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PROSPECTS

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Supplemental Pension Plans:

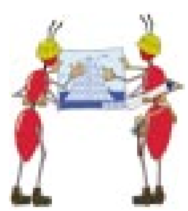
The key to a comfortable retirement

Supplemental Pension Plans
SAVING FOR RETIREMENT IS YOUR BUSINESS!

Now that baby-boomers are turning 50, attitudes toward retirement seem to be changing. The next generation of retirees wants to be able to retire earlier, to stay active and healthy and, of course, to be financially comfortable, or at least to be able to maintain the same lifestyle as they had before retiring. Younger generations also express the same wish, although their financial resources are more limited.

Given these changing expectations, Québec has taken a variety of steps to encourage the creation of new plans and to improve existing plans through the *Supplemental Pension Plans Act*. “Until recently, supplemental pension plans were mostly a matter for employers” explains Louis Tremblay, an economist and adviser to the President and General Manager of the Régie des rentes du Québec. “Now workers are directly involved in the pension committee that manages their pension fund.”

INSTRUCTIONS, PROCEDURES AND PLANNING



To prepare for a comfortable retirement, most people agree that you need about 70% of your pre-retirement income. Under the Québec Pension Plan, retired contributors receive 25% of their employment earnings in benefits, so if you want to make up the difference, dancing your pre-retirement years away is not good planning! In Mr. Tremblay’s view, it is increasingly important that all Quebeckers get an early start on retirement planning. “Retirement planning starts as soon as you enter the job market with contributions to the Québec Pension Plan and should continue by participating in a supplemental pension plan, buying RRSPs, etc.”, he says. Under current provisions of the *Act*, members of a supplemental plan who leave their jobs get a better deal. Until 1990, if you changed jobs or lost your job before 45 years of age and 10 years of participation in the pension plan, you could only take with you your own contributions and token interest. “Now,” Mr. Tremblay adds, “after participating in the plan for only 2 years, the employer has to pay 50% of the value of the retirement pension, and the accumulated savings are often transferred to a locked-in retirement account (LIRA).” This new type of account replaces a locked-in RRSP.

In 1990, the life income fund (LIF) was created. It is much more flexible than a life annuity, which included all the sums accumulated upon retirement. The LIF rules give pensioners more control over their investments. Previously, they had no say in how their life annuity was managed and were at a disadvantage if interest rates were low when they bought the annuity.

With the simplified pension plan, all small and medium-sized businesses can now offer such a retirement savings plan to their employees. The process for creating and managing a simplified plan makes it easier for both workers and employers. It is no longer the case that supplemental pension plans are only for government workers and big business! More and more Quebeckers can now dream of a comfortable retirement.

WHAT IS A SUPPLEMENTAL PENSION PLAN?

A supplemental pension plan is a contract that provides for periodic payments to be made in a retirement fund by workers and their employer, or by the employer alone. The amounts accumulated, plus interest, are then paid to retired workers in the form of a pension.

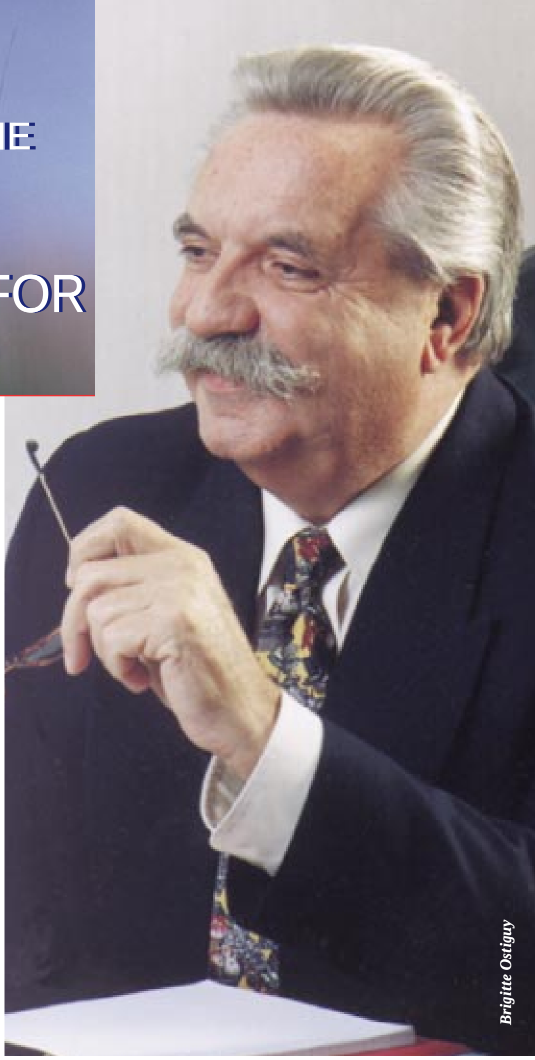
WHO CONTRIBUTES TO A SUPPLEMENTAL PENSION PLAN?

- ***At the end of the 1997-1998 fiscal year, the Régie des rentes du Québec was supervising 2 684 supplemental pension plans.***
- ***Nearly 525 000 workers are members of a supplemental plan supervised by the Régie, while 785 000 contribute to a plan administered by another authority, such as the Commisssion administrative des régimes de retraite et d’assurance (CARRA).***
- ***The rate of membership in a supplemental plan is almost 100% in the public sector and 25% in the private sector, for an overall rate of 40%.***
- ***According to 1994 data, 93% of people with high incomes (45 800 $ a year and over) contribute to such a plan (approximately 20% of the population), whereas among the 20% of workers who have low incomes (up to 13 349 $ a year), only 17% contribute to a private pension plan.***

INTERVIEW WITH CLAUDE LEGAULT
PRESIDENT AND GENERAL MANAGER OF THE RÉGIE DES RENTES DU QUÉBEC

by Claude Grégoire

SIMPLIFIED PLANS: ADVANTAGEOUS FOR BOTH EMPLOYERS AND EMPLOYEES


Brigitte Ostiguy

Four years ago, the Régie des rentes du Québec set up a new retirement savings plan: the simplified plan. It is an alternative to the traditional supplemental (private) pension plans that are especially popular with big businesses. Its objective is to provide better financial protection upon retirement, particularly for workers in small and medium-sized businesses. The President and General Manager of the Régie, Mr. Claude Legault, explains what simplified pension plans are all about.

PROSPECTS ❖ *In 1994, what prompted the Régie des rentes du Québec to create the simplified plan?*

MR. LEGAULT ❖ We sometimes heard complaints that pension plans were too complex and costly to administer for small and medium-sized businesses. Until the mid-1980s, supplemental pension plans were the main way to save for retirement. But a variety of factors prevented increased membership, which is around 50% overall, but is less than 15% for small and medium-sized businesses. In its concern to help ensure the financial protection of employees in such businesses following retirement, the Régie consulted with the business community and designed a new retirement savings instrument: the simplified pension plan.

PROSPECTS ❖ *What are the advantages of simplified plans?*

MR. LEGAULT ❖ New simplified plans combine the advantages of traditional pension plans (private pension funds) and group registered retirement savings plans (RRSPs). Like the former, they guarantee a life retirement income, and when a member dies they provide for the payment of spousal benefits, or if there is no spouse, benefits go to the heirs. Like the latter, there is little administrative work for the employer, because the plan is administered by a financial institution. In comparison to group RRSPs, simplified pension plans save employers about 100 $ a year per member in payroll taxes.

PROSPECTS ❖ *What are the differences between simplified plans and traditional plans?*

MR. LEGAULT ❖ First of all, simplified pension plans are defined contribution plans. That means that both employer and employee contributions accumulate in a pension fund that is comparable to a bank account. The pension income can vary depending on the amounts deposited into the member's account.

Simplified plans are administered by authorized financial institutions such as banks or caisses Desjardins, trust companies or insurance companies. They take responsibility for most of the administrative work normally done by the employer or a pension committee.

PROSPECTS ❖ *Simplified plan undoubtedly means simplified administration?*

MR. LEGAULT ❖ In simplified pension plans, the employer's administrative duties are kept to a minimum, yet he or she retains considerable power over a number of aspects of the plan. For example, the employer chooses the financial institution with the type of product that best meets his or her needs and decides what the conditions of eligibility, membership and withdrawal from the plan are to be.

There are also advantages for employees. Employee members in simplified plans play an important role in the financial planning of their retirement. For instance, each year they can decide how much they wish to contribute to the plan, as long as it meets taxation requirements and the minimum contribution set by the employer. They can also determine how their savings are distributed among the investments offered by the financial institution. In short, simplified pension plans save employers time and money while providing workers with the advantages of a true pension plan.

FOR MORE INFORMATION ABOUT SIMPLIFIED PLANS, YOU CAN CALL THE DIRECTION DES RÉGIMES DE RETRAITE (RÉGIE DES RENTES DU QUÉBEC) AT (418) 643-8282

SUPPLEMENTAL PENSIONS PLANS: INFORMING

MANAGEMENT AND SUPERVISION

Your supplemental plan ensures your financial security upon retirement. However, you must be well informed of your rights and the plan must be properly administered for you to be able to get all of the expected advantages out of it when the time comes. There are a number of ways to ensure this, and recently, the Régie des rentes du Québec has even set up a training program for retirement committee members.

MAKING SURE YOUR PLAN IS MANAGED DEMOCRATICALLY

By law, all plans must be administered by a pension committee that includes at least two participating members (active or not). They must also include one independent person, that is, someone who is neither a member nor an employer. Beyond these basic legal requirements, pension committees can be made up of as many members as allowed for in the plan provisions. Generally, the committee also includes company representatives.

A pension committee has complete power to administer the pension plan, subject, of course, to any restrictions or prohibitions provided for in the plan. A pension committee can, however, delegate all or part of its powers as long as it in no way neglects its responsibility for administering the plan. An employer and workers' or professional associations can take on one or more duties that are incumbent on the pension committee. Each member of the pension committee is responsible for the decisions made by the committee, even if they are made in his or her absence. Unless a member dissents during a committee meeting, (or within a reasonable time limit if he or she was absent from the meeting), that member is responsible along with the other pension committee members for their decisions.

Given these responsibilities, by law, members of a pension committee must act with caution, diligence and competence, with honesty and loyalty in the best interests of the members or beneficiaries, using all the knowledge and skills they have that may be helpful in administering the pension plan.

BETTER INFORMATION AND UNDERSTANDING MAKE FOR BETTER PLANNING

Keeping the members of a supplemental pension plan informed is one of the keys to respecting everyone's rights and to open management practices. Usually, the mandate to provide information is fulfilled by pension committee members. They are responsible for helping members understand their rights and obligations and for enabling them to accurately follow the accumulation of their benefits or retirement capital. When members are well informed, they are better able to plan for retirement. In addition to the information they are given by their pension committee representatives, all members, beneficiaries and eligible workers can consult the text of the plan and other documents at least once a year, free of charge. Furthermore, every member receives an annual statement of benefits, which specifies amongst other things, the benefits a member has accumulated.

1998

Your personal statement of benefits in the employer's pension plan

Every year, both members and employers are invited to attend an annual general meeting in which the pension committee accounts for its administration. This is the opportunity for both active and non-active members to elect or designate two members of the pension committee.

If a plan amendment is being proposed, all active members are notified of it. They are informed of both the subject and the text of the planned amendment before the committee applies for registration with the Régie. Once the plan amendment has been registered, the pension committee has 90 days to notify each active and non-active plan member individually.

The pension committee is also responsible for informing the members of any events that may affect them, such as the withdrawal of a member, an employer's intention to terminate the plan, the partition of family patrimony or death.

THE RÉGIE OVERSEES YOUR RIGHTS AND INTERESTS

Problems experienced by members in a supplemental pension plan are less and less often on the front pages of newspapers. Why? The Régie makes sure that the supplemental pension plans registered with it are administered and function in accordance with the *Supplemental Pension Plans Act*. Plans that are created by a special act (such as the Québec government workers' pension plan) or that are subject to the authority of the government of Canada or of another province are excluded.

The Régie supervises the plans on the basis of the information provided to it annually by pension committees. This information helps the Régie to identify the plans that need increased supervision and the actions taken by the Régie are

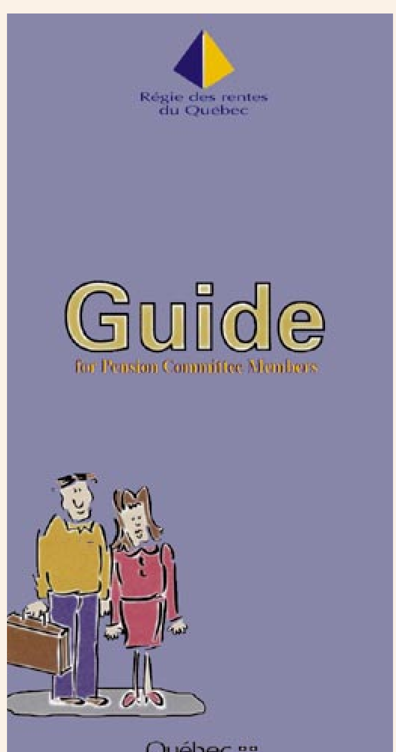
MEMBERS AND PLAN

A team at the Régie des rentes du Québec's Direction des régimes de retraite is available to answer all your questions. Call (418) 643-8282

proportional to the seriousness of the problems identified.

IT'S EASY TO LEARN HOW TO BE A PENSION COMMITTEE MEMBER!

There are now 10 000 members of pension committees in Québec. They administer 1 700 plans in which nearly 400 000 workers participate. (For plans with less than six active members, a pension committee does not have to be formed.) If you are interested in this type of mandate, rest assured that you will not be left to figure things out by yourself in this apparently complex realm. You will be guided and supported in your responsibilities. Once a year, new members of pension committees are invited to participate in orientation sessions organized by the Régie in Montréal and Québec. In addition, a new *Guide for Pension Committee Members* was recently published by the Régie. It is intended to help you participate in the work of the pension committee and to provide you with the tools to fulfill your responsibilities as a committee member. The Régie also organizes training sessions on specific topics (for example, how to fill out annual information returns and applications for registration, transfer of benefits between spouses, taxation, etc.). A number of courses are also offered by other bodies (Canadian Pension and Benefits Institute, Federation of Public Service Employees, etc.).



IS YOUR EMPLOYER'S PENSION PLAN...

...a defined contribution plan?

...or a defined benefits plan?

If you contribute to your employer's pension plan, there is a good chance that it is either a defined contribution plan or a defined benefits plan.

WHAT IS THE DIFFERENCE BETWEEN THE TWO?

As its name suggests, in a defined contribution plan, employer contributions and, in some cases, employee contributions and the method for calculating them, are set in advance. The pension amount will depend on: 1. the amount paid into the member's account over the years (employer and employee contributions); 2. interest accumulated in the account at the time the member retires; 3. the price of annuities at the time.

A defined benefits plan sets a normal pension amount, either regardless of the member's pay (for example, 40 $ a month per year of service), or based on a percentage of the member's pay (for example, 2% of the salary per year of service). Employer contributions go into a shared account for all plan members, while member contributions are paid into separate accounts for each member. When an employee retires, part of the pension comes out of the employer's account and the rest is withdrawn from the member's account, which includes all personal contributions plus accumulated interest.

LIRAs AND LIFs: TWO BASIC TOOLS WORTH KNOWING

If you are beginning to look into retirement, you will often hear the terms LIRA and LIF. Locked-in retirement accounts (LIRAs) and life income funds (LIFs) are important tools for managing the funds that will help ensure your financial security in later years. Recently, several changes have been made to LIRAs and LIFs to make them more flexible: one such change makes it possible to receive a temporary pension from an LIF in cases of early or phased retirement.

LIRAs

"What will I do with the money?"

Question: You leave your job, or else your employer's pension plan is terminated. You are about to receive the value of the pension to which you are entitled. Where can you deposit these savings while you are waiting to retire?

Answer: If you have not yet reached retirement age and the money is not being transferred to the pension plan of another employer, it must be placed in a locked-in retirement account (LIRA). The term "locked-in" means that the money can only be used for retirement income in the form of a life income.

Many financial institutions offer LIRAs. They protect the money accumulated in a private pension plan from taxation (on capital and interest) until you convert your LIRA into a life income fund or a life annuity. Amounts in an LIRA cannot be seized.

- The money deposited in an LIRA must come from a registered pension plan, another LIRA, an annuity contract or a life income fund (LIF).
- No withdrawals, either partial or total, can be made, except if a physician certifies that the member has a disability which reduces life expectancy.
- Upon death, the amount remaining in an LIRA can be paid to the spouse or, if there is none, to the designated beneficiaries or heirs.
- LIRA funds must be converted no later than the end of the year in which the member reaches 69 (there is no minimum age). They can be converted to an LIF or a life annuity, which upon the member's death turns into a surviving spouse's pension equal to at least 60% of the member's retirement pension.

LIF

The retirement fund you manage yourself

If you wish to set the annual amount your pension fund will pay to you after you retire, you will find the flexibility of the life income fund (LIF) very appealing.

Like LIRAs, LIFs are offered by financial institutions. At retirement, the amount contained in your LIRA must be deposited into an LIF, unless it is used to purchase a life annuity from an insurance company. As with LIRAs, LIFs are completely non-seizable and non-taxable.

- The amounts deposited in an LIF can only come from an LIRA, a registered pension plan, an annuity contract or another LIF.
- The holder manages the funds and withdraws income periodically, respecting certain limits that are set for each year.
- If the member dies before it is converted into a life annuity, the balance of the LIF can be paid to the spouse or, if there is none, to the designated beneficiaries or heirs.

AN OVERVIEW OF THE NEW MEASURES IN FORCE SINCE 1 JANUARY 1998 TO MAKE LIFs MORE FLEXIBLE

Conversion of an LIF

- The holder no longer has to convert his or her LIF into a life annuity on or before 31 December of the year in which he or she turns 80.

Amount of life income

- The maximum withdrawal (periodic payments set at the beginning of each year, and the fixed sum allowed annually) now takes into account the long-term nominal interest rates of Canada savings bonds from the November preceding the beginning of the fiscal year. For 1998, the basic rate is 6,5%. The maximum amount also varies according to the retiree's age.

Withdrawal of amounts locked in an LIRA or an LIF for persons age 65 and over

- Persons age 65 and over whose retirement savings (from a supplemental pension plan) are placed in a retirement savings instrument such as an LIRA or an LIF can request the total reimbursement of these savings. However, the reimbursement cannot exceed 40% of maximum pensionable earnings (MPE), that is, 14 760 $.

Temporary retirement income paid to persons between 54 and 65 years of age

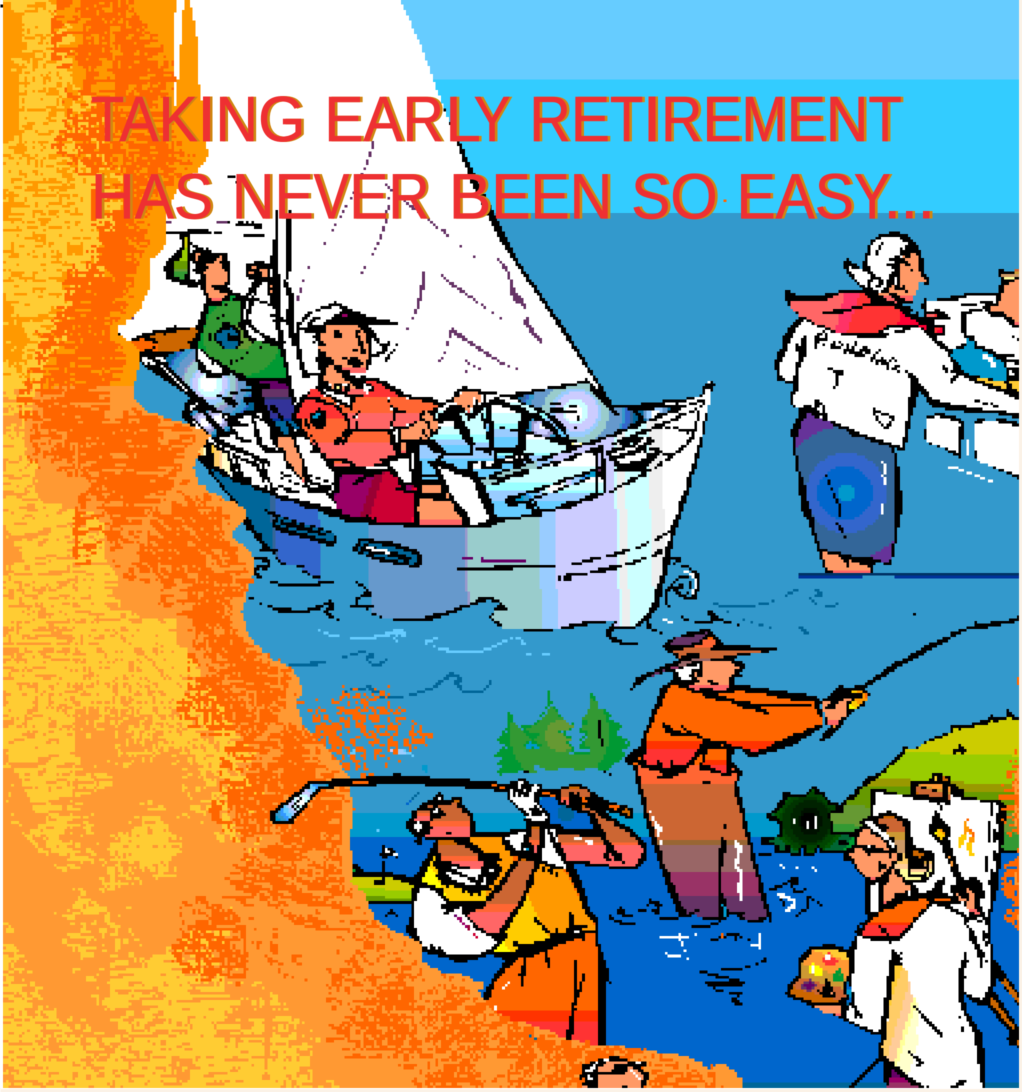
- Pre-retirees can apply for a temporary retirement income until the end of the year in which they turn 65, for a maximum of 14 760 $ in 1998. This is the same amount to which they could be entitled after age 65 under the Québec Pension Plan and the *Old Age Security Act*.

Temporary income for persons under age 54

- A new provision makes it possible for people under age 54, whose income for the year is less than 40% of the MPE, to apply for payment of a temporary income to meet their needs, for instance, while they are waiting for a new job.

For further information (eligibility requirements, details, possible withdrawals, value of temporary income...) or to take advantage of these new provisions, you can consult an adviser at your financial institution, or simply call the Direction des régimes de retraite of the Régie des rentes du Québec at (418) 643-8282.

TAKING EARLY RETIREMENT HAS NEVER BEEN SO EASY...



"If I could afford to, I'd retire before I turn 65!" Many older workers would not need a lot of persuading to move over for the younger generation. New legislative provisions that make early retirement easier could make that dream a reality. How? Simple. Just ask your private pension plan (offered by your employer) for a temporary pension payable until you reach age 65, at the latest.

HOW CAN YOU GET EARLY RETIREMENT

First, you must meet certain conditions. You must be under 65 years of age and be less than 10 years away from the normal retirement age set by your private pension plan, and you must not already be receiving a temporary pension under another plan or a pension purchased with money from a private pension plan.

A temporary pension increases the retirement income that you receive before age 65. It can reach 14 760 $ a year, that is, 40% of the maximum salary on which contributions can be made to the Québec Pension Plan for 1998. The amount you receive is what you would be entitled to under public plans, that is, the Québec Pension Plan (QPP) and the Old Age Security pension (OAS), if you were 65 years of age. In short, a temporary pension can make the difference between being able to retire or having to keep working to increase your nest egg.

JEANNE

Jeanne is 58 years old. She would have a yearly life annuity of 25 000 $ from her private plan if she retired today. At age 65, she would also get an Old Age Security pension (4 800 $) and benefits under the Québec Pension Plan (8 700 $), which would give her a total annual income of 38 500 $.

According to Jeanne's calculations, she does not have enough with just her life annuity of 25 000 $ to retire now. But if she is willing to accept a reduced income after age 65 in order to do so, she can opt for early retirement with a temporary pension, which will give her an income of 31 500 $ a year, distributed as follows: a life annuity of 18 200 $ plus a temporary pension until age 65 of 13 500 $, that is, the same as she will receive as of age 65 (OAS plus QPP). When she turns 65, the temporary pension will stop and public plans will pay the same amount.

PROS AND CONS

Because a temporary pension gives you easier access to early retirement, you may be able to take advantage of retirement earlier. A lot of people would like to do so! The main advantage is that it gives you a higher retirement income before age 65. But there is one disadvantage to consider: when you receive a temporary pension, the pension paid under your private plan until your death is reduced. Therefore, it is important to carefully weigh the pros and cons. Moreover, your employee benefits could be changed by early retirement. That is why it is important to find out either from your employer or your pension committee what all the consequences of your choice may be.

PROSPECTS

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Régie des rentes
du Québec

HOW MUCH WILL YOUR RETIREMENT BE?

To find out, apply for your Statement of Participation!

Complete the form below. Be sure to sign it.

A

Send the form to:

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Service aux cotisants
Case postale 5200
Québec G1K 7S9

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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
1 9

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
1 9

Allowances received for the period
from 19 **to 19**

If more space is needed, attach another sheet.