFORM CURRENTLY CONTRIBUTING TO THE

AN INCREASE IN THE CONTRIBUTION RATE FOR 1998 AND THE NEXT FIVE YEARS

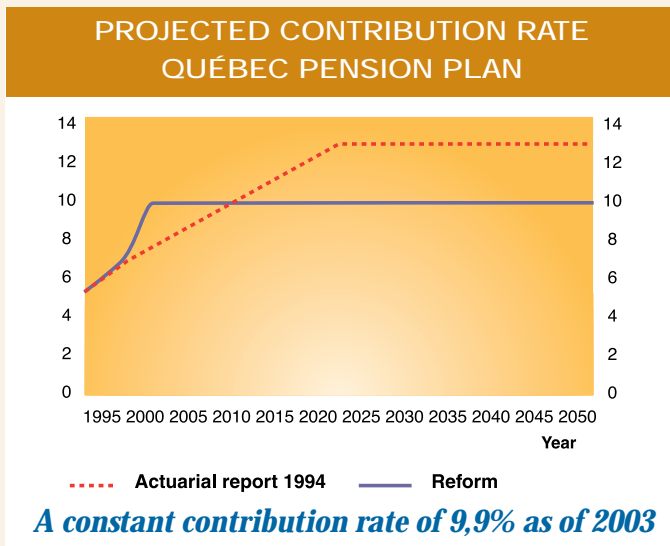
The increase in the contribution rate is the main provision of the reform. It affects all workers who participate in the Québec Pension Plan as of January 1998. The contribution rate, which was 6% in 1997, will be increased to 6,4% in 1998, and the increase will continue for the next five years at a rate of 0,6% in 1999, 0,8% in 2000, 2001 and 2002, and 0,5% in 2003. A constant rate of 9,9% will be reached in 2003, ensuring sufficient funding to pay benefits and to quickly reestablish fairness between generations of contributors.



- All workers who contribute to the Québec Pension Plan must make larger contributions as of 1 January 1998.

rate, (which is the same as that planned by the Canada Pension Plan), will make it possible to rapidly accumulate a large reserve. In addition to investment income, this will make it possible to stabilize the rate for a long period of time starting in 2003.

This will ensure that the Plan has the necessary funds to deal with the retirement of baby boomers and that future generations not have to shoulder the heavy financial burden that would otherwise have been left to them.



The Plan's funding, which is based on contributions paid in equal parts by employers and employees, had become unfair and was no longer adapted to the demographic and economic context. To maintain today's advantages, the Plan's 1994 actuarial forecast indicated that the contribution rate had to be gradually increased from 5,6% in 1996 to 13,0% in 2023. Remember that from 1966 to 1986 the rate remained stable at 3,6%. Thereafter, the rate was increased by 0,2% annually until 1996, then by 0,4% in 1997.

At that pace, future generations would have had to shoulder a contribution rate of 13,0% to be entitled to the same benefits as preceding generations, whereas the latter will have paid much lower rates, resulting in considerable inequity between generations.

To shrink the gap, steps had to be taken quickly while the generation of baby boomers is still in the job market. The calendar selected by the government for increasing the contribution

TABLE 1: CONTRIBUTION RATES

Year	Contribution rates according to the scale proposed in the actuarial report as at 31 December 1994 %	Contribution rates according to the new scale %	Difference
1997	6,00	6,0	0,00
1998	6,40	6,4	0,00
1999	6,80	7,0	0,20
2000	7,20	7,8	0,60
2001	7,60	8,6	1,00
2002	7,85	9,4	1,55
2003	8,10	9,9	1,80
2004	8,35	9,9	1,55
2005	8,60	9,9	1,30
2010	9,85	9,9	0,05
2015	11,10	9,9	-1,20
2020	12,35	9,9	-2,45
2030	13,00	9,9	-3,10

HAVE ON WORKERS WHO ARE QUÉBEC PENSION PLAN?



FREEZE ON THE BASIC EXEMPTION TO BENEFIT LOW-INCOME WORKERS

The basic exemption is the amount of income below which workers do not have to make any contributions to the Québec Pension Plan. Prior to the reform, the exemption was 10% of the Maximum Pensionable Earnings (MPE) for the year, that is, 3 500 \$ in 1997. Since 1 January 1998, the exemption has been frozen at 3 500 \$, which will have the effect of progressively reducing the basic exemption from 10% to 5% of the MPE over a period of 20 years. This will ensure that a greater number of Québec workers are able to benefit from the protection and advantages of the Québec Pension Plan.

In Québec, a large number of non-steady, casual or part-time workers currently earn less than the basic exemption. In 1994, nearly 450 000 workers, that is, 13% of all workers, were thus excluded from the Québec Pension Plan. It was evident that the basic exemption was no longer adapted to today's job market in which there are fewer and fewer permanent jobs. This measure also enables the Québec

government to limit the increase in the contribution rate because contributions will be deducted from a larger total contributor payroll.

More people
will be covered
by the Plan

PLAN'S MAIN FEATURES ARE UNCHANGED

1. The normal age of retirement remains **65 years of age**, which entitles workers to their full retirement pension. Workers can still apply for an early retirement pension once they reach 60 years of age. However, their pension is reduced by 0,5% for each month remaining before their 65th birthday.
2. The retirement income replacement rate is maintained at **25%**.
3. Pensions continue to be **indexed annually** based on the increase in the Consumer Price Index.
4. Up to 15% of the total number of months in the contributory period in which earnings were low can be excluded. The average monthly earnings are thus increased, with a resulting increase in the retirement pension.

TABLE 2: EMPLOYEES' CONTRIBUTIONS ON EARNINGS OF 35 800\$ (constant dollars)


Year	Contributions according to the scale proposed in the actuarial report as at 31 December 1994 \$	Contributions according to the new scale, including the freeze on the exemption \$	Difference \$
1997	969	969	0
1998	1 034	1 035	1
1999	1 098	1 136	38
2000	1 163	1 270	107
2001	1 227	1 405	178
2002	1 268	1 541	273
2003	1 308	1 628	320
2004	1 349	1 634	285
2005	1 389	1 639	250
2010	1 591	1 666	75
2015	1 793	1 687	-106
2020	1 995	1 704	-291
2030	2 100	1 729	-371

EFFETS OF THE REFORM ON BENEFICIARIES OF THE PLAN

NEW WAY TO CALCULATE BENEFITS

The advantages of the Plan have been preserved. However, changes have been made in the way benefit amounts are calculated. Currently, one of the stages in calculating a pension consists in adjusting a contributor's earnings on the basis of the average of the Maximum Pensionable Earnings for the past three years, including the year in which payment of the pension begins. From now on, we will be using five years, like most private pension plans. A similar measure was introduced following negotiations with the federal government on the reform of the Canada Pension Plan. Initially, the federal government proposed to only partially index benefits. Québec has always been opposed to this approach because it would entail a gradual reduction of the pension. The new calculation method will not affect current beneficiaries of the Plan nor contributors who reached 65 years of age by January 1998. Moreover, it will come into effect gradually. As of 1 July 1998, the last four years will be averaged, and as of 1 January 1999, it will be the last five years.



Retirement pension payable* at 65			
	Before the reform (average of the last three years)	After the reform (average of the last five years)	Difference
New retirees in 1998	751 \$	739 \$	1,5 %

*monthly

CHANGES WHEN A DISABILITY PENSION BENEFICIARY RECEIVES A RETIREMENT PENSION

Unlike the Canada Pension Plan, which decided to restrict the conditions of eligibility for a disability pension, the Québec government has chosen to maintain its broader eligibility conditions and more generous benefits. The only change that has been made concerns beneficiaries of a disability pension under the Québec Pension Plan who turn 65 and whose disability pension is replaced by a retirement pension. From now on, the retirement pension will be subject to the same actuarial adjustment as applies to beneficiaries of an early retirement pension. Remember that as of 65 years of age, such beneficiaries become eligible for the Old Age Security pension and the Guaranteed income supplement if they have a low income. At 65 years of age, beneficiaries of a disability pension will be treated the same as beneficiaries of an early retirement pension even though their disability benefits until age 65 were much higher than a retirement pension.

ONE DEATH BENEFIT AMOUNT FOR ALL

Contributors who meet all of the Plan's requirements regarding the number of years of contribution and who die after 31 December 1997 give entitlement to a death benefit that is the same for everyone from now on, that is, 2 500 \$. Previously, the death benefit varied according to the contributions made by the deceased worker. This change is better in the short term for low-income workers because the benefit is now the same for everyone, regardless of income and the contributions made. Although the benefit is not indexed, it is more generous than the one provided for by the Canada Pension Plan, which is limited to six times the amount of the retirement pension that would have been payable to the deceased contributor, up to a maximum of 2 500 \$.

CURRENT AND FUTURE

RETIREES WHO WORK MUST CONTRIBUTE TO THE PLAN

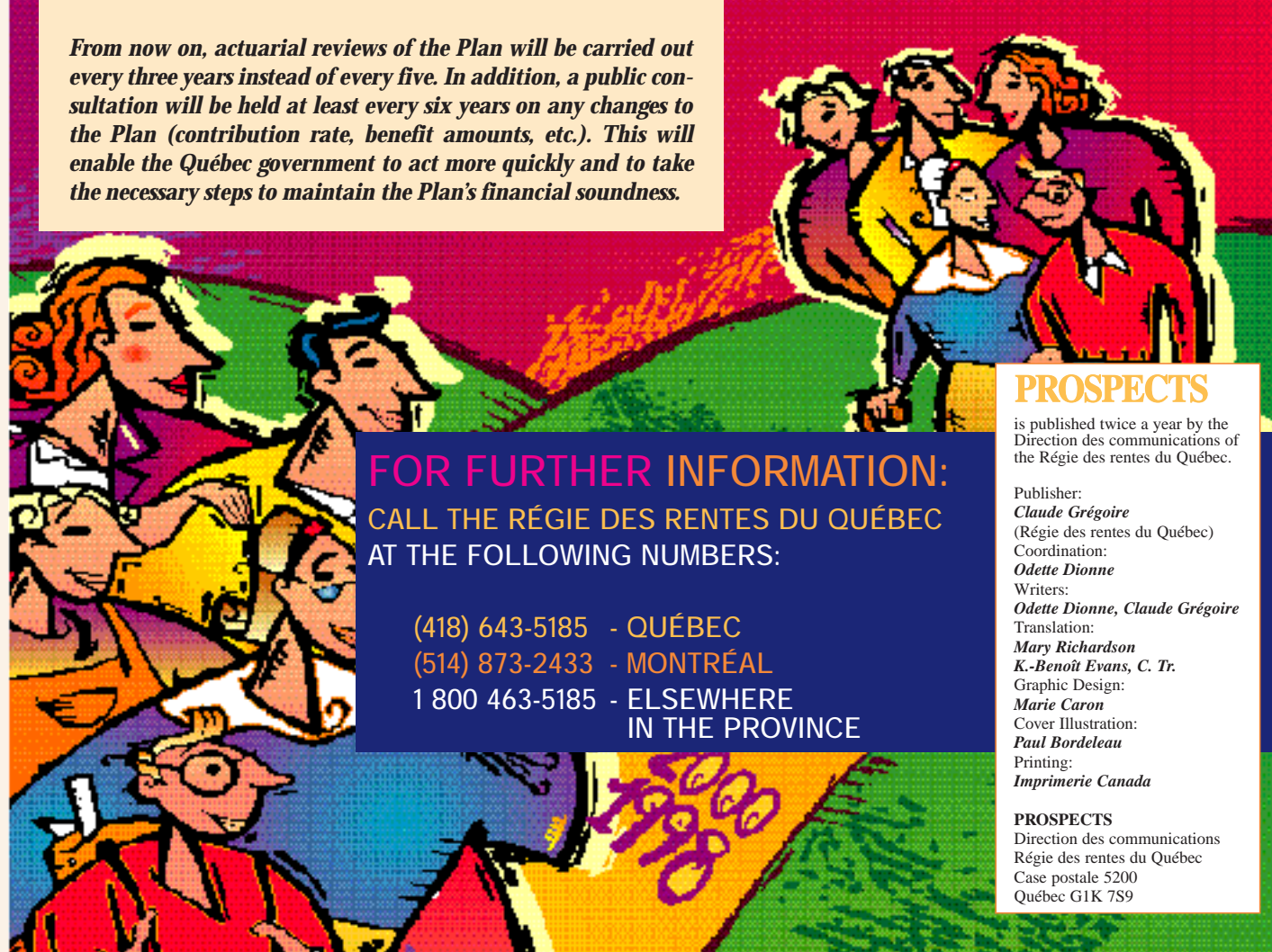
Since 1 January 1998, beneficiaries of an early or normal retirement pension who return to work, or workers who continue to work after turning 65 while receiving their full retirement pension, must contribute to the Québec Pension Plan. The same is true for their employer. By way of compensation, their retirement pension could be increased on the basis of the new contributions. The new earnings are added to low-income months within their contributory period.

This rule is fairer because beneficiaries used to be able to draw simultaneously both employment and retirement income without having to contribute to the Plan.



NEW WAY TO REVIEW THE PLAN

From now on, actuarial reviews of the Plan will be carried out every three years instead of every five. In addition, a public consultation will be held at least every six years on any changes to the Plan (contribution rate, benefit amounts, etc.). This will enable the Québec government to act more quickly and to take the necessary steps to maintain the Plan's financial soundness.



**FOR FURTHER INFORMATION:
CALL THE RÉGIE DES RENTES DU QUÉBEC
AT THE FOLLOWING NUMBERS:**

- (418) 643-5185 - QUÉBEC
- (514) 873-2433 - MONTRÉAL
- 1 800 463-5185 - ELSEWHERE
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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 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 month day

Allowances received for the period

from 19 to 19

If more space is needed,
attach another sheet.